

Overview of Tax Audit & Cls. 1 to 14 and 32 to 34



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B. COM (H), FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

Shared at

Webinar, Bhartiya Vitta Sahlakar Samiti (BVSS)

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LEGISLATION FOR AY 2020-21

S. 44AB

- Business – exceeds Rs. 1 Crore / 5 Crores
- Profession – exceeds Rs. 50 L
- Business u/s 44AE /44BB /44BBB; income < deemed profits;
- Profession u/s 44ADA; deemed profit < 50% & TI > MANCT
- Business u/s 44AD (4) & TI > MANCT

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 in Form 3CA or Form 3CB

S. 271B

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

APPLICABILITY OF 44AD(44ADA) / 44AB

Mr. A started Mfg – 1st Yr - Turnover (all cash)
– 150L; NP – 8 L; TI - 8.50 L

- AD - No
- AB - Yes

Ms. B - Trading - Turnover (all cash) – 90L; NP -
10L; Doctor– Fee – 45 L; NP- 25 L; TI -32L

- AD – No
- ADA - Yes
- AB - No

Ms. C – Trading Turnover (all cash)– 80L
NP – 4 L; TI- 3 L

- AD – No
- AB - No

Mr. D - Trading; Turnover (all cash) - 95L;
Commission – 6 L; NP- 15L; TI - 14L

- AD - No
- AB - Yes

44AB

- ✖ **Limit 1 Cr to 5 Cr !!**
- ✖ **Limit of 5 Cr Only if:**
 - + **Aggregate of all amounts received in cash do not exceed 5% of said amt.**
 - + **AND**
 - + **Aggregate of all Payments made in cash do not exceed 5% of said payment**

44AB ????

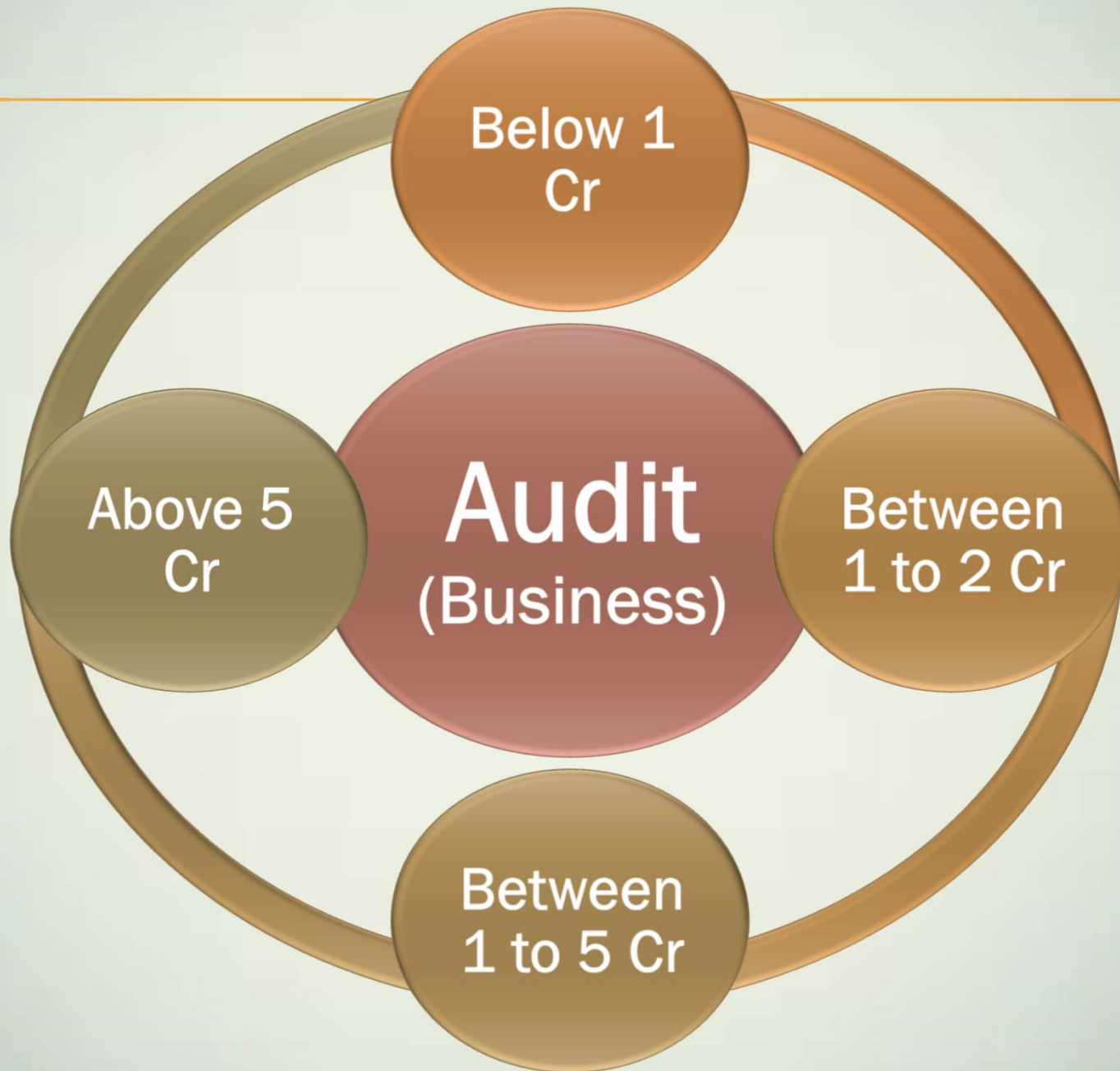
- ✗ **Payments all by banking channels**
- ✗ **Receipts:**
 - + **4 Crs sales out of which 10 Lacs in Cash**
 - + **Proprietor introduces capital – 15 Lacs in cash**
 - + **Loans received – 10 Lacs by NEFT**
 - + **Is tax audit u/s 44AB required?**
 - + **Yes, as total receipts - 425 L ; cash – 25L**
 - + **Is it mandatory or optional??**
 - + **Mandatory**

44AB / 44AD

- ✖ **ABC & Co. formed in AY 2019-20**
 - + **Turnover Rs. 1.25 Crs**
 - + **Audit u/s 44AB(a)**
- ✖ **AY 2020-21**
 - + **Turnover Rs. 1.95 Crs**
 - + **If cash receipt / payment less than 5%
would there be audit u/s 44AB?**
 - + **Can it avail of 44AD?**

PRESUMPTIVE INCOMES

S. No.	Section	Nature of Activity	Less than Deemed Profits	Provisions for Audit	Audit Provision
1	44AD	Business	If availed 44AD & not availed in any of next 5 years, then for next 5 years - Audit	44AD(4)/(5)	44AB(e)
2	44ADA	Profession	Audit	44ADA(4)	44AB(d)
3	44AE	Goods Carriage	Audit	44AE(7)	44AB(c)
4	44B	Shipping of NR	Not Allowed	Nil	Nil
5	44BB	Exploration of Mineral Oils by NR	Audit	44BB(3)	44AB(c)
6	44BBA	Operation of Aircraft by NR	Not Allowed	Nil	Nil
7	44BBB	Turnkey Power Projects by FC	Audit	44BBB(2)	44AB(c)



RELATED CHANGE IN ITR

UNDER AUDIT INFORMATION REGARDING THE DECLARATION OF INCOME: ITR 3,5 & 6

(a1)	Are you liable to maintain accounts as per section 44AA? (Tick) <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
(a2)	Whether assessee is declaring income only under section 44AE/44B/44BB/44AD/44ADA/44BBA/44BBB <input type="checkbox"/> Yes <input type="checkbox"/> No
a2i	If No, Whether during the year Total sales/turnover/gross receipts of business exceeds Rs. 1 crores but does not exceed Rs. 5 crores? <input type="checkbox"/> Yes <input type="checkbox"/> No
a2ii	If Yes is selected at a2i, whether aggregate of all amounts received including amount received for sales, turnover or gross receipts or on capital account like capital contributions, loans etc. during the previous year, in cash, does not exceed five per cent of said amount? <input type="checkbox"/> Yes <input type="checkbox"/> No
a2iii	If Yes is selected at a2i, whether aggregate of all payments made including amount incurred for expenditure or on capital account such as asset acquisition, repayment of loans etc., in cash, during the previous year does not exceed five per cent of the said payment? <input type="checkbox"/> Yes <input type="checkbox"/> No

UDIN

- **When Form 3CA – two UDINs**
 - **One for audit of financial statements**
 - **One for Form 3CA**
- **When Form 3CB – One – choose correct clause in Cl. 8 of Form 3CD – same in UDIN and IT website**
- **Tax audit date of filing – day of acceptance by tax payer**
- **If UDIN not uploaded within 15 days – Form becomes INVALID**

FORM 3CA

- ✖ **Total 3 Paras**
- ✖ **Examination of books by auditor included before giving opinion**
- ✖ **Opinion to be given subject to observations / qualifications, no annexures ... Para 3**

FORM 3CB

- ✗ **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?**

SA 700 – PARA 3

- ✖ **Assessee's Responsibility** for the Financial Statements and the Statement of Particulars in Form 3CD
 1. The **assessee is responsible for the preparation and fair presentation of the financial statements** in accordance with the Accounting Standards issued by the ICAI, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
 2. In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.
 3. Those charged with governance are responsible for overseeing the entity's financial reporting process.

SA 700 PARA 3

✦ Tax Auditor's Responsibility

- ✦ Our objectives are to **obtain reasonable assurance** about whether the financial statements as a **whole are free from material misstatement**, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is **not a guarantee** that an audit conducted in accordance with SAs will **ALWAYS detect a material misstatement** when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these FS

SA 700 PARA 3

- ✖ **As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit.**
- ✖ **We also:**
 - + **Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.**

SA 700 PARA 3

- + Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.**
- + Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.**
- + Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.**

SA 700 PARA 3

- + Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.**
- ✘ We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.**
- ✘ We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.**

SA 700 – PARA 5

2. The **assessee is responsible** for the preparation of the statement of **particulars required to be furnished under section 44AB** of the Income-tax Act, 1961 annexed herewith in **Form No. 3CD** read with Rule 6G(1)(b) of Income Tax Rules, 1962 that give true and correct particulars as per the provisions of the Income-tax Act, 1961 read with Rules, Notifications , circulars etc that are to be included in the Statement.

SA 700 – PARA 5

- ✖ We are also **responsible for verifying the statement of** particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in **Form No. 3CD** read with Rule 6G (1) (b) of Income-tax Rules, 1962. We have **conducted my/our verification of the statement in accordance with Guidance Note on Tax Audit** under section 44AB of the Income-tax Act, 1961, issued by the Institute of Chartered Accountants of India.

TA u/s 44AB

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graph TD; A[TA u/s 44AB] --> B[Form 3CB]; A --> C[Form 3CA]; B --> D[Any clause from (a) to (e)]; C --> E[3rd Proviso];
```

Form 3CB

Form 3CA

Any clause from
(a) to (e)

3rd Proviso

AMENDMENTS IN FORM 3CD

W.E.F 20.8.2018

- ✖ 7 items amended
- ✖ 1 item replaced
- ✖ 10 new items
- ✖ Out of 10 new – **2 DEFERRED – 30C & 44**
 - +31.3.2019**
 - +later till 31.3.2020 and**
 - +now till 31.3.2021**

RECENT IMPORTANT ISSUES

- ✖ Cl. 26 - Interest to banks u/s 43B - Moratorium due to COVID-19
- ✖ Cl. 8a – Company opting for S. 115BA / 115BAA / 115BAB in AY 2020-21 onwards
- ✖ Cl. 18(ca) / (cb) – inserted for 115BAA depreciation adjustments
- ✖ Cl. 32(a) – Carry Forward Losses – chart for S. 115BAA

CLAUSES – 1-3

- 1. Name of the assessee**
- 2. Address**
- 3. Permanent Account Number or Aadhaar Number**

CLAUSE - 4

- ✗ Indirect Tax Registration Nos to be given if liable to pay i.e.,
 - + Central Excise Duty,
 - + Central Customs Duty,
 - + GST – State-wise,
 - + Sales Tax /VAT – State Wise,
 - + State Excise Duty – State Wise
 - + Others Indirect tax.
- ✗ Is it indirect tax audit?

CLAUSE - 5-7

- 5. **Status**
- 6. **Previous year from..... to
.....**
- 7. **Assessment year**

CLAUSE – 9 - 10

- ✖ 9 (a) If firm or AOP, indicate names of partners/ members and their profit sharing ratios.
- ✖ 9 (b) Change in the partners or members or in their profit sharing ratio since the last date of the preceding year
- ✖ 10. (a) Nature of business or profession (nature of every business or profession)
- ✖ 10(b) Particulars of change, if any.

FORM 3CD – CLAUSE - 11

- ✖ (a) Whether books prescribed u/s 44AA? If yes, list of books prescribed.
- ✖ (b) List of books maintained & address at which kept
 - + Maintained in Computer!!
 - + Different locations !!
- ✖ (c) List of books of a/cs & nature of relevant documents examined.

FORM 3CD – CLAUSE - 11

- ✖ S. 2(12A) - books or books of a/c includes ledgers, day-books, cash books, account-books & other books, whether kept in written form or ..electronic.
- ✖ Relevant documents - directly related to transactions reflected in books of a/cs like invoice, bank statements, vouchers, dr. note, cr. note, inventory register, agreements /contracts or any other document on basis of which preliminary entries are passed in books of a/cs

FORM 3CD – CLAUSE - 12

- ✖ Whether the profit and loss account includes any profits and gains assessable on 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.)

FORM 3CD – CLAUSE - 13

- ✗ (a) Method of accounting employed in previous year
- ✗ (b) Change in method of accounting applied
- ✗ (c) If, yes, effect thereof on profit / loss

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)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
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

CA. Pramod Jain

Schedule ICDS		Effect of Income Computation Disclosure Standards on profit
Sl. No.	ICDS	Amount
(i)	(ii)	(iii)
I	Accounting Policies	
II	Valuation of Inventories <i>(other than the effect of change in method of valuation u/s 145A, if the same is separately reported at col. 4d or 4e of Part A-OI)</i>	
III	Construction Contracts	200000
IV	Revenue Recognition	300000
V	Tangible Fixed Assets	
VI	Changes in Foreign Exchange Rates	
VII	Government Grants	
VIII	Securities <i>(other than the effect of change in method of valuation u/s 145A, if the same is separately reported at col. 4d or 4e of Part A-OI)</i>	
IX	Borrowing Costs	5000
X	Provisions, Contingent Liabilities and Contingent Assets	
11a	Total Effect of ICDS adjustments on Profits (I+II+III+IV+V+VI+VII+VIII+IX+X) (If Positive)	505000
11b	Total Effect of ICDS adjustments on Profits (I+II+III+IV+V+VI+VII+VIII+IX+X) (If Negative)	

ITR – PART A - OI

- ✖ **3a - Increase in Profit or decrease in loss because of deviation, if any as per ICDS notified u/s 145(2) [Column 11a(iii) of Schedule ICDS]**
- ✖ **3b - Decrease in Profit or Increase in loss because of deviation, if any as per ICDS notified u/s 145(2) [Column 11b(iii) of Schedule ICDS]**

ITR – SCHEDULE BP

- ✖ **25. Increase in Profit or decrease in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3a + 4d of Part A OI)**
- ✖ **33. Decrease in Profit or Increase in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3b + 4e of Part A OI)**

FORM 3CD - 14

- ✗ (a) Method of valuation of closing stock employed in the previous year.
- ✗ (b) In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, furnish deviation.
 - + Refer Para 23 of ICAI Tax Audit Guidance Note (After GST – refer Paras 23.18 to 23.24)
 - + ITR for AY 2018-19 onwards says to disclose other than 145A?? Form 3CD??

FORM 3CD - 32

✖ (a) – B/f Loss / Depreciation, to the extent available

Sl.	AY	Nature of Loss / Allowance	Amt. as Returned*	All losses / allowances not allowed u/s 115BAA	Amt. as adjusted by withdrawal of addl. Dep. On a/c of opting for s. 115BAA**	Amt as assessed (reference to relevant order)	Remarks

- ✖ *If the assessed depreciation is less and no appeal pending than take assessed.
- ✖ ** To be filled in for assessment year 2020-21 only

FORM 3CD - 32

- ✖ (b) – Change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the PY cannot be allowed to be carried forward in terms u/s 79.
- ✖ (c) Speculation loss u/s 73 during the previous year, details.
- ✖ (d) Loss u/s 73A in respect of any specified business during the previous year, details.
- ✖ (e) In case of a company, - speculation business as referred in Explanation to section 73 details.

FORM 3CD - 33

- ✖ **Section-wise details of deductions, if any, admissible under Chapter VIA or Chapter III (Section 10A, Section 10AA)**
- ✖ **If in proprietorship personal account!!**

FORM 3CD – 34

- ✖ **Reconcile it with:**
 - + TDS Returns
 - + Financial Statements
 - + Clause 21(b) – 40(a) / 40(ia)
- ✖ **34(a) if required to deduct or collect tax as per provisions of Chapter XVIIIB or XVIIIBB furnish:**
 1. TAN
 2. Section
 3. Nature of payment or receipt

FORM 3CD – AMENDMENT - 34

- 4. Total amount of payment or receipt specified in 3**
- 5. Total amount on which tax was required to be deducted / collected under 4**
- 6. Total amount on which tax was deducted / collected at specified rate out of 5**
- 7. Amount of tax deducted or collected out of 6**
- 8. Amount on which tax was deducted / collected at less than specified rate out of 7**
- 9. Amount of tax deducted or collected on 8**
- 10. Amount of tax deducted or collected but not deposited out of 6 & 8**

TDS EXAMPLE

Section (2)	Nature of Paymen t (3)	Total amt of paymen t or receipt (4)	Total amt on which tax was required to be deducte d out of 4 (5)	Total amt on which tax was ded. / coll. at specifie d rate out of 5 (6)	Amou nt of tax deduct ed out of 6 (7)	Amt on which tax was ded. / coll/ at < than specified rate out of 7 (8)	Amount of tax deducte d or collecte d on 8 (9)	Amt of tax ded. or coll. but not deposit ed out of 6 & 8 (10)
194 C	Tpt.	15 Cr	0	0	0	0	0	0
194 C	Cont.	25 L	15 L	10 L	10000	5 Lacs	5000	0
194A	Intt.	5 Crs	6 Lacs	5 Lacs	50K	1 Lac	5000	0
194I	Rent	25 L	20 L	15 L	1.5 L	5 L	10000	10000
194J	FTS	1 L	1 L	0	0	0	0	0

34 (B) - SUSBTITUTED

- ✖ 34 (b) – If TDS / TCS Statement **not furnished within prescribed time**, furnish:
- ✖ **New 34(b)** - Whether the assessee is required to furnish the statement of TDS/TCS. If yes, please furnish the details:
 - + TAN
 - + Type of Form
 - + Due date of furnishing
 - + Date of furnishing, if furnished
 - + Whether the TDS / TCS Statement contains information about all transactions which are required to be reported. **If not, please furnish list of details/transactions which are not reported.** – Transporters??? – yes / no?? – Could be genuine difference of opinion

FORM 3CD – AMENDMENT - 34

- ✖ 34 (c) – Whether the assessee is liable to pay u/s 201(1A) or section 206C(7), if yes, please furnish :-

TAN	Amount of Interest Payable	Amount paid out of Col. (2)	Date of Payment
(1)	(2)	(3)	(4)
NA.			

- ✖ Check TRACES

AUDIT



AUDITING STANDARDS

- Auditor to comply with auditing standards
- NFRA to notify auditing standards. Till NFRA does – as by ICAI
- Total 38 SAs

SA. No.	Sub-division	No.
100-199	Introductory Matters	0
200-299	General Principles & Responsibilities	9
300-499	Risk Assessment and Response to Assessed Risks	6
500-599	Audit Evidence	11
600-699	Using Work of Others	3
700-799	Audit Conclusions and Reporting	6
800-899	Specialized Areas	3

OTHER IMPORTANT POINTS

No.	Standard
SAE 3400	The Examination of Prospective Financial Information
SRS 4410	Compilation Engagements

- × SREs, SAEs and SRSs
- × Guidance Note on Reports or Certificates for Special Purposes
- × UDIN

AUDIT PROCEDURE





- × **Revision due to merger demerger!!**
- × **Figures and information provided in Form 3CD should be from books of accounts or after adjustment of figures of ICDS. Such as inventory, Income Recognition, etc**

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answers

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