

Tax Audit Series - Version 4.0

Chapter 19 – Clauses 40 to 44



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Namaste

In Chapter 19 of this series, we would discuss the Particulars of Clauses 40 to 44 of Form 3CD.

Clause 40 - Details regarding turnover, gross profit, etc., for the previous year and preceding previous year

Following details are to be disclosed under this clause:

S No.	Particulars	Previous year	Preceding Previous year
1	Total Turnover of the assessee		
2	Gross Profit/turnover		
3	Net Profit/turnover		
4	Stock-in-trade/turnover		
5	Material consumed / Finished goods produced		

Following points should be noted by the auditor:

- These ratios have to be calculated for assessees who are engaged in manufacturing or trading activities.
- The ratio mentioned in 5 need not be given for trading concern or service provider.
- For service provider, only information at S. No. 1 and 3 need to be furnished.
- The details required to be furnished is for principal items of goods traded or manufactured or services rendered.
- The ratios have to be given for the business as a whole and not product wise
- All the ratios mentioned in this clause are to be calculated and disclosed in terms of value only.
- Net profit to be shown here in this clause is net profit before tax.
- The term “stock-in-trade” would include only finished goods and would not include the raw material and work-in-progress since the objective here is to compute the stock turnover ratio. It would also not include stores and spare parts or loose tools.
- Material consumed would, apart from raw material consumed, include stores, spare parts and loose tools
- The value of finished goods produced may be arrived at by using the following formula:

Raw material consumption

<u>XXXXXX</u>

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- If there is any adjustment of refund against any demand, the auditor should also report the same under this clause.
- Auditor may check the said details with the disclosure of contingent liabilities in audited financials, and disclosure in statutory auditors report pursuant to CARO, if applicable in case of companies.

Clause 42 - Whether the assessee is required to furnish statement in Form No.61 or Form No. 61A or Form No. 61B? If yes, furnish details.

- This clause requires reporting of details of submission and due date of the Form No.61 or Form No. 61A or Form No. 61B with the income-tax portal, where it is required to furnish the same.
- It also requires the auditor to ensure if all the required details have been submitted and if not, then the unreported details/ transactions are required to be reported in in this clause.
- **Form 61** – This Form requires details of all Form 60 obtained to be submitted.
 - Where transactions specified under Rule 114B of the Income-tax Rules, 1962 have been undertaken by the assessee without obtaining PAN of the person giving the document, then the assessee is required to collect declaration in Form 60 from that person.
 - When Form 60 is obtained then Form 61 is to be filed half yearly.
- Auditor should be aware that Rule 114 B is not applicable to:
 - Central Government
 - State Government
 - Consular Offices
 - Non-Residents for:
 - Application for Debit and Credit Card
 - Payment to a hotel or restaurant against a bill
 - Payment for foreign travel or foreign currency
 - Payment to RBI for acquiring bonds
 - Purchase of DD / PO / Bankers cheque
 - Payment for prepaid instruments
 - Sale/purchase of goods/services exceeding Rs. 2L
- **Form 61A** – Statement of specified financial transactions (SFT) as given in Rule 114E of the Rules mandates reporting of certain financial transactions undertaken during a particular financial year, annually before 31st May.

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- **Form 61B** –Statement of reportable accounts in accordance with FATCA and CRS for a calendar year in Form 61B. The auditor should be aware of provisions of Rule 114F to 114H for the same.

Clause 43 - Whether the assessee or its parent entity or alternate reporting entity is liable to furnish the report as referred to in section 286(2)? If yes, then details to be given.

In reference to above section 286 (2) states:

Every parent entity or the alternate reporting entity, resident in India, shall, for every reporting accounting year, in respect of the international group of which it is a constituent, furnish a report, to the prescribed authority within a period of twelve months from the end of the said reporting accounting year, in the form and manner as may be prescribed

Following details is to be given under this clause:

- Whether report has been furnished by the assessee or its parent entity or an alternate reporting entity
- Name of parent entity
- Name of alternate reporting entity (if applicable)
- Date of furnishing of report

The auditor should be aware of section 286 read with Rule 10DB and related notifications and circulars. Reports are to be furnished in Forms 3CEAC to Form 3CEAE.

In the following cases the obligation to furnish the report would arise:

- If the assessee itself is the parent entity of the international group and is resident in India
- If the assessee is resident in India and has been designated as the alternate reporting entity of the international group
- If the assessee is a constituent of the international group with its parent entity resident in India and the group has not designated any other resident constituent entity as the alternate reporting entity, the parent entity will have the obligation to file the report u/s 286(2)
- If the assessee is neither the parent entity nor has it been designated as the alternate reporting entity, but other constituent entity resident in India of the international group has been designated as the alternate reporting entity by the group, such other constituent entity resident in India will have obligation to file the report u/s 286(2).

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Clause 44: Break-up of total expenditure of entities registered or not registered under the GST

Reporting for this clause is required by all entities irrespective of whether they are registered under GST or not. The following information needs to be given:

1. Total amount of Expenditure incurred during the year (2).
 2. Expenditure in respect of entities registered under GST:
 - a) Relating to goods or services exempt from GST (3).
 - b) Relating to entities falling under composition scheme (4).
 - c) Relating to other registered entities (5).
 - d) Total payment to registered entities (6).
 3. Expenditure relating to entities not registered under GST (7).
- Total expenditure including purchases is to be given. Head-wise / nature-wise expenditure details are not to be given in this clause. Only the gross total should be given.
 - Capital expenditure should also be reported in the format. Reporting of capital expenditure as separate line item is advised.
 - Only expenditures should be reported and not allowances. Depreciation u/s 32, deduction for bad debts u/s 36(1)(vii) etc. which are accounting expenses in the nature of non-cash charges should not be reported under this clause.
 - Services by an employee to the employer in the course of or in relation to his employment” and thus, remuneration to employees need not be reported in any column.
 - Import of goods, Payments to advocates, other payments made to entities not registered under GST, but GST paid on reverse charge would be reported in last Column i.e. (7).
 - In case of interest and remuneration paid to partners, the same being not paid to entities, need not be furnished in any column.
 - Total of column No. 3+4+5 should be equal to 6.
 - Total of column No. 2 may not reconcile with expenditure side of statement of profit and loss.
 - There could be variance with GST statements filed, due to various reasons including prepaid / advance payments / unbilled dues / provisions etc.
 - The assessee may provide the required detail but may have not maintained its books and details in the manner in which the details of this clause could be verified. In such a case the auditor should make necessary disclosure in Para 3 of Form 3CA / Para 5 of Form 3CB, which may be as under:

The assessee has provided the details in clause 44. We have verified the same on test basis. However, the assessee has not maintained the books and records in a way

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wherein the details provided in Clause 44 can be verified accurately. Hence, we cannot provide an opinion that detail provided by the assessee is true and correct.

I hope this document is of use to you. I thank CA. Shreya Jain in assisting me to compile this part of the series. Your suggestions and comments would be highly appreciated

Best Regards

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9th September 2024

EARLIER CHAPTERS

Chapter No.	Title	Link
1	Applicability	http://lunawat.com/Uploaded_Files/Attachments/F_20303.pdf
2	Turnover	http://lunawat.com/Uploaded_Files/Attachments/F_20304.pdf
3	Audit Report Format	http://lunawat.com/Uploaded_Files/Attachments/F_20305.pdf
4	Clauses 1 to 8A	http://lunawat.com/Uploaded_Files/Attachments/F_20307.pdf
5	Clauses 9 to 12	http://lunawat.com/Uploaded_Files/Attachments/F_20309.pdf
6	Clause 13	http://lunawat.com/Uploaded_Files/Attachments/F_21321.pdf
7	Clauses 14 to 15	http://lunawat.com/Uploaded_Files/Attachments/F_21322.pdf
8	Clauses 16 to 17	http://lunawat.com/Uploaded_Files/Attachments/F_21325.pdf
9	Clauses 18 to 20	http://lunawat.com/Uploaded_Files/Attachments/F_21327.pdf
10	Clause 21	http://lunawat.com/Uploaded_Files/Attachments/F_21329.pdf
11	Clauses 22-23	http://lunawat.com/Uploaded_Files/Attachments/F_21330.pdf
12	Clauses 24-26	http://lunawat.com/Uploaded_Files/Attachments/F_21331.pdf
13	Clauses 27-29B	http://lunawat.com/Uploaded_Files/Attachments/F_21332.pdf
14	Clauses 30-30C	http://lunawat.com/Uploaded_Files/Attachments/F_21334.pdf
15	Clauses 31(a)-31(e)	http://lunawat.com/Uploaded_Files/Attachments/F_21335.pdf
16	Clauses 32-33	http://lunawat.com/Uploaded_Files/Attachments/F_22309.pdf
17	Clauses 34-36A	http://lunawat.com/Uploaded_Files/Attachments/F_22310.pdf
18	Clauses 37-39	http://lunawat.com/Uploaded_Files/Attachments/F_22311.pdf

(Disclaimer: Though full efforts have been made to state the interpretations correctly, yet the author is not responsible / liable for any loss or damage caused to anyone due to any mistake / error / omission)

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ABOUT CA. PRAMOD JAIN

He is a commerce graduate [B. Com (H)] from Shri Ram College of Commerce (SRCC). He is a fellow member of the Institute of Chartered Accountants of India (FCA). He is a fellow member of the Institute of Companies Secretaries of India (FCS). He is a fellow member of the Institute of Cost Accountants of India (FCMA). He is a Bachelor of Law (LL. B). He is qualified as an Information System Auditor [DISA (ICAI)]. He is also a member of All India Management Association (MIMA). He is also an Insolvency Professional (IP). He has also passed the Certificate Course on CSR of ICAI. He has also passed the Proficiency Self-Assessment Test for Independent Director's Databank. He has passed certification course NCFM of National Stock Exchange of India (NSE). He has also done certification course CAAT and post qualification certificate course on Valuation of ICAI.

He is elected as Central Council Member of ICAI for 2 consecutive terms from 2019 to 2025. Apart from being member in more than 25 committees / groups / directorates of ICAI, and other Bodies he is / was:

- Chairman of Accounting Standards Board (ASB) of ICAI for 3 years from 2022 to 2025
- Deputy Convenor of Centre for Audit Quality Directorate (CAQD) for 2024-25
- Convenor - Members & Students (Grievances Handling & e-Sahayata) Directorate for 2023-24
- Chairman of Accounting & Finance Services Sectional Committee SSD-12 under the Services Sector Division Council (SSDC) of Bureau of Indian Standards (BIS) for 2023-24
- Chairman of Expert Advisory Committee (EAC) of ICAI for Year 2022-23
- Co-Chairman of Corporate Affairs Committee of PHDCCI for the year 2022-23
- Chairman of Committee on International Taxation (CITAX) of ICAI for 2021-22
- Chairman of Taxation Audit Quality Review Board (TAQRB) of ICAI for 2021-22.
- Member of Quality Review Board (QRB) for 2 terms from 2020 to 2026.
- Member of the SME Implementation Group (SMEIG) of IFRS Foundation, UK for 3 years from 2023 to 2026.
- Chairman of Valuation Standards Board (VSB) of ICAI for the year 2020-21.
- Chairman of CSR Committee of ICAI for year 2020-21.
- Vice-Chairman of Committee on MSME & Start-up of ICAI for the year 2021-22.
- Vice-Chairman of Women Members Empowerment Committee (WMEC) of ICAI for 2021-22.
- Vice-Chairman of Direct Tax Committee (DTC) of ICAI for 2 years from 2019 to 2021.
- Vice-Chairman of Committee on International Taxation (CITAX) of ICAI for 2019-20.

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- Member of ICAI Disciplinary Committee for the year 2020-21.

He is the conceptualizer of the portal www.expertspanel.in which is a one stop solution for all professional queries which has given more than 36500 answers since its launch in mid of year 2018.

He has delivered more than 1800 lectures and articles on various topics of Income Tax, Corporate Laws, LLP, Audits, Peer Review, Quality Review, etc. at more than 200 forums throughout the country. Most of his presentations and articles since 2013 are available for free download from www.lunawat.com and from 2018 at www.expertspanel.in also.

He is Senior Partner of M/s LUNAWAT & CO., Chartered Accountants. He is president, founder convener and member of various Boards, Directorate, Committees, Study Circles, etc. of ICAI, ICSI and other prestigious bodies and associations. He has been a Technical Reviewer with Financial Reporting Review Board (FRRB) and Quality Review Board (QRB) and Peer Reviewer with Peer Review Board (PRB).

He has authored books on “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, *Limited liability Partnership – A Complete Resource Book*”, “Chartered Accountant’s Documentation and Compliance for Audits and Reviews”, “Importance of LLP after Companies Act, 2013”, “Chartered Accountant’s Documentation and compliance under Companies Act 2013, Peer Review and Quality Review”, “Limited Liability Partnership – Law, Procedures and Taxation”, “Documentation for Chartered Accountants”, “Limited Liability Partnership – Law and Procedures with Ready Reckoner”, “Fringe Benefit Tax & Banking Cash Transaction Tax”, “Documentation for Audits” and “Accounting Standards and CARO”.

He has written various articles on taxation, company law and audit in various journals. He has vast practical experience in income tax, audit, corporate laws and LLP.