

Basics of Accounting Standards for Corporates & Non-Corporates S. 43B(h) & Audit Trail



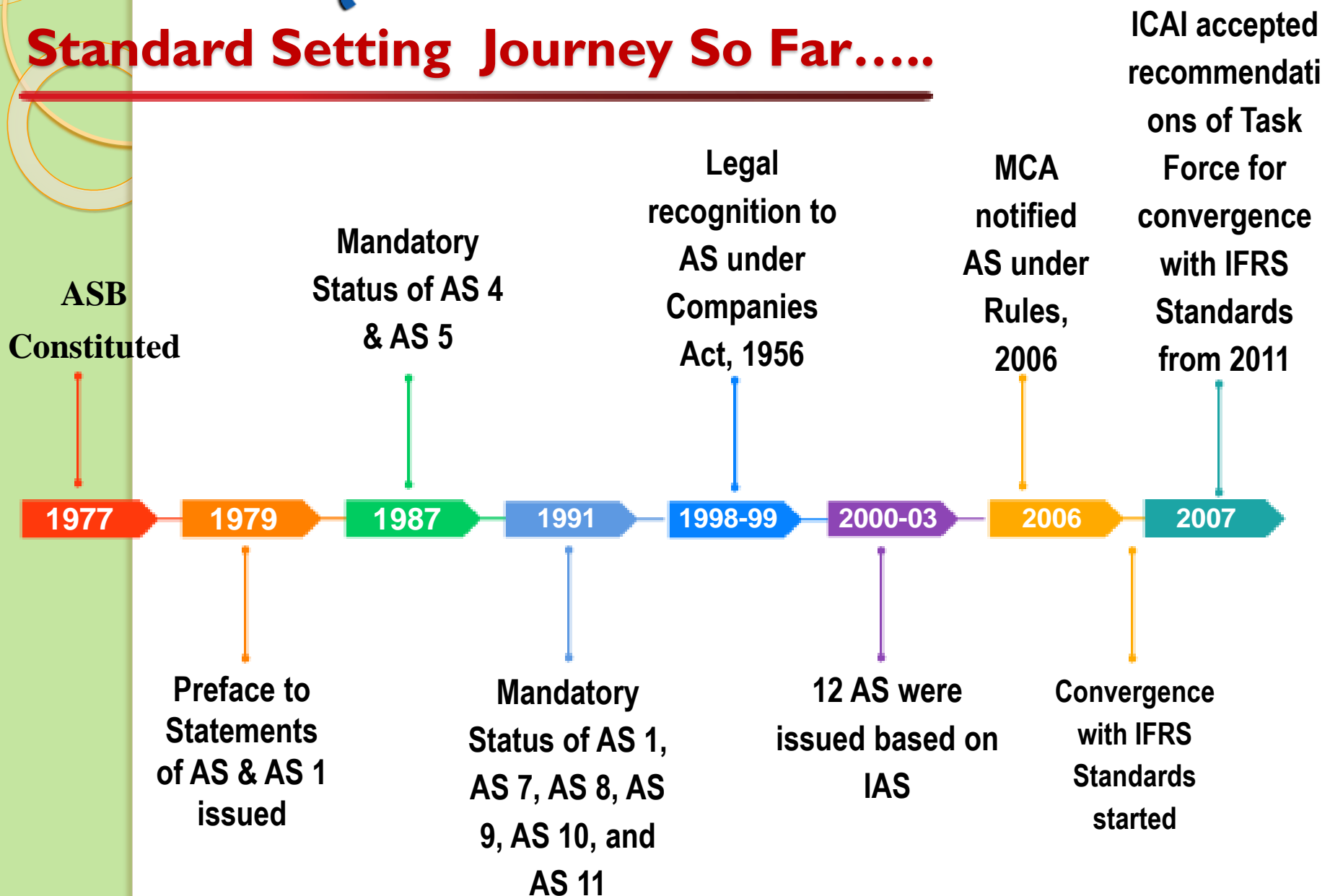
ICAI – Karnal Branch (NIRC)

11th June 2024

CA. PRAMOD JAIN

FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

Standard Setting Journey So Far.....





Contd...

IFRS converged Ind AS hosted on MCA website



MCA notified 39 Ind AS & issued roadmap for convergence with IFRS Standards

MCA notified revision in AS 2, AS 4, AS 10, AS 13, AS 14, AS 21, AS 29

MCA notified Amendments to Ind AS 102 and Ind AS 7

MCA notified Ind AS 115 and Amendments to various Ind AS

MCA notified Ind AS 116 and Amendments to various Ind AS

- ICAI Issued Conceptual Framework for Financial Reporting under Ind AS
- MCA notified amendments to Ind AS

- Formats for FS for Non-Corporates, LLP & NPO
- 21st April – AS Day

- MCA notified AS Rules, 2021
- ICAI issued Announcement for revision in Criteria for classification of non-company entities.

Recognition of Accounting Standards by Regulators

1999

Legal recognition to Accounting Standards issued by the ICAI under Companies Act

2001

SEBI mandated all listed companies to mandatorily comply with AS

2002

IRDAI required insurance companies to comply with AS

2003

Reserve Bank of India issued guidelines for Bank for strict compliance of AS



ASB also engages with the Regulators on various accounting issues and support their capacity building initiatives.

AS

- **Companies (Accounting Standards) Rules, 2021 notified vide notification dated 23.06.2021**
- **These have replaced Companies (Accounting Standards) Rules, 2006**
- **Effective for accounting periods commencing on or after 1st April, 2021**

Companies Act 2013

- **FS has to be AS compliant (S. 129(5)):**
 - **FS to disclose deviation from AS**
 - **Reason for deviation**
 - **Financial effect arising of deviation**
- **Non- compliance**
 - **MD,**
 - **WTD in charge of finance**
 - **CFO**
 - **Any other person charged by Board**
 - **If no one – all directors**
 - **Imprisonment upto 1 yr or Fine – 50k to 500k or both**

AS APPLICABILITY FOR COMPANIES

Conditions	SMC		Other than SMC	
	Existing	Revised	Existing	Revised
Turnover (excluding other Income) in PY	< 50 Cr	< 250 Cr	> 50 Cr	> 250 Cr
Borrowing (including public deposit)	< 10 Cr	< 50 Cr	> 10 Cr	> 50 Cr

SMC Disclosure

- **From 1.4.2021** - “The Company is a **Small and Medium Sized Company (SMC)** as defined in the **Companies (Accounting Standards) Rules, 2021** notified under the **Companies Act, 2013**. Accordingly, the Company has complied with the **Accounting Standards** as applicable to a **Small and Medium Sized Company.**”
- **Two year wait period if change from Non-SMC to SMC**

???

- **Are Financial Statements Audited during Tax audit of Prop. Partnership?**
- **Are Notes to accounts prepared for Non-Corporates?**
- **Are Accounting Standards applicable to Non-corporates?**
- **What if there is non-compliance?**
- **Where to Report such non-compliance?**

Accounting Standards



**Entities that
are to follow
AS**

Companies

**Other than
Companies**

**Companies
(Accounting
Standards)
Rules, 2021
(27 Standards)**

**Ind AS
(39 Standards)**

**AS issued by
ICAI
(27 Standards)**

AS Applicability for Non-Corporates

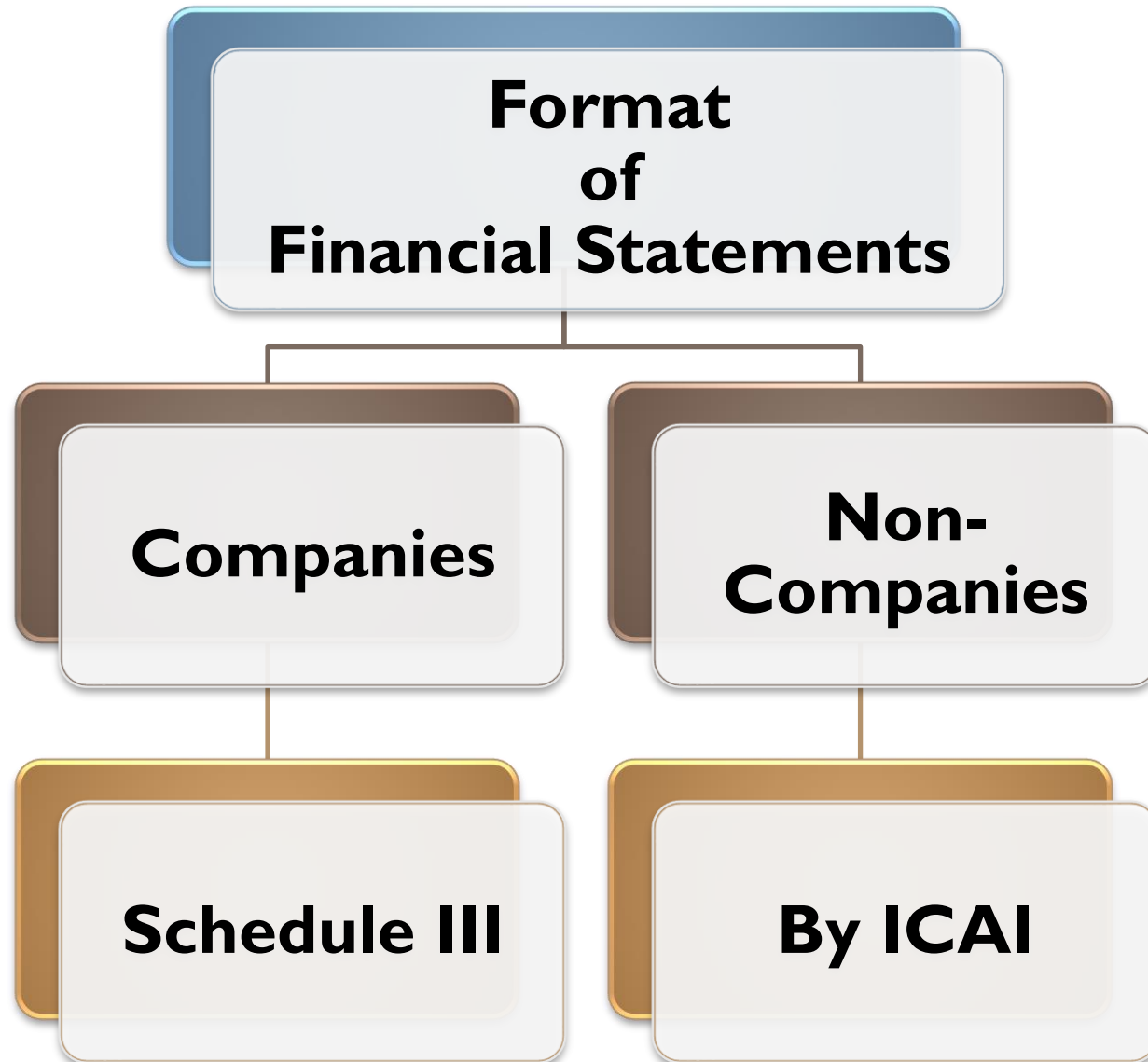
- **Effective for Accounting Periods from 1.4.2020**
- **Instead of 3 levels.. Now 4 levels**

Level	Turnover		Borrowing	
	Existing	Revised	Existing	Revised
I	> 50 Cr	> 250 Cr	> 10 Cr	> 50 Cr
II	1-50Cr	50-250 Cr	1-10 Cr	10-50 Cr
III	< 1 Cr	10-50Cr	< 1 Cr	2-10Cr
IV		< 10 Cr		< 2 Cr

MSME Disclosure

Non-Corporate

- **“The Entity is a Micro Small and Medium Sized Enterprise (MSME) as per the announcement made by ICAI and has complied with the Accounting Standards insofar as they are applicable to entities falling in Level II or Level III or Level IV, as the case may be.”**
- **Two year wait period if change from Level I to II or II to III or III to IV**



Formats of Financial Statements for Non-corporate Entities

Proprietorship

Partnership

LLP

Balance Sheet

Name of the Non-Corporate Entity.....

Balance Sheet as at

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) _____ (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) _____ (DD/MM/YYYY)
	1	2	3	4
I.	OWNERS' AND LIABILITIES			
	(1) Owners' Fund			
	(a) Owners Capital Account			
	(b)Reserves and surplus			
(2)	Non-current liabilities			
	(a) Long-term borrowings			
	(b) Deferred tax liabilities (Net)			

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.) _____ (DD/MM/YYYY)	Figures as at the end of (Previous reporting period) (in Rs.) _____ (DD/MM/YYYY)
	(c) Other Long Term Liabilities			
	Long-term provisions			
(3)	Current liabilities			
	(a) Short-term borrowings			
	(b) Trade payables			
	(c)Other current liabilities			
	(d)Short-term provisions			
	TOTAL			
II.	ASSETS			
(1)	Non-Current Assets			
	(a) Property, Plant and Equipment & Intangible assets			
	(i) Property, Plant and Equipment			
	(ii) Intangible assets			

	Particulars	Note No	Figures as at the end of (Current reporting period) (in Rs.)	Figures as at the end of (Previous reporting period) (in Rs.)
			_____ (DD/MM/YYYY)	_____ (DD/MM/YYYY)
	(iii) Capital work-in-progress			
	(iv) Intangible assets under development			
	(b) Non-current investment			
	(c) Deferred tax assets (net)			
	(d) Long-term loans and advances			
	(e) Other non-current assets			
(2)	Current assets			
	(a) Current investments			
	(b) Inventories			
	(c) Trade receivables			
	(d) Cash and bank balances			
	(e) Short-term loans and advances			
	(f) Other current assets			
	TOTAL			

STATEMENT OF PROFIT AND LOSS

Name of the Non-Corporate Entity..... **CA. Pramod Jain**

Statement of Profit and loss for the year ended

(Rupees in.....)

	Particulars	Note	Figures for the current reporting period (in rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)	Figures for the previous reporting period (in Rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)
	1	2	3	4
I.	Revenue from operations		xxx	Xxx
II.	Other income		xxx	Xxx
III.	Total Income (I + II)		xxx	Xxx
IV.	Expenses			
(a)	Cost of Goods Sold			
(b)	Employee benefits expense		xxx	Xxx
(c)	Depreciation and amortization expense		xxx	Xxx
(d)	Finance Cost		xxx	Xxx
(e)	Other expenses		xxx	xxx

	Particulars	Note	Figures for the current reporting period (in Rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)	Figures for the previous reporting period (in rs.) From _____ (DD/MM/YYYY) To _____ (DD/MM/YYYY)
	Total expenses		xxx	xxx
V	Profit before exceptional and extraordinary items & tax (III-IV)		xxx	xxx
VI	Exceptional items		xxx	xxx
VII	Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII	Extraordinary Items		xxx	xxx
IX	Profit before tax (VII- VIII)		xxx	xxx
X	Tax expense:			
(i)	Current tax		xxx	xxx
(ii)	Deferred tax		xxx	xxx
XI	Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII	Profit/(loss) from discontinuing operations		xxx	xxx
XIII	Tax expense of discontinuing operations		xxx	xxx
XIV	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)		xxx	xxx
XV	Profit/ (Loss) (XI + XIV)		xxx	xxx

Formats of Financial Statements for NPOs

Trusts

Societies

Balance Sheet

Name of the NPO.....

CA. Pramod Jain

Balance Sheet as at

(Rs. in.....)

	Particulars	Note	31 March 20XX	31 March 20XX
I	Sources of Funds			
I	NPO Funds	3	0	0
(a)	Unrestricted Funds			
(b)	Restricted Funds			
2	Non-current liabilities			
(a)	Long-term borrowings	4	-	
(b)	Other long-term liabilities	5	-	-
(c)	Long-term provisions	6	-	-
3	Current liabilities			
(a)	Short-term borrowings	4	-	-
(b)	Payables	7		
(c)	Other current liabilities	8	-	-
(d)	Short-term provisions	6	-	-
	Total		-	-

Name of the NPO.....

Balance Sheet as at

	Particulars	Note	31 March 20XX	31 March 20XX
II	Application of Funds			
1	Non-current assets			
(a)	Property, Plant and Equipment and Intangible assets	9		
(i)	Property, Plant and Equipment			
(ii)	Intangible assets			
(iii)	Capital work in progress			
(iv)	Intangible asset under development			
(b)	Non-current investments	10	-	-
(c)	Long Term Loans and Advances	11	-	-
(d)	Other non-current assets (specify nature)	12	-	-
2	Current assets			
(a)	Current investments	10	-	-
(b)	Inventories			
(c)	Receivables	13	-	-
(d)	Cash and bank balances	14	-	-
(e)	Short Term Loans and Advances	11	-	-
(f)	Other current assets	15	-	-
	Total			

Income & Expenditure A/c

Name of the Non-Corporate Entity.....

Statement of Profit and loss for the year ended

(Rupees in.....)

	Particulars	Note	31 March 20XX			31 March 20XX		
			Unrestr icted funds	Restri cted funds	Total	Unres tricted funds	Restri cted funds	Total
I	Income							
(a)	Donations and Grants							
(b)	Fees from Rendering of Services							
(c)	Sale of Goods							
II	Other Income	16					-	-
III	Total Income (I+II)						-	-

	Particulars	Note	31 March 20XX			31 March 20XX		
			Unrestr icted funds	Restri cted funds	Total	Unres tricted funds	Restri cted funds	Total
IV	Expenses:							
(a)	Material consumed/distributed	17					-	-
(b)	Donations/contributions paid							
(c)	Employee benefits expense	18					-	-
(d)	Depreciation and amortization expense	19					-	-
(e)	Finance costs	20					-	-
(f)	Other expenses	21					-	-
(g)	Religion/charitable expenses							
(h)	Other Expenses (specify nature)							
	Total expenses						-	-
V	Excess of Income over Expenditure for the year before exceptional and extraordinary items (III- IV)						-	-

	Particulars	Note	31 March 20XX			31 March 20XX		
			Unrestr icted funds	Restri cted funds	Total	Unres tricted funds	Restri cted funds	Total
VI	Exceptional items (specify nature & provide note/delete if none)						-	-
VII	Excess of Income over Expenditure for the year before extraordinary items (V-VI)						-	-
VIII	Extraordinary Items (specify nature & provide note/delete if none)						-	-
IX	Excess of Income over Expenditure for the year (VII-VIII)						-	-
	Appropriations Transfer to funds, e.g., Building fund							
	Transfer from funds							
	Balance transferred to General Fund							

Matters for FS of non-corporates

- **Can Penalties / other than business Incomes be credited to capital A/c?**
- **Are list of Trade Receivables / Payables / Unsecured Loans mandatory?**
- **Notes to the Accounts**
- **Significant Accounting Policies**
- **MSMED Act 2006**

AS Applicability

AS No.	Short Title	Companies		Non - Companies			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
1	Accounting Policies	Y	Y	Y	Y	Y	Y
2	Inventories	Y	Y	Y	Y	Y	Y
3	Cash Flow	Y	N/Y	Y	N	N	N
4	Events after Balance Sheet date	Y	Y	Y	Y	Y	Y
5	Prior Period Items & Policies	Y	Y	Y	Y	Y	Y
6	Depreciation (Omitted w.e.f. 30.3.16)	NA	NA	NA	NA	NA	NA
7	Construction	Y	Y	Y	Y	Y	Y
9	Revenue	Y	Y	Y	Y	Y	Y
10	Property, Plant & Equipment	Y	Y	Y	Y	Partly	Partly
11	Foreign Exchange	Y	Y	Y	Y	Partly	Partly
12	Government Grants	Y	Y	Y	Y	Y	Y
13	Investments	Y	Y	Y	Y	Y	Y
14	Amalgamations	Y	Y	Y	Y	Y	N
15	Employee Benefits	Y	Partly	Y	Partly	Partly	Partly

AS Applicability

AS No.	Short Title	Companies		Non - Companies			
		Non-SMC	SMC	L - I	L- II	L - III	L - IV
16	Borrowing Cost	Y	Y	Y	Y	Y	Y
17	Segment	Y	N	Y	N	N	N
18	Related Party	Y	Y	Y	Y	N	N
19	Leases	Y	Partly	Y	Partly	Partly	Partly
20	Earning Per Share	Y	Partly	N	N	N	N
21	Consolidation	N/Y	N/Y	(listed)	N	N	N
22	Deferred Taxes	Y	Y	Y	Y	Y	Partly
23	Consolidated Statements	N/Y	N/Y	(listed)	N	N	N
24	Discontinuing Operation	Y	Y	Y	Y	N	N
25	Interim Reporting	Y (listed)	N**	N**	N**	N**	N
26	Intangible Assets	Y	Y	Y	Y	Y	Partly
27	Interest in Joint Ventures	N/Y	N/Y	(listed)	N	N	N
28	Impairment	Y	Partly	Y	Partly	Partly	N
29	Contingency	Y	Partly	Y	Partly	Partly	Partly

RELATED PARTY

Accounting Standards

AS 18

Companies Act

S. 2(76)

S. 184

S. 188

Income Tax

40A(2)(b)

Cash System

- **AS 1 – accrual system**
- **ICAI – 1991 announcement**
 - **In cases where the statute governing the enterprise requires the preparation and presentation of financial statements on accrual basis but the financial statements have not been so prepared, the auditor should qualify his report.**
 - **On the other hand, where there is no statutory requirement for preparation and presentation of financial statements on accrual basis, and the financial statements have been prepared on a basis other than ‘accrual’ the auditor should describe in his audit report, the basis of accounting followed, without necessarily making it a subject matter of a qualification.**

Cash System

- **Disclosure in the audit report:**
- **“It is the policy of the enterprise to prepare its financial statements on the cash receipts and disbursements basis. On this basis revenue and the related assets are recognised when received rather than when earned, and expenses are recognised when paid rather than when the obligation is incurred.**
- **In our opinion, the financial statements give a true and fair view of the assets and liabilities arising from cash transactions of at and of the revenue collected and expenses paid during the year then ended on the cash receipts and disbursements basis as described in Note X.”**

Cash System

- **Revenue** - In case, revenue has not been received in cash, however, TDS made and deposited by the payer, in that case, revenue shall be recognised equivalent to the amount of TDS.
- **Borrowing:**
 - Interest on Loans - to be paid
 - Capitalisation of borrowing costs shall commence when expenditure for acquisition, construction or production of a qualifying asset is paid & all activities necessary to prepare qualifying asset for its intended use or sale are in progress.
 - Borrowing costs paid after substantial completion of all activities necessary to prepare qualifying asset for its intended use or sale shall be expensed off.

Cash System

- **Depreciation** - Recognise depreciation and impairment of assets as expense in PL so that the periodic net result of operations of the entity reflects the use of the asset.
- **Inventories** - Difference arising on valuation of inventories at lower of cost and net realisable value, shall also be recognised in the PL.
- **Taxes** - Tax paid for FY shall be recognised as expense in PL. In case, entity has paid tax more than current tax for FY, and it is reasonably certain that additional tax paid will be received as refund, then it shall expense off amount in PL to the extent of actual current tax and recognise the balance amount as 'tax refund receivable' in the B/s

MSME
MICRO, SMALL & MEDIUM ENTERPRISES
सूक्ष्म, लघु एवं मध्यम उद्यम

S. 43B

- **Notwithstanding anything contained in any other provision of this Act, a deduction otherwise allowable under this Act....**
- **Clause (h) inserted w.e.f. 1.4.2024 i.e. AY 2024-25 i.e. FY 2023-24**
 - **Any sum payable by assessee to**
 - **a Micro or Small enterprise**
 - **beyond**
 - **Time Limit specified in s. 15 of MSMED Act, 2006**

S. 43B

- **Shall be allowed (irrespective of the PY in which liability to pay such sum was incurred by the assessee according to the method of accounting regularly employed by him) only in computing income referred to in section 28 of that PY in which such sum is actually paid by him**
- **Before 139(1) – not allowed (Excluded from the Proviso)**
- **Form 3CD amended to include reporting on 43B(h)**

IMPORTANT DATES

2.10.2006

- **MSMED Act 2006**

16.11.2007

- **Schedule VI of Companies Act 1956 amended**

13.4.2009

- **Clause 22 inserted in Form 3CD**

4.9.2015

- **Schedule III of Companies Act 2013 amended**

22.1.2019

- **MSME Form I**

26.6.2020

- **Change in classification w.e.f. 1.7.2020**

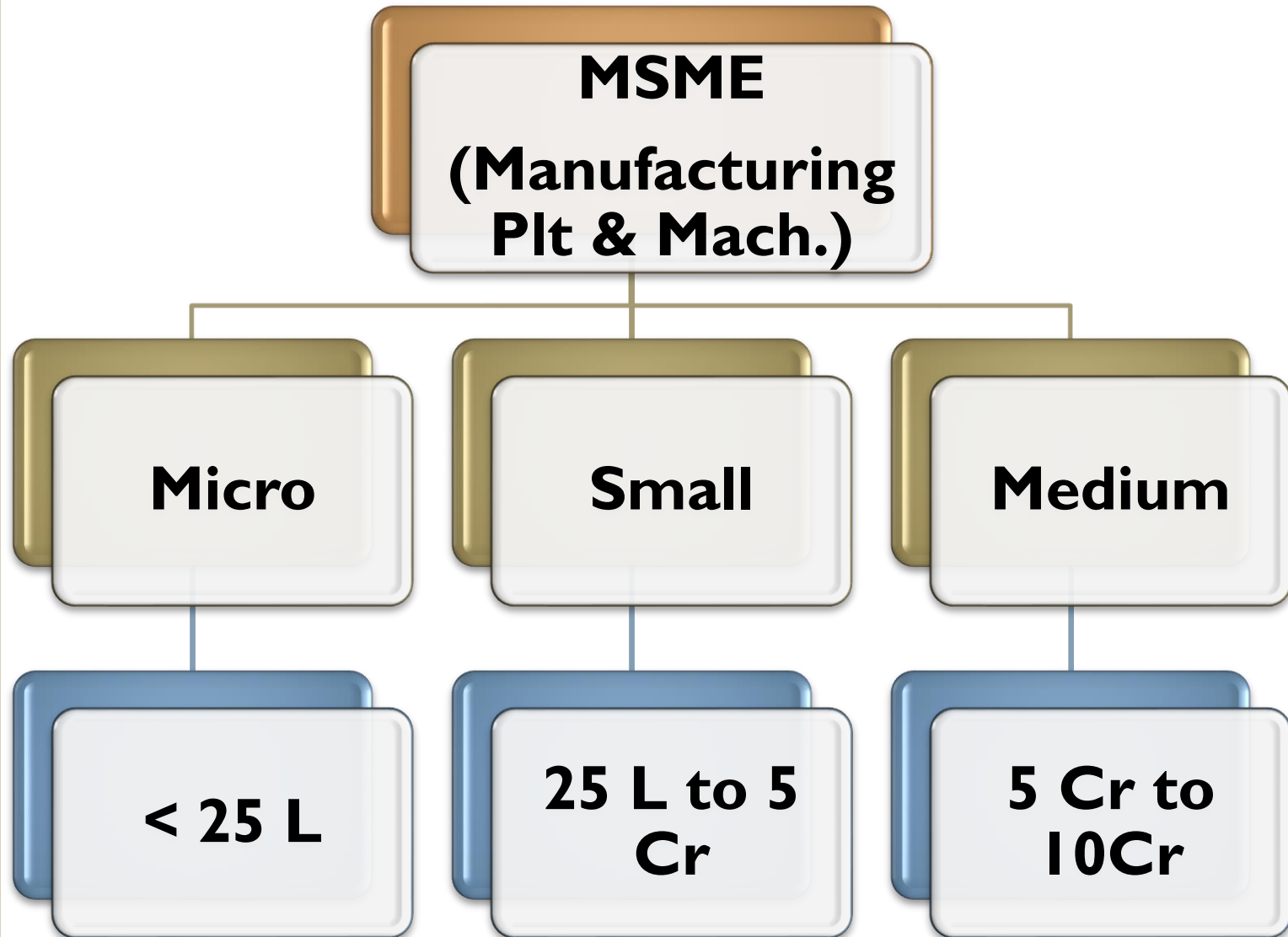
2.7.2021

- **MSME Ministry Office Memorandum**

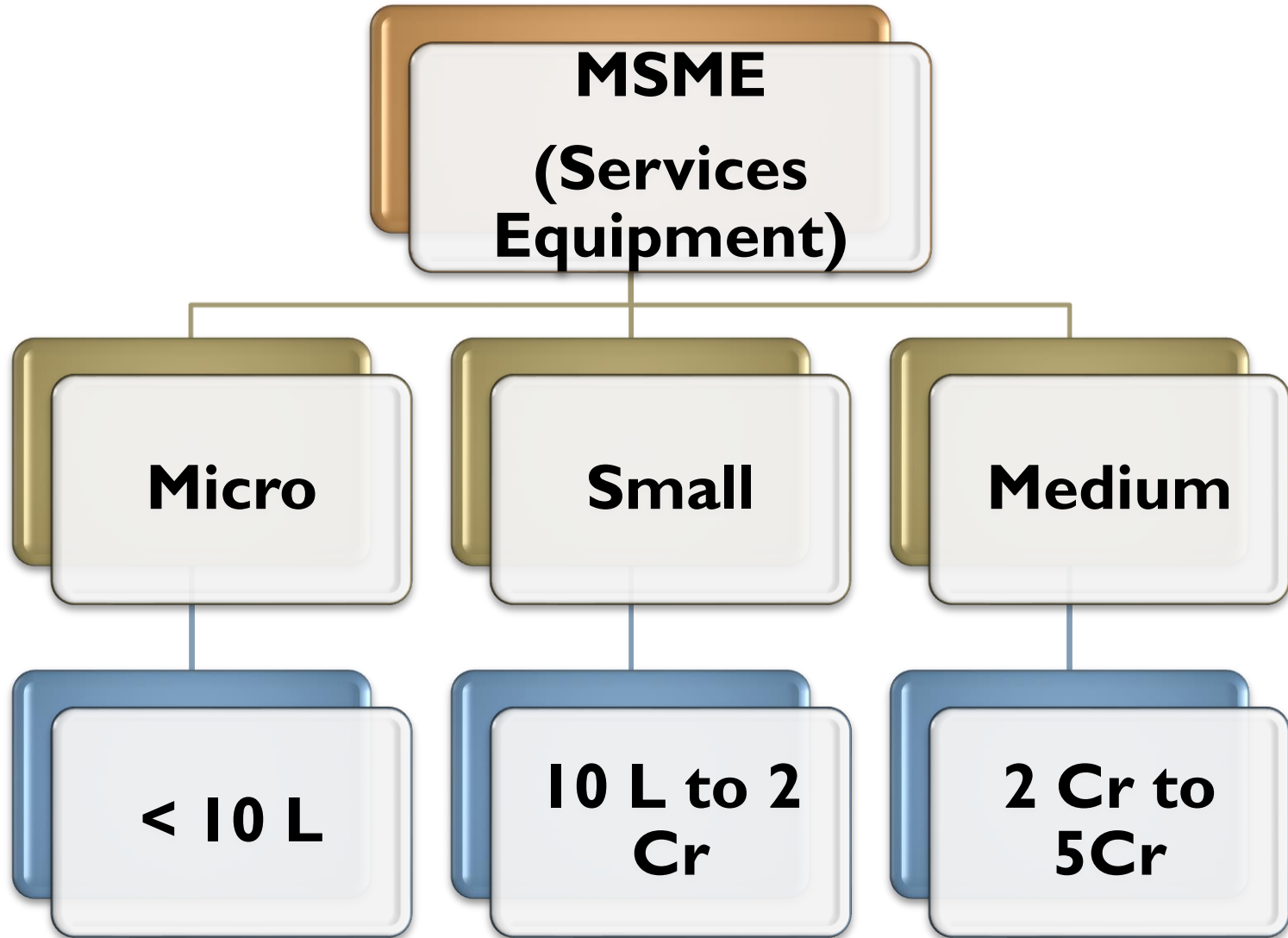
1.4.2024

- **S. 43B(h) Income Tax Act**

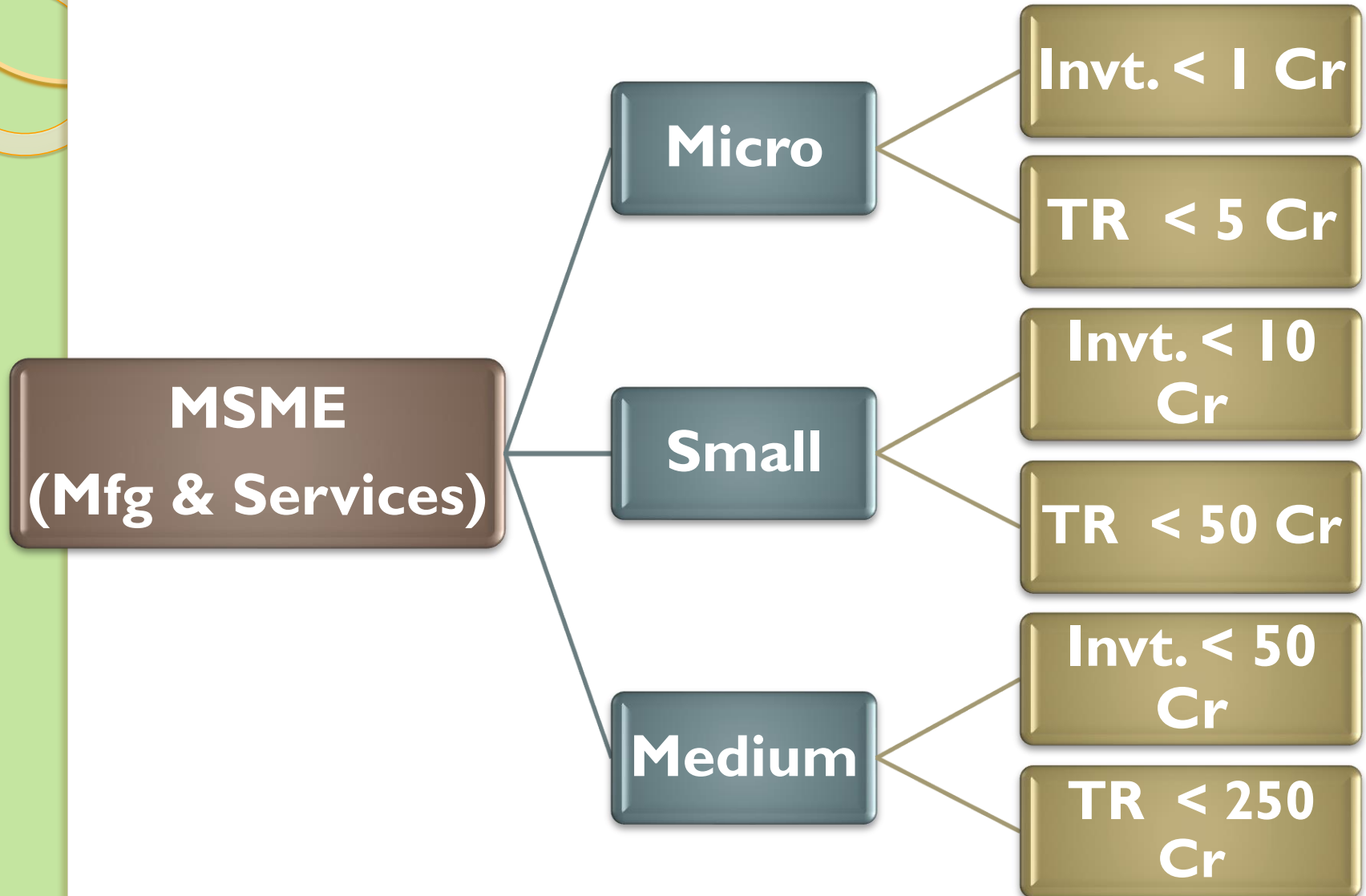
Prior to 1.7.2020



Prior to 1.7.2020



w.e.f. 1st JULY 2020



INVESTMENTS

- **Calculation of investment in plant & machinery or equipment will be linked to ITR of PY**
- **New enterprise, invest. on self-declaration - relaxation shall end after 31st March of FY in which it files its first ITR.**
- **Plt & Mach. Same as IT Act - shall include all tangible assets (other than land & building, furniture & fittings).**
- **Purchase (invoice) value of Plt & Mach. or equip., whether purchased 1st hand or 2nd hand, excluding GST, if enterprise is a new.**
- **Cost to exclude .. Pollution control, R&D, Industrial safety devices, + not. dt. 5.10.2006**

TURNOVER

- **Exports of goods or services or both, shall be excluded**
- **Information as regards turnover and exports turnover for an enterprise shall be linked to the IT Act or CGST Act and the GSTIN.**
- **Turnover related figures of such enterprise which do not have PAN will be considered on self-declaration basis for a period up to 31st March 2021 and thereafter, PAN and GSTIN shall be mandatory**

WHEN TO PAY

- **SECTION 15** - Where any **supplier** supplies any goods or renders any services to any buyer, the buyer shall make payment therefor on or before the date agreed upon between him and the supplier in writing or, where there is no agreement in this behalf, before the appointed day:
- Provided that in no case the period agreed upon between the supplier and the buyer in writing shall exceed 45 days from the day of acceptance or the day of deemed acceptance.

IMPORTANT DEFINITIONS

- **Appointed day** - day following immediately after 15 days from the day of acceptance or the day of deemed acceptance of any goods or any services by a buyer from a supplier
 - **Day of acceptance**
 - day of the actual delivery of goods or the rendering of services; or
 - where any objection is made in writing by the buyer regarding acceptance of goods or services within 15 days from the day of the delivery of goods or the rendering of services, the day on which such objection is removed by the supplier
 - **Day of deemed acceptance** - where no objection is made in writing by the buyer regarding acceptance of goods or services within 15 days from the day of the delivery of goods or the rendering of services, the day of the actual delivery of goods or the rendering of services

CONSEQUENCES

- **SECTION 16 - Where any buyer fails to make payment of the amount to the supplier, as required u/s 15, the buyer shall, notwithstanding anything contained in any agreement between the buyer and the supplier or in any law for the time being in force, be liable to pay compound interest with monthly rests to the supplier on that amount from the appointed day or, as the case may be, from the date immediately following the date agreed upon, at 3 times of bank rate notified by RBI.**

CONSEQUENCES

- **SECTION 23 - Notwithstanding anything contained in the Income-tax Act, 1961 the amount of **interest payable or paid by any buyer**, under or in accordance with the provisions of **this Act, shall not, for the purposes of computation of income** under the **Income-tax Act, 1961, be allowed as deduction.****

FS REPORTING

- **SECTION 22 - Where any buyer is required to get his annual accounts audited under any law for the time being in force, such buyer shall furnish the following additional information in his annual statement of accounts, namely:—**
 - **principal amount & interest due thereon (to be shown separately) remaining unpaid to any supplier as at the end of each accounting year;**
 - **amount of interest paid by buyer in terms of s.16, along with the amount of payment made to supplier beyond the appointed day during each accounting year;**
 - **amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;**
 - **amount of interest accrued and remaining unpaid at end of each accounting year;**
 - **amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure u/s 23**

OVERRIDING EFFECT

• SECTION 24

- **The provisions of sections 15 to 23 shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force.**

S. 43B

- **Any sum payable by assessee to a**
- **Micro or Small enterprise**
- **beyond**
- **Time Limit specified in s. 15 of MSMED Act, 2006**

Important Definitions

- **Enterprise** - means an industrial undertaking or a business concern or any other establishment, by whatever name called, engaged in the manufacture or production of goods, in any manner, pertaining to any industry specified in 1st Schedule to the Industries (Development and Regulation) Act, 1951 or engaged in providing or rendering of any service or services

Important Definitions

- **Supplier** - means a micro or small enterprise, which has **filed a memorandum** with authority referred to in section 8(I), and includes
 - **NSCI** registered as a company
 - **SIDC** of a state or **UT** registered as company
 - any company, co-operative society, trust or a body, by whatever name called, registered or constituted under any law for the time being in force and engaged in **selling goods produced by** micro or small enterprises and rendering services which are provided by such enterprises

TRADERS

Dated:02.07.2021

OFFICE MEMORANDUM

Subject: Activities (NIC code) under MSMED Act, 2006 for Udyam Registration –Addition of Retail and Wholesale Trade- regarding

This Ministry's O.M. No. UAM/MC/01/2017-SME dated 27.06.2017 on the subject 'Activities (NIC codes) not covered under MSMED Act, 2006 for registration of Udyog Aadhaar Memorandum (UAM)' excluded certain activities from registration on UAM Portal. This O.M. was further validated for Udyam Registration vide O.M. no. 5/2(1)/2020-P&G/Policy dated 17.07.2020. Certain changes were made vide 5/2(1)/2020/E-P&G/Policy dated 01.12.2020; where it was clarified that in Table. 1 of O.M. no. UAM/MC/01/2017-SME dated 27.06.2017, NIC codes 45, 46 and 47 and the activities mentioned against these NIC codes, are not permitted for registration in Udyam Registration Portal (<https://udyamregistration.gov.in>).

2. The Government has received various representations and it has been decided to include Retail and wholesale trades as MSMEs and they are allowed to be registered on Udyam Registration Portal. However, benefits to Retail and Wholesale trade MSMEs are to be restricted to Priority Sector Lending only.

3. Accordingly, the list of eligible additional activities under NIC Code 45, 46 and 47 are as under :

45	Wholesale and retail trade and repair of motor vehicle and motorcycles
46	Wholesale trade except of motor vehicles and motor cycles
47	Retail Trade Except of Motor Vehicles and motor cycles

4. The Udyam Registration is allowed for above three NIC Codes and activities mentioned against

CASE STUDY

- **Purchase 10.5.2023, paid – 10.9.2023**
 - **No 43B(h), but interest**
- **Purchase 15.3.2024, paid – 15.4.2024**
 - **No 43B(h), no interest**
- **Purchase 15.3.2024, paid – 15.5.2024**
 - **43B(h) & interest**

ISSUES

- **Registered or Not**
- **Traders !!**
- **Opening Balance**
- **Capital Asset**
- **Purchases not consumed**
- **Only for entities audited or for all**

ISSUES

- **Written agreement !!**
- **Date of delivery or date of invoice**
- **Advance received – allowed on payment basis!!**
- **Purchase and sale with same party**
- **Is TDS deducted... money paid!!**
- **GST amount due !!**

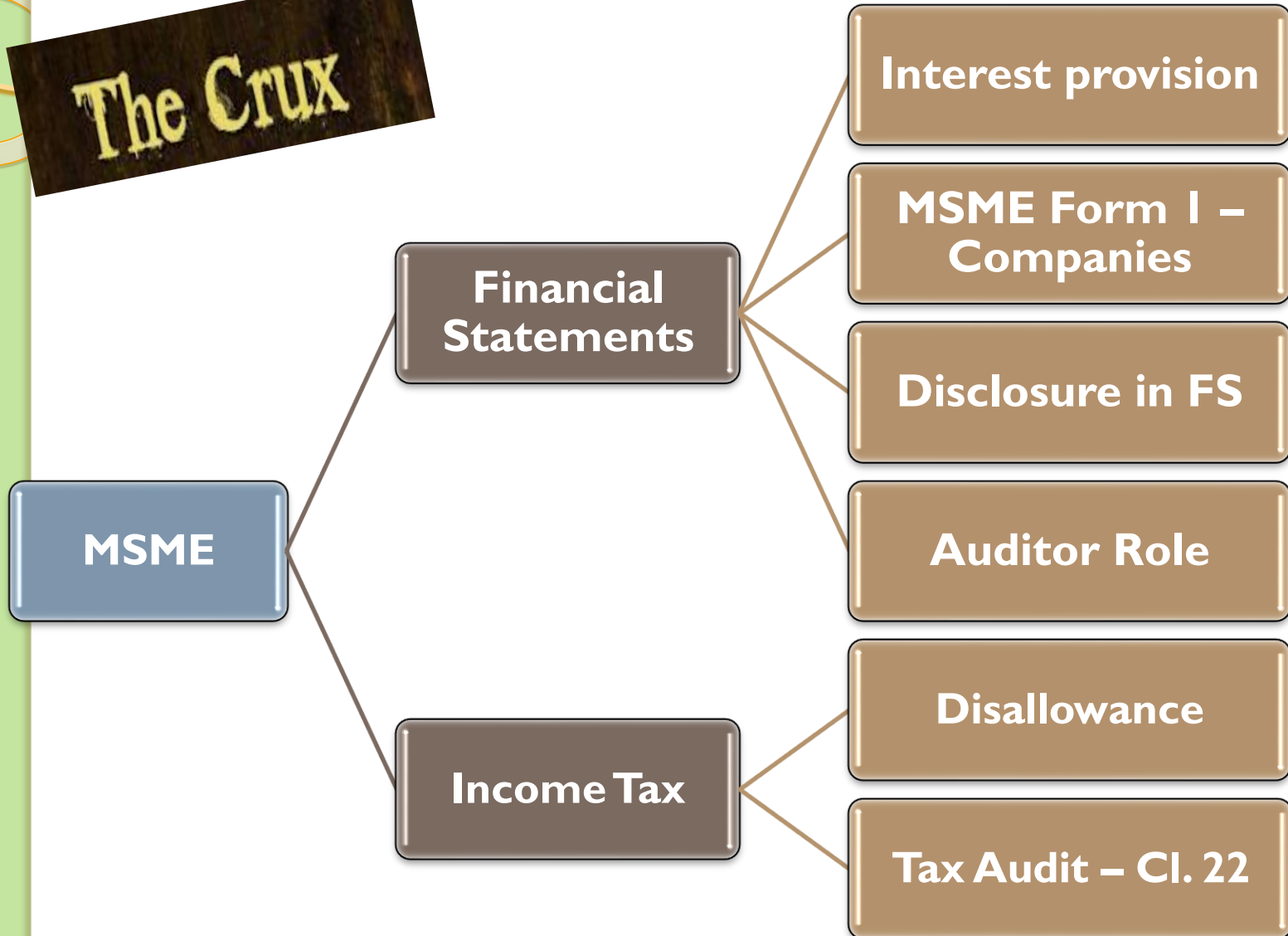
ISSUES

- **S. 44AD / 44ADA / 44AE**
- **Interest not receivable due to agreement or waiver**
- **TDS on interest**
- **MSE registration surrendered**
- **Payment on LIFO basis**
- **Buyer is not MSE. Is he covered?**

ISSUES

- **Are Charitable Trusts covered?**
- **TDS not deducted – 40(a)(ia) or 43B – 3CD**
- **Retention money**
- **Audit fee**
- **Provisions / unbilled expenses**

The Cruc



S. 43B(h) & FORM 3CD

- **CI 26 amended for S. 43B(h) on 5th March 2024**
- **Form 3CD again amended on 19.3.2024 –from CI. 26 to CI. 22**
- **Now CI. 22:**
 - **The amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006 or any other amount not allowable under clause (h) of section 43B of the Income-tax Act, 1961**
- **No reporting in CI 26 !!!**
- **Implementation Guide with respect to Changes in Form No. 3CD & No.3CEB**

Audit Trail



SECTION 128

- **Books of account, etc., to be kept by company.**
- (1) Every company shall prepare and keep at its registered office books of account and other relevant books and papers and FS for every FY which give a true & fair view of the state of the affairs of the company, including that of its branch office or offices, if any,
- Provided that ..
- Provided further that the company may keep such books of account or other relevant papers **in electronic mode** in such manner as may be prescribed.

RULE 3(I)

- **Manner of Books of Account to be Kept in Electronic Mode**
- (I) The books of account and other relevant books and papers maintained in electronic mode shall remain accessible in India, at all times so as to be usable for subsequent reference.
- Provided that for the financial year commencing on or after the 1st day of April, 2023, every company which uses accounting software for maintaining its books of account, shall use only such accounting software which has a feature of recording audit trail of each and every transaction, creating an edit log of each change made in books of account along with the date when such changes were made and ensuring that the audit trail cannot be disabled.

AUDIT TRAIL

- **Applicable only for companies.**
- **For accounting period commencing on or after 1.4.2023**
- **Books of accounts using accounting software. Books of accounts includes records in respect of:**
 - **all sums of money received and expended**
 - **all sales and purchases of goods and services**
 - **assets and liabilities of the company; and**
 - **items of cost – cost records**

AUDIT TRAIL

- **Accounting software should have feature of:**
 - **Recording audit trail of each and every transaction,**
 - **creating an edit log of each change made in books of account**
 - **date when such changes were made; and**
 - **ensuring that the audit trail cannot be disabled.**

RULE 11(g)

- **Whether the company has used such accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility and the same has been operated throughout the year for all transactions recorded in the software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention**

AUDIT APPROACH

- **Identify records & transactions that constitute books of account**
- **Identify the software or any other IT component used for processing and or storing data for creation and maintenance of books of a/c**
- **Ensure such software have the audit trail feature;**
- **Ensure that the audit trail captures changes to each and every transaction of books of account; information that needs to be captured may include the following:**
 - **when changes were made**
 - **who made those changes**
 - **what data was changed**

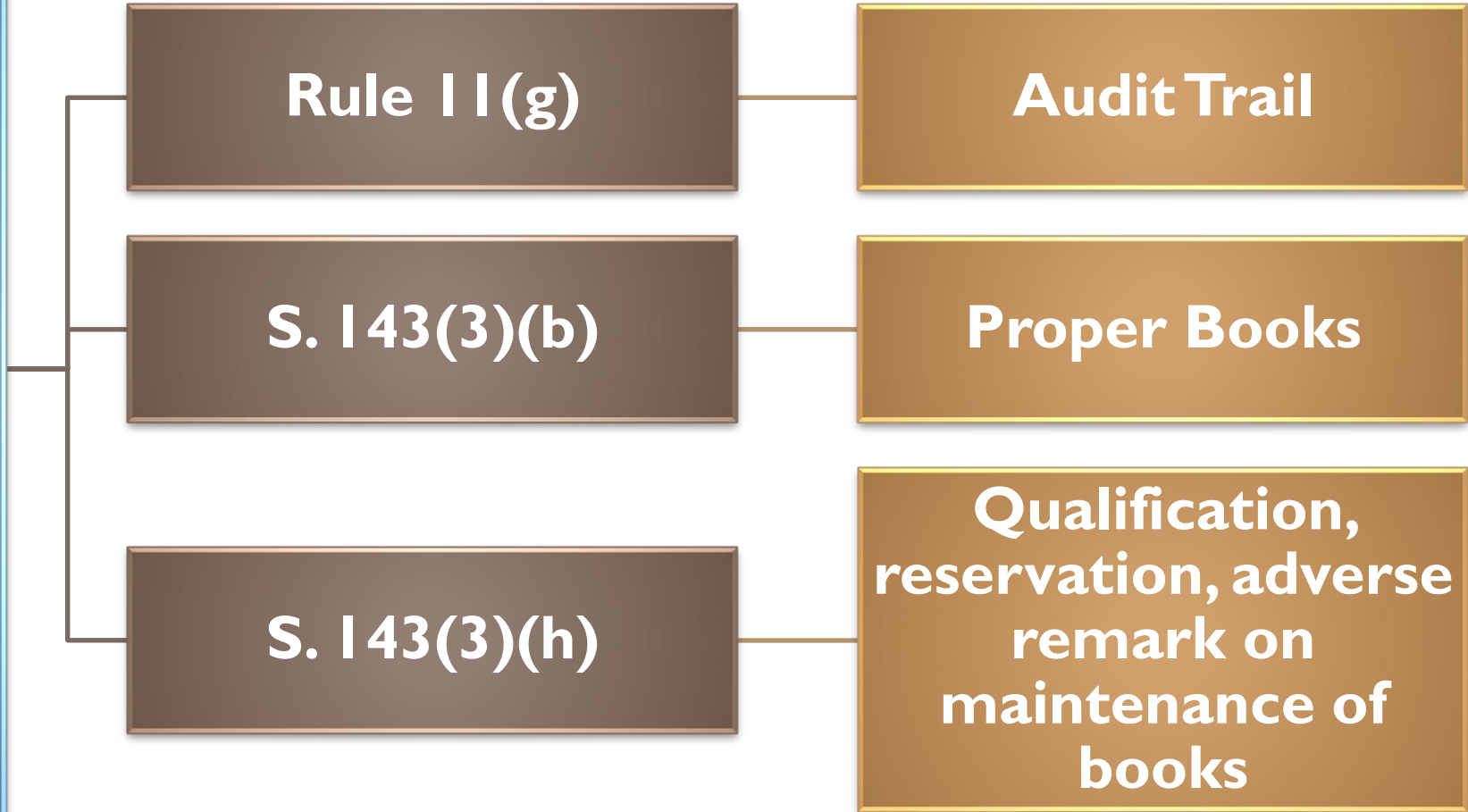
AUDIT APPROACH

- **Ensure that Audit Trail is:**
 - **Always enabled (not disabled)**
 - **Enabled at the database level (if applicable) for logging any direct data changes**
 - **Appropriately protected from any modification**
 - **Retained as per statutory requirements for record retention – 8 years (128(5))**
- **Ensure that controls over maintenance & monitoring of audit trail & its feature are designed & operating effectively throughout the period of reporting**

EXPECTED SCENARIOS

- **Management have not identified all records/transactions for which audit trail should be maintained.**
- **The accounting software does not have the feature to maintain audit trail**
- **In accounting software audit trail was not enabled throughout the audit period**
- **Management maintains adequate audit trail as required by the Account Rules.**

Audit Trail Reporting



REPORTING – RULE 11(g)

Based on our examination which included test checks, the company has used an a/cing software for maintaining its books of a/c which has a feature of recording audit trail (edit log) facility & the same has operated throughout the yr for all relevant transactions recorded in the software except that the audit trail feature of **XX** software used by the company to maintain payroll records did not operate throughout the year. Further, during the course of our audit we did not come across any instance of audit trail feature being tampered with.

The audit trail has been preserved by company as per the statutory requirements for record retention – from 2nd year onwards

REPORTING – S. 143(3)(b)

In our opinion, proper books of account as required by law have been kept by the company so far as it appears from our examination of those books [and proper returns adequate for the purposes of our audit have been received from the branches not visited by us] except for the matters stated in the paragraph (...) below on reporting under Rule 11(g)

REPORTING – S. 143(3)(h)

- **S. 143(3) (h) - any qualification, reservation or adverse remark relating to the maintenance of accounts and other matters connected therewith**
- **The [qualification/ adverse remark/ reservation] relating to the maintenance of accounts and other matters connected therewith are as stated in the paragraph (...) above on reporting under Section 143(3)(b) and paragraph (...) below on reporting under Rule 11(g)**

RULE 11(g) – MODIFIED REPORTING

S. No.	Scenario	Reporting
I	Audit trail feature was disabled for one of the books of account/ records or for an accounting software - (e.g., PPE software did not have audit trail feature))	Based on our examination, the company, has used accounting software for maintaining its books of account which has a feature of recording audit trail (edit log) facility except in respect of maintenance of PPE records wherein the accounting software did not have the audit trail feature enabled throughout the year. Further, the audit trail facility has been operating throughout the year for all relevant transactions recorded in the software except for the instances reported below..... Further, during the course of our audit we did not come across any instance of audit trail feature being tampered with.

RULE 11(g) – MODIFIED REPORTING

S. No.	Scenario	Reporting
2	<p>Audit trail feature is not operating effectively during the reporting period</p>	<p>“.....except that the audit trail feature ofYYY software used by the company to maintain payroll records did not operate throughout the year.....”</p> <p>“.....except that no audit trail enabled at the database level for accounting software AAA (database SQL) and BBB (database db2) to log any direct data changes.....”</p>

RULE 11(g) – MODIFIED REPORTING

S. No.	Scenario	Reporting
3	Accounting software is maintained by third party and auditor is unable to assess whether audit trail feature can be disabled during the reporting period	“Based on our examination, the company, has used an accounting software ABC which is operated by a third party software service provider, for maintaining its books of account and in absence of [state the type of control report] we are unable to comment whether audit trail feature of the said software was enabled and operated throughout the year for all relevant transactions recorded in the software or whether there were any instances of the audit trail feature been tampered with.”

RULE 11(g) – MODIFIED REPORTING

S. No.	Scenario	Reporting
4	Migration from one software to the other happened during the year or higher version of software installed and auditor is unable to obtain sufficient and appropriate evidence	The Company has migrated to [name of the software] from [old software/manual] during the year and is in the process of establishing necessary controls and documentations regarding audit trail. Consequently, we are unable to comment on audit trail feature of the said software

ERROR OR FRAUD

- **Occurrence of an error or fraud may not be established due to lack of maintenance, availability or retrievability of audit trails.**
- **For evaluating severity of a deficiency for such instances specifically in cases of fraud, consider:**
 - **Likelihood that the deficiency will result in a material misstatement, and**
 - **Magnitude of such an outcome.**
- **S. 143(12) Reporting**



- **Can transactional books be maintained through different period?**
- **For small companies, can all books be maintained after year end?**
- **Consolidated FS?**
- **IFCoR Reporting?**
- **Non- Compliance:**
 - **Company – 50k to 500k**
 - **Auditor – reporting**
- **ICAI Implementation Guide (Revised 2024)**

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