

# OVERVIEW

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## Critical Issues in Tax Audit & ICDS I & II



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

**Shared at**

**Sales Tax Bar Association, Delhi**

**4<sup>th</sup> October 2017**



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# TAX AUDIT



A 3D illustration of a small grey figure holding a magnifying glass over the word 'AUDIT'. The figure is positioned between the words 'TAX' and 'AUDIT', which are stacked vertically. The word 'TAX' is in a smaller, blue, sans-serif font, while 'AUDIT' is in a larger, bold, blue, sans-serif font. The figure is holding the magnifying glass over the letter 'I' in 'AUDIT'. The background is a light green, wavy, abstract pattern.

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# LEGISLATION FOR AY 2017-18

## S. 44AB

- Business – exceeds Rs. 1 Crore
- Profession – exceeds Rs. 50 L
- Business u/s 44AE /44BB /44BBB; income < deemed profits;
- Profession u/s 44ADA; deemed profit < 50% & TI > ANCT
- Business u/s 44AD (4)

## Rule 6G

- Prescribing the Forms for Report u/s 44AB

## Form 3CA

- Report in case of a person who is required to get his A/cs audited under any law

## Form 3CB

- Report in any other case

## Form 3CD


- Particulars as required u/F 3CA or 3CB

## S. 271B

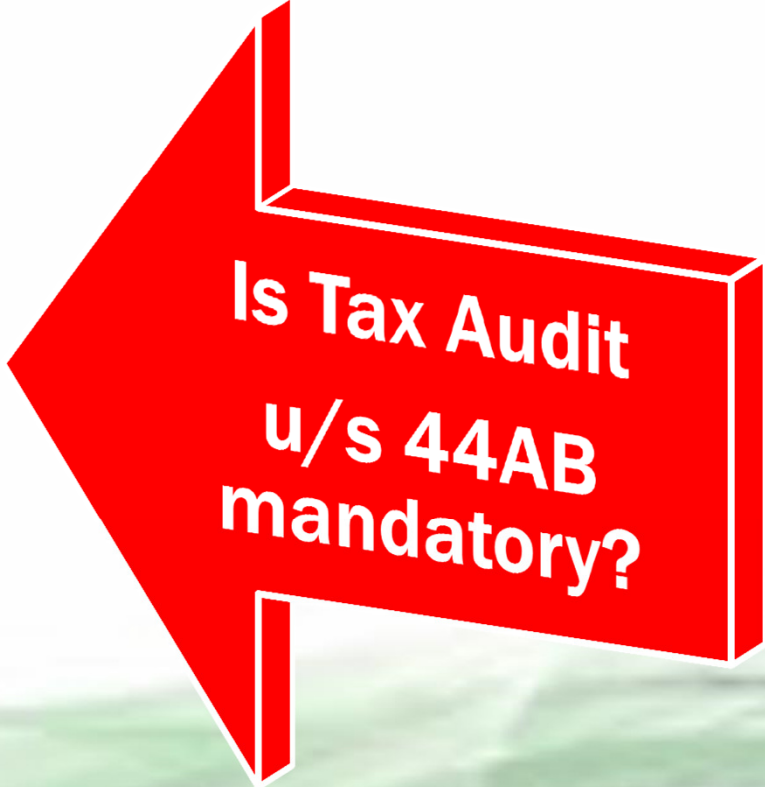
- Penalty  $\frac{1}{2}\%$  maximum Rs. 1.50 L

# 44AD / 44AB

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A's turnover is  
Rs. 1.75 Crs. &  
is opting for  
S. 44AD



Is Tax Audit  
u/s 44AB  
mandatory?

## **APPLICABILITY OF 44AD(44ADA) / 44AB - AY 2017-18**

**Mfg. - Turnover – 120 L; NP – 10 L; 80-IA – 6 L; TI - 3.40 L**

- AD - No
- AB - Yes

**Architect - Trading Turnover – 90 L; NP – 10 L; Fee – 55 L; NP- 15 L; TI – 17 L**

- AD – No
- ADA - No
- AB - Yes

**Doctor – Trading Turnover – 110 L - NP – 12 L; Fee – 27 L – NP 15 L; TI- 20 L**

- AD – No
- ADA - Yes
- AB - Yes

**Trading; Turnover -120 L; Commission – 2 L; NP- 12 L; TI 8L**

- AD - No
- AB - Yes

# APPLICABILITY-44AD / 44AB FOR AY 2017-18

**AY 2017-18 – T – Rs. 120 Lacs . P  
– 10 L, TI – 9 L**

• Y/N

**AY 2018-19 – T – Rs. 120 Lacs . P  
– 8 L, TI – 6 L**

• N/Y

**AY 2019-20 – T – Rs. 70 Lacs . P –  
10 L, TI – 9 L**

• N/Y

**AY 2020-21 – T – Rs. 60 Lacs . P –  
10 L, TI – 2 L**

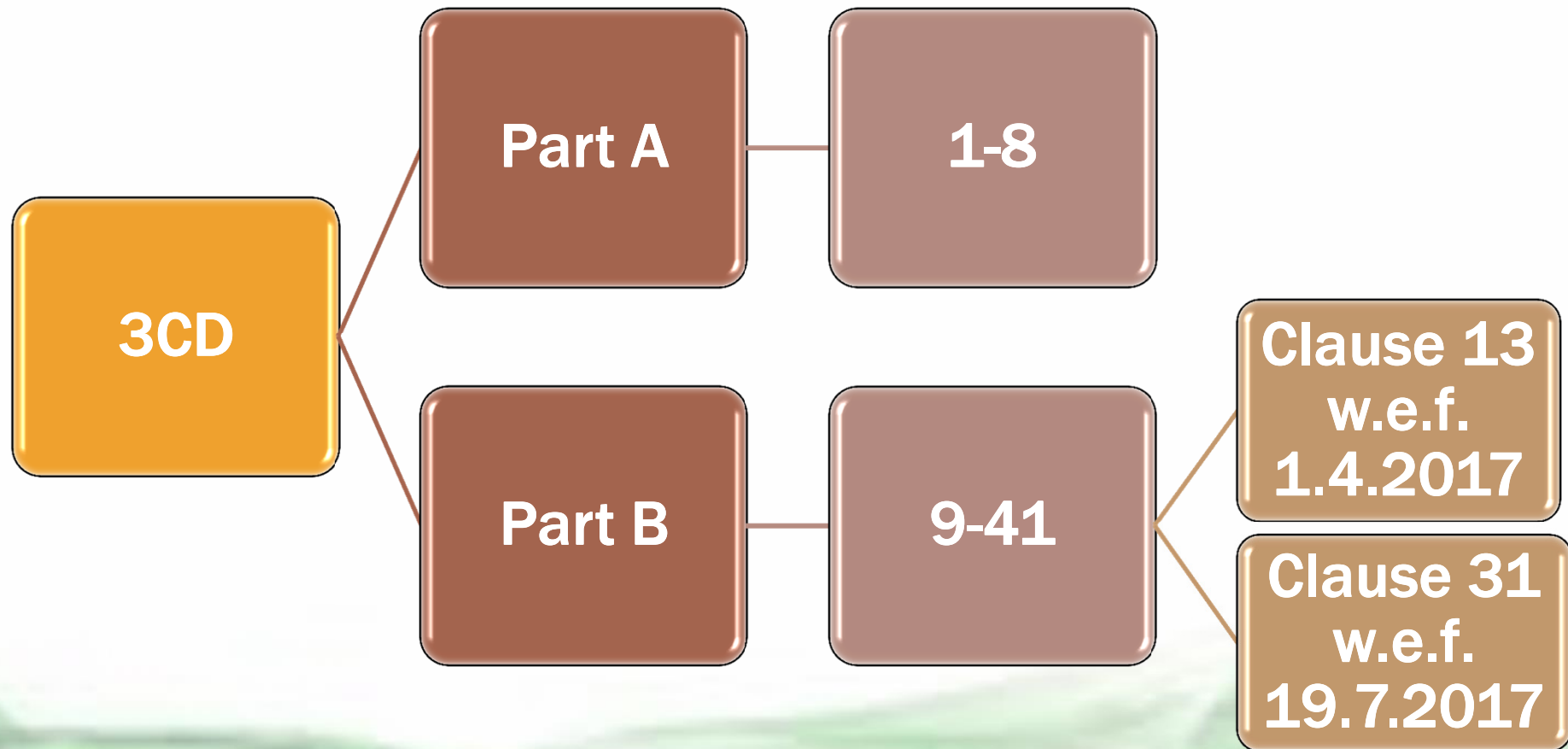
• N/N

# FORM 3CB

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- ✖ Total 5 Paras
- ✖ Same as Form 3CA except examination of books
- ✖ Opinion subject to observations / qualifications to be given:
  - + Financial Statements – 3(a)
  - + Form 3CD – 5
- ✖ SA 700?

# FORM 3CD – OVERVIEW





## **CL. 31 - S. 269 SS/T – AMENDED W.E.F. 19.7.17**

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- ✖ (a) Particulars of each loan or deposit in an amount exceeding limit specified in s. 269SS taken/accepted during the previous year –
  - + (i) to (iv) - same
  - + Old (v) – whether the loan was taken or accepted otherwise than by a/c payee cheque / bank draft?
  - + New (v) - whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
  - + New (vi) - in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

## **CL. 31 - S. 269 SS/T – AMENDED W.E.F. 19.7.17**

- ✖ **New (b) - Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year**
  - + name, address and PAN (if available with the assessee) of the person from whom specified sum is received;
  - + amount of specified sum taken or accepted;
  - + whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
  - + in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.
- ✖ **(a) & (b) need not be given in case of Govt. Co., bank or a corp. established by Central, State or Provincial Act**

## **CL. 31 - S. 269 SS/T – AMENDED W.E.F. 19.7.17**

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- ✖ (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 – (Old b)
  - + (i) to (iii) – same
  - + Old (iv) – whether the repayment was made otherwise than by a/c payee cheque / bank draft ?
  - + New (iv) - whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account;
  - + New (v) - in case the repayment was made by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

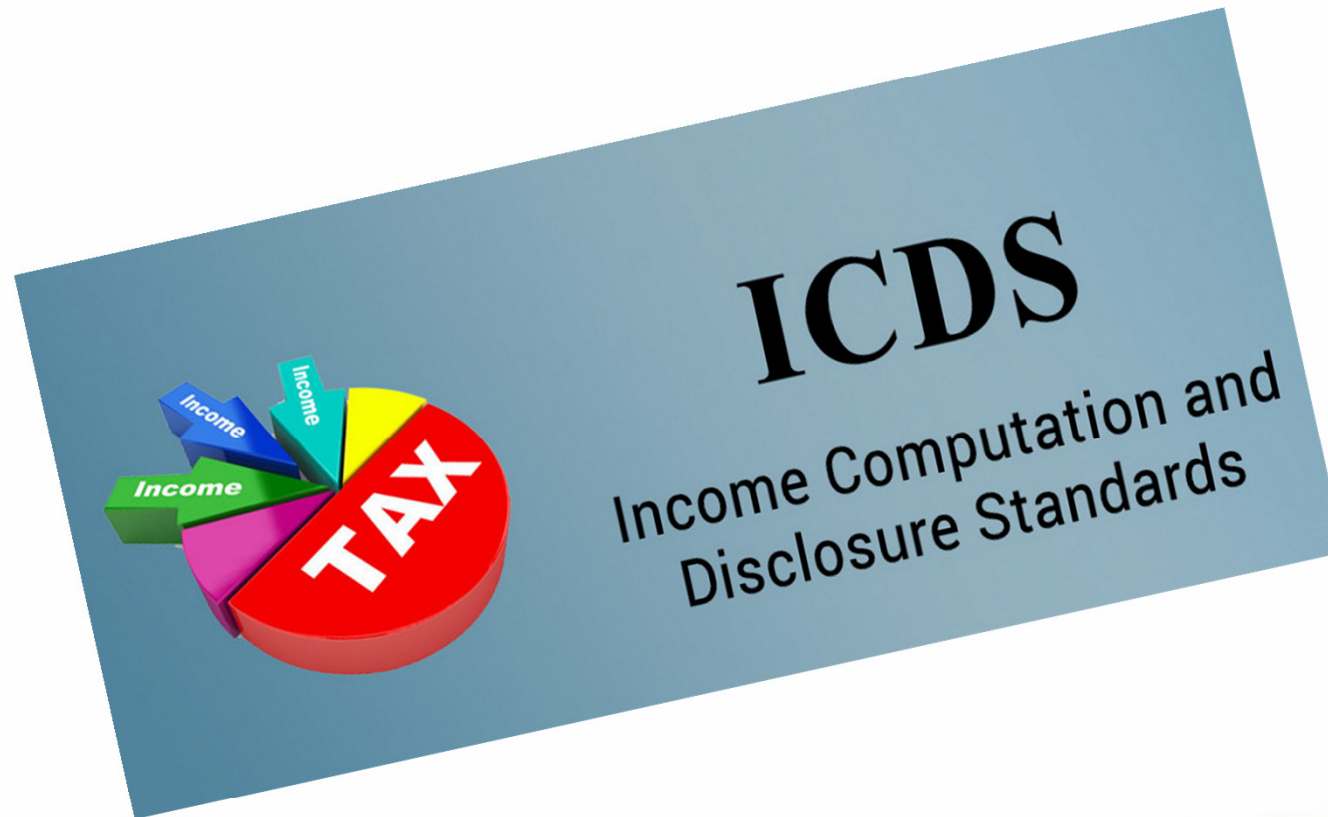
## **CL. 31 - S. 269 SS/T – AMENDED W.E.F. 19.7.17**

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- ✦ **New (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 electronic clearing system through a bank account** during the previous year**
  - + **name, address and PAN (if available with the assessee) of the **payer**;**
  - + **amount of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.**

## **CL. 31 - S. 269 SS/T – AMENDED W.E.F. 19.7.17**

- ✖ **New (e) -Particulars of repayment of loan/deposit or any specified advance in an amt. exceeding limit specified in s. 269T **received by cheque / bank draft which is not an account payee cheque / bank draft during PY****
  - + name, address & PAN (if available with assessee) of payer;
  - + amount of loan or deposit or any specified advance received by a cheque or a bank draft which is not an a/c payee cheque / bank draft during the previous year
- ✖ **(c), (d) & (e) need not be given in case of repayment of any loan or deposit or any specified advance taken or accepted from the Govt., Govt. Co., bank or a corporation established by Central, State or Provincial Act**





# BASICS

## Source

- **Section 145(2)**

## Effective Date

- **W.e.f. AY 2017-18**

## Heads of Income

- **Only on PGBP & Other Source**
- **If accounts on mercantile basis**

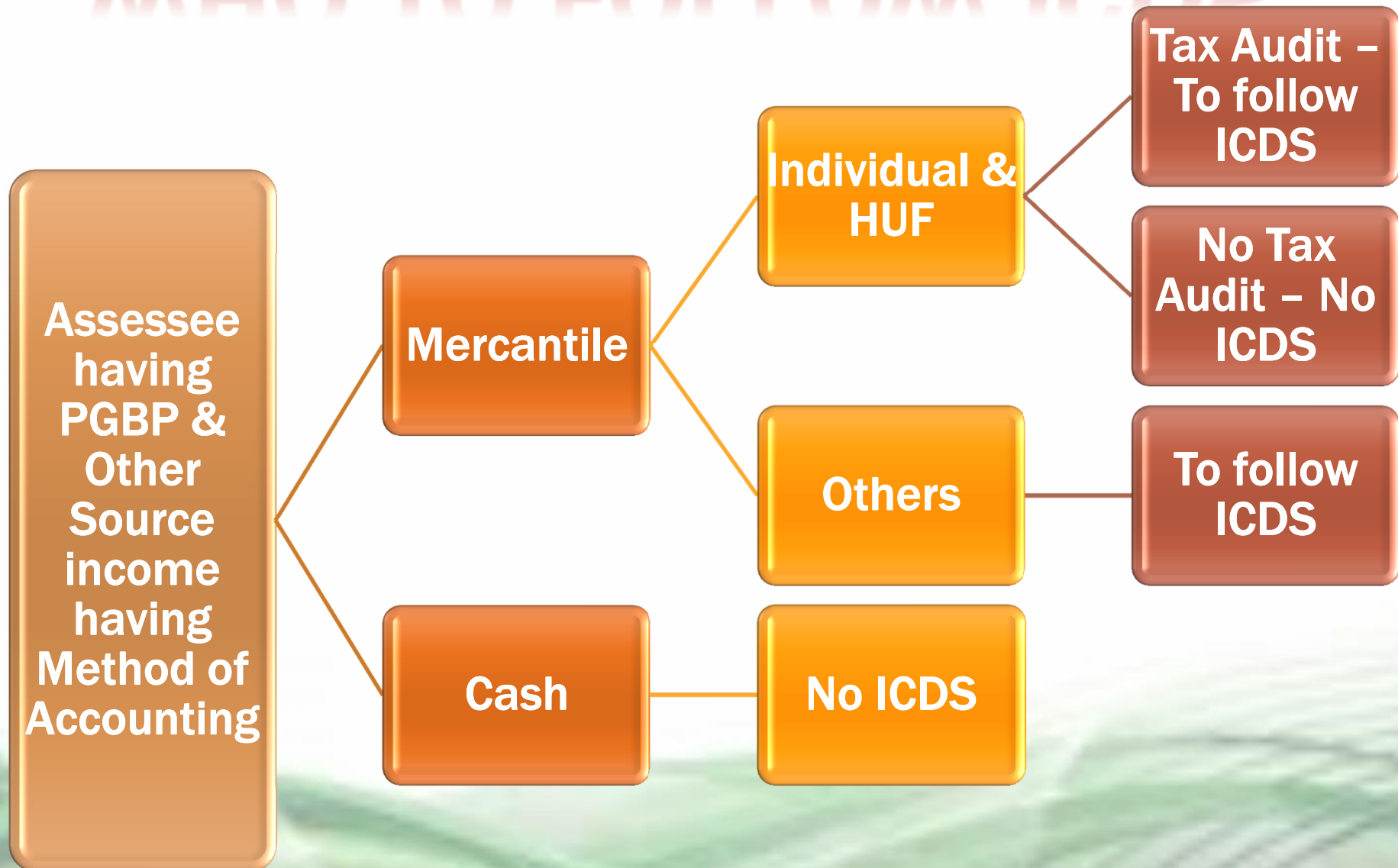
## No. of Standards

- **10 vide Not. Dt. 29.09.2016**

## Disclosure

- **Para 13 of Form 3CD & ITR**

# WHO TO FOLLOW ICDS

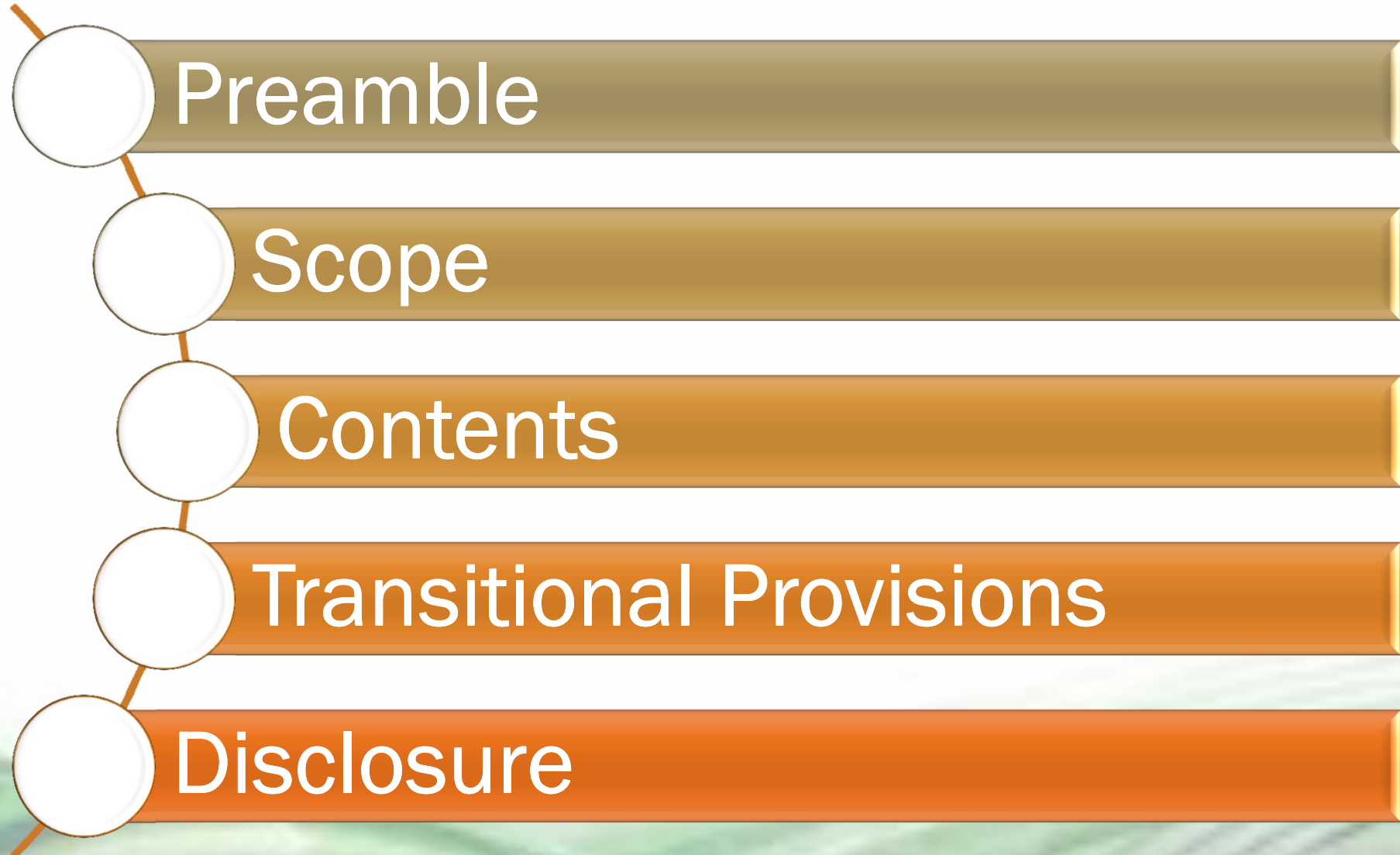




# CORRESPONDING AS / IND AS

ICD S	Name of ICDS	Correspondi ng AS	Corresponding Ind AS
I	Accounting Policies	1 & 5	1 & 8
II	Valuation of Inventories	2	2
III	Construction Contracts	7	11
IV	Revenue Recognition	9	11
V	Tangible Fixed Assets	10	16
VI	Changes in Foreign Exchange Rates	11	21
VII	Government Grants	12	20
VIII	Securities	13	109
IX	Borrowing Costs	16	23
X	Provisions, Contingent Liabilities & Contingent Assets	29	37

# STRUCTURE



# **PREAMBLE**

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- 1. This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account.**
- 2. In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.**

# WHAT TO DO

Get the FS  
prepared  
complying AS  
/ Ind AS

Check & List  
out the  
applicable  
ICDS

Note Differences  
in accounting  
policy as per AS  
in books & ICDS

Does any of  
those relate to  
any ICDS?

Is there any  
adjustment  
required in  
computation from  
Profit as per Books  
& IT?

If different, effect  
on profit /loss to  
be disclosed in  
Form 3CD & ITR

If yes, disclosure  
may be required  
in 3CD & ITR too

Verify related  
ICDS  
disclosures in  
Form 3CD

Fill ICDS effect  
details in ITR

# ACCOUNTING POLICIES

If books / FS as  
per AS / Ind AS



Effect and  
disclosure in  
Form 3CD

If books / FS  
as per ICDS



Qualify in  
Audit Report



Disclosure in  
Form 3CD

# ICDS CHECKLIST

ICDS	Name of ICDS	Whether Applicable	Amounts in ITR & 3CD	Disclosures in 3CD	Remarks
I	Accounting Policies	Yes			
II	Valuation of Inventories				
III	Construction Contracts				
IV	Revenue Recognition	Yes			
V	Tangible Fixed Assets				
VI	Changes in Foreign Exchange Rates				
VII	Government Grants				
VIII	Securities				
IX	Borrowing Costs				
X	Provisions, Contingent Liabilities & Contingent Assets				

# FORM 3CD – CLAUSE - 13

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- ✗ (a) Method of accounting employed in previous year – Mercantile / cash
- ✗ (b) Change in method of accounting applied
- ✗ (c) If, yes, effect thereof on profit / loss
- ✗ (Old d) Deviation in method of accounting from accounting standards prescribed u/s 145 and effect thereof on P/L
- ✗ ICDS reporting brought in w.e.f. 1.4.2017

# FORM 3CD – CLAUSE - 13

- ✗ (d) – whether any adjustment is required to be made to the profits or loss for complying with the ICDS notified u/s 145(2)
- ✗ (e) – Is, yes, give details
- ✗ (f) – Disclosure as per ICDS
  - + For 8 standards
  - + Two omitted as no disclosure required as per the standard:
    - ✗ Changes in Foreign Exchange Rates
    - ✗ Securities



# FORM 3CD – CLAUSE – 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Descripti on
I	Accounting Policies	14 Ch			
II	Valuation of Inventories				
III	Construction Contracts				
IV	Revenue Recognition				
V	Tangible Fixed Assets				
VI	Changes in Foreign Exchange Rates				
VII	Government Grants				
VIII	Securities				
IX	Borrowing Costs				
X	Provisions, Contingent Liab & Assets				
	Total				

# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures	Descrip.
I	Accounting Policies	500 Character	
II	Valuation of Inventories		
III	Construction Contracts		
IV	Revenue Recognition		
V	Tangible Fixed Assets		
VII	Government Grants		
IX	Borrowing Costs		
X	Provisions, Contingent Liab & Assets		

# ITR

<b>Schedule ICDS      Effect of Income Computation Disclosure Standards on profit</b>		
<b>Sl. No.</b>	<b>ICDS</b>	<b>Amount</b>
<b>(i)</b>	<b>(ii)</b>	<b>(iii)</b>
<b>I</b>	<b>Accounting Policies</b>	<b>5000</b>
<b>II</b>	<b>Valuation of Inventories</b>	
<b>III</b>	<b>Construction Contracts</b>	<b>200000</b>
<b>IV</b>	<b>Revenue Recognition</b>	<b>300000</b>
<b>V</b>	<b>Tangible Fixed Assets</b>	<b>-50000</b>
<b>VI</b>	<b>Changes in Foreign Exchange Rates</b>	
<b>VII</b>	<b>Government Grants</b>	
<b>VIII</b>	<b>Securities</b>	<b>40000</b>
<b>IX</b>	<b>Borrowing Costs</b>	<b>5000</b>
<b>X</b>	<b>Provisions, Contingent Liabilities and Contingent Assets</b>	
<b>XI</b>	<b>Total Net effect (I+II+III+IV+V+VI+VII+VIII+IX+X)</b>	<b>500000</b>

✗ Is there any impact of this disclosure on Computation in ITR automatically?

# ITR

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- ✖ **Part A – OI – Other Information**
- ✖ **3. Effect on the profit because of deviation, if any as per ICDS notified u/s 145(2) [Column 11(iii) of Schedule ICDS]**



# I - ACCOUNTING POLICIES



# **ICDS I – DISCLOSURES**

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- ✖ All significant accounting policies
- ✖ Change in accounting policy which has material effect including amount to the extent ascertainable
- ✖ If change in accounting policy to have material effect in later years, then disclosure to be made:
  - + In year of adoption as well as
  - + In 1st year of material effect - not as per AS
- ✖ Disclosure or change in accounting policy cannot remedy a wrong or inappropriate treatment of item
- ✖ If fundamental accounting assumptions of going concern, consistency and accrual not followed.



# **ICDS I – PRACTICAL IMPLICATIONS**

- ✖ **Disclosure of all significant accounting policies in Clause 13 (f) of Form 3CD, wherever applicable:**
  - + Give complete
  - + Where similar may refer of policies in notes to FS
- ✖ **Disallowances or deductions to be disclosed in ICDS schedule in Form 3CD as well as ITR (other than those covered by other ICDS):**
  - + Marked to market loss / gain
  - + Expected losses / gain
- ✖ **Take care of change in accounting policies having material effect in the year of effect too.**

# FORM 3CD – CLAUSE – 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
<b>I</b>	<b>Accounting Policies</b>	<b>2000</b>		<b>2000</b>	<b>Mark to Market Loss on Derivatives</b>
	<b>Total</b>			<b>2000</b>	



# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
I	Accounting Policies	<ul style="list-style-type: none"><li>Refer significant accounting policies mentioned at Note No. _ to Financial Statements</li></ul>



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# **II – VALUATION OF INVENTORIES**

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## **ICDS II – VALUATION OF INVENTORIES**

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- ✖ **Inventory to be valued at cost or NRV whichever is lower.**
- ✖ **By-products, scrap or waste material are immaterial, they shall be measured at NRV and this value shall be deducted from the cost of the main product.**
- ✖ **Cost of inventories to include:**
  - + **Cost of purchases;**
    - ✖ **Includes all duties & taxes . AS 2 excludes refundable from taxing authorities**

# ICDS II – VALUATION OF INVENTORIES

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- + **Costs of services; (earlier for service provider, now deleted)**

- × Includes labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads

- + **Costs of conversion; and**

- + **Other costs incurred in bringing the inventories to their present location and condition**

- × **Cost Formulae**

- + **Specific identification of cost**

- + **FIFO**

- + **Weighted Average**

## **ICDS II – VALUATION OF INVENTORIES**

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- ✖ **Techniques for measurement of cost:**
  - + **Standard Cost**
  - + **Retail method (An average percentage for each retail department is to be used )**
- ✖ **ICDS - Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, to be dealt with in accordance with the ICDS V (Tangible fixed assets)**
- ✖ **The New AS 10 PPE read with new AS 2 – FA if expected to be used for more than 12 months**



## ICDS II – TAX DUTIES

- ✗ **AS**: The costs of purchase shall consist of purchase price including duties & taxes (**other than those subsequently recoverable by the enterprise from the taxing authorities**), freight inwards & other expenditure directly attributable to the acquisition. (Exclusive method).
- ✗ **ICDS**: The costs of purchase shall consist of purchase price including duties and taxes, freight inwards & other expenditure directly attributable to the acquisition. (Inclusive method)
- ✗ **Already under S. 145A since 1.4.1999**

## ICDS II – TAX DUTIES

Sl. No.	Particulars	Increase in profit (Rs)	Decrease in profit (Rs)
1	Increase in cost of opening stock on inclusion of excise duty on which CEN VAT credit is available/availed		20
2	Increase in purchase cost of raw material on inclusion of excise duty on which CEN VAT credit is available/availed		180
3	Increase in sales of finished goods on inclusion of excise duty	180	
4	Excise duty paid on sale of finished goods as a result of its inclusion in sales	-	180

## **ICDS II – TAX DUTIES**

<b>5</b>	<b>Increase in closing stock of raw material on inclusion of excise duty</b>	<b>40</b>	<b>-</b>
<b>6</b>	<b>Increase in closing stock of finished goods on inclusion of excise duty</b>	<b>60</b>	<b>-</b>
<b>7</b>	<b>Increase in excise duty on closing stock of finished goods as a result of its inclusion in closing stock of finished goods</b>	<b>-</b>	<b>60</b>
<b>8</b>	<b>Accounting of CENVT credit availed and utilised on raw materials consumed in payment of excise duty on finished goods accounted on the basis of raw material consumed</b>	<b>160</b>	<b>-</b>
	<b>Total</b>	<b>440</b>	<b>440</b>



## ICDS II – PARTNERSHIP FIRMS

- ✖ In case of dissolution of a partnership firm or AOP / BOI, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the NRV.
- ✖ Judicial Precedents:
  - + At prevailing market price while preparing a/cs if the business of firm is discontinued- *A.L.A. Firm v. CIT [1991] 55 Taxman 497(SC)*
  - + Business continued without any interruption after death - closing stock was to be valued at cost or MP, whichever was lower, & not at market value -*Sakthi Trading Co. v. CIT [2001] 118 Taxman 301 (SC)*

# ICDS II – VALUATION OF INVENTORIES

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- ✗ **No Interest /borrowing cost unless as per ICDS IX**
  - + **Where inventories require a period of 12 months or more to bring them to a saleable condition**
- ✗ **Value of the inventory as on beginning of PY shall be:**
  - + **Cost of inventory available, if any, on day of commencement of business when the business has commenced during the PY;**
  - + **Value of the inventory as on the close of the immediately preceding PY, in any other case.**

## ICDS II – DISCLOSURES


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- ✖ Accounting policies adopted in measuring inventories including the cost formulae used. Where Standard Costing has been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost approximates the actual cost;
- ✖ The total carrying amount of inventories and its classification appropriate to a person.
- ✖ AS – same as above except underlined content

# **ICDS II – PRACTICAL IMPLICATION**

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## **✖ Disclosures**

- + Same as per AS 2, but if standard cost used..  
State whether it approximates the actual cost**
  - + Carrying amount??**
  - ✖ If there is change in method of valuation of inventory its change in accounting policy...  
follow AS 1 disclosure**
  - ✖ Take care at time of dissolution of partnership firm**
- 

# **ICDS II – PRACTICAL IMPLICATION**

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- ✖ **Disclosure for not following inclusive method of valuation of inventory – non-compliance of s. 145A – already reporting at Para 14(b) of Form 3CD– refer Para 23 of ICAI Tax Audit Guidance Note**
- ✖ **Borrowing costs for inventories only if they require a period of 12 months or more to bring them to a saleable condition**



# FORM 3CD – CLAUSE – 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
II	Valuation of Inventories	10000		10000	<ul style="list-style-type: none"><li>Difference over cost to NRV in case of dissolution of firm. Valued at lower in books</li></ul>
	Total			10000	

# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
II	Valuation of Inventories	<ul style="list-style-type: none"><li>• Refer to Note No. _ to Financial Statements</li><li>• For carrying amount &amp; classification refer Note No. _ to Balance Sheet</li><li>• Inventories are not inclusive of duties and taxes, yet there is no effect on profits, refer to clause 14(b) of Form 3CD</li><li>• Assessee is following Standard Costing as a measurement of cost, and that approximates the actual cost</li></ul>



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# THANK YOU!



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