



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(SETUP BY AN ACT OF PARLIAMENT)

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TAX AUDIT

Continued...

XI. ICDS I

- Disclosure of Accounting Policies
- Mark-to-market losses not to be allowed unless permitted by other ICDS

XII. ICDS II

- Cost or NRV whichever is lower
- Abnormal wastages not permitted
- Exclusive method of accounting

XIII. ICDS III

- Construction Contracts
- POC Method
- Retention Money to be included in contract revenue
- Foreseeable Losses – only when actually incurred
- Commencement of POC Method
- Guidance Note on Real Estate transactions issued by ICAI

XIV. Revenue from Sale of Goods

- Not too many differences with AS 9
- Major differences with Ind AS 115

XV. IN TAX AUDIT REPORT

ANNEXURE TO FORM NO. 3CD

Annexure 6

CLAUSE 14(b)

DETAILS OF DEVIATION IN METHOD OF VALUATION PRESCRIBED UNDER SECTION 145A AND EFFECT THEREOF ON THE PROFIT OR LOSS

Sr. No	Particulars	Increase in Profit (Rs.)	Decrease in Profit (Rs.)
1	Increase in cost of opening stock on inventory on inclusion of GST	-	1,086,276
2	Increase in purchase on account of inclusion of GST	-	1,332,041
3	Increase in sales of finished goods on inclusion of GST	27,352,861	-
4	GST paid on sale of finished goods as a result of its inclusion in sales	-	27,352,861
5	Increase in closing stock of raw materials / finished goods on inclusion of GST	2,172,552	-
6	GST credit availed and utilized on raw material consumed in payment of GST on finished goods	245,765	-
	Total	29,771,178	29,771,178

Note:

The Company is following the exclusive method of accounting for GST in the books of account. The inventory is also valued on that basis. Accordingly, to that extent, there is a deviation from the method specified u/s. 145A. However, as shown above, the net effect thereof on the profit/loss for the year is Nil.



XVI. STOCK

26. (a) Method of valuation of closing stock employed in the previous year.
- (b) Details of deviation, if any, from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss, please furnish:

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

[Clause 14 (a) and (b)]

XVII. CLAUSE 16

28. Amounts not credited to the profit and loss account, being,-
- (a) the items falling within the scope of section 28;
- (b) the proforma credits, drawbacks, refund of duty of customs or excise or service tax, or refund of sales tax or value added tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;
- (c) escalation claims accepted during the previous year;
- (d) any other item of income;
- (e) capital receipt, if any.

[Clause 16 (a) to (e)]

XVIII. CLAUSE 17

30. Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form:-

- (a) Description of asset/block of assets.
- (b) Rate of depreciation.
- (c) Actual cost or written down value, as the case may be.
- (ca) Adjustment made to the written down value under section 115BAC/115BAD (for assessment year 2021-2022 only)
- (cb) Adjustment made to written down value of Intangible asset due to excluding value of goodwill of a business or profession.....
- (cc) Adjusted written down value.

- 43CA- Transfer of asset less than the Government value. 110%
- First time residential property < Rs 2 crores between 12/11/20 and 30/6/21



XIX. DEPRECIATION

30. Particulars of depreciation allowable as per the Income-tax Act, 1961 in respect of each asset or block of assets, as the case may be, in the following form:-

- (a) Description of asset/block of assets.
- (b) Rate of depreciation.
- (c) Actual cost or written down value, as the case may be.
 - (ca) Adjustment made to the written down value under section 115BAC/115BAD (for assessment year 2021-2022 only)
 - (cb) Adjustment made to written down value of Intangible asset due to excluding value of goodwill of a business or profession.....
 - (cc) Adjusted written down value.
- (d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of –
 - (i) Central Value Added Tax credits claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
 - (ii) change in rate of exchange of currency, and
 - (iii) subsidy or grant or reimbursement, by whatever name called.
- (e) Depreciation allowable.
- (f) Written down value at the end of the year.

[Clause 18 (a) to (f)]

- Disputes to be reported by way of a Note
- Forex- Clause 46A of AS 11
- Exchange difference to the extent of amount actually paid

XX. INTANGIBLE ASSETS

- Intangible assets being goodwill of a business or profession does not qualify for depreciation from 01.04.2021 i.e. AY 2021-22 (The Finance Act 2021). Goodwill was eligible for depreciation till AY 2020-21. Therefore, if in a block of assets being intangible assets includes goodwill, WDV attributable to intangible asset being goodwill needs to be excluded from the WDV of such a block of assets.

XXI. CLAUSE 19

- The assessee can claim deduction under the sections 32AC, 32AD, 33AB, 33ABA, 35, 35ABB, 35AC, 35AD, 35CCA, 35CCB, 35CCC, 35CCD, 35D, 35DD, 35DDA and 35E subject to the terms and conditions mentioned in these Sections. Where assessee has opted to pay income-tax under provisions of section 115BA, 115BAA, 115BAB, 115BAC or 115BAD; the assessee is not entitled to claim deductions under certain sections like section 32AD, 33AB, 33ABA etc.



XXII. CLAUSE 21

- Personal expenditure debited to Profit or Loss Account being in the nature of Capital, personal, advertisement expenditure etc:
- TDS not deducted
- TDS deducted but deposited late
- 40(A)(3) read with Rule 6DD

XXIII. CLAUSE 22

- Amount of Interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006

XXIV. CLAUSE 23

- Particulars of payments made to persons specified under section 40A(2)(b).
- Section 40A(2) provides power to the Income Tax Officer that in case any expenditure has been incurred and the payment has been made or is to be made to certain specified persons and he is of the opinion that such expenditure is excessive or unreasonable with regard to the fair market value of the goods, services or facilities provided, he may disallow such expense as he considers to be excessive or unreasonable.

XYZ PRIVATE LIMITED

ASSESSMENT YEAR: 2019-20

ANNEXURE TO FORM NO. 3CD

Annexure 14

Clause 23

DETAILS OF PAYMENTS TO PERSONS SPECIFIED U/S 40A(2)(b)

Sr. No.	Name of Related Person	PAN of Related Person	Nature of Relationship	Nature of Transaction	Amount (Rs.)
1	Mr. Chetan Bhagat Tarachand	AAAPT9021A	Director	Remuneration Commission	175,000 500,000
2	Mr. Ketan Nastik Tarachand	AAAPT9022B	Brother of a director	Commission	100,000
3	PQR Holdings LLC	N.A.	Subsidiary company	Purchases of chemicals	7,500,000
4	X Europe PLC	DEFCX1234G	Holding company	Royalty	9,000,000

Auditors' Note:

The identification of the specified persons covered u/s. 40A(2)(b) is made by the assessee on which we have relied.

XXV. CLAUSE 26

- 43B
- Year of Payment
- Tax, Duty
- Employer contribution to funds



- Bonus or commission
- Interest or commission
- Leave credit

● **43B**

- Section 2(24)(x) includes within the scope of income any sum received by the assessee from his employees as contributions to any provident fund or superannuation fund or ESI Fund or any other Fund for employees' welfare (hereafter referred to as "Welfare Fund").
- The Finance Act 2021 by Explanation 5 to section 43B has clarified that the provisions of section 43B are not applicable to a sum received by the assessee from any of his employees to which the provisions of section 2(24)(x) applies
- In view of the above explanations, if there is a delay in payment of these sums to the concerned authority after the relevant due date specified under the respective Act, then such sum even though paid at any time beyond the due date will be disallowable permanently.

● **BONUS**

- It may be noted that emoluments in the nature of good work reward, incentives or ex-gratia are not bonus or commission as contemplated under section 36(1)(ii) but are deductible under section 37 of the Act as held by Delhi High Court in Shri Ram Pistons and Rings Ltd 307 ITR 363

XXVI. CLAUSE 27

- Amount of Central Value Added Tax credits availed of or utilized during the previous year and its treatment in the profit and loss account and treatment of outstanding Central Value Added Tax credits in the accounts.
- Particulars of income or expenditure of prior period credited or debited to the profit and loss account.

XXVII. CLAUSE 28

- Whether during the previous year the assessee has received any property, being share of a company not being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia), if yes, please furnish the details of the same.
- Note: During the previous year, the Company has received Rs. 1 crore for issue of 20,000 equity shares of Rs. 10 each fully paid up at a premium of Rs. 490 per share. The issue price does not exceed the fair market value of the shares referred to in Sec. 56(2)(viib).



- Auditors' Note : The assessee states that the above shares have been issued at fair market value which will be substantiated by it in the course of assessment proceedings as provided in clause (a)(ii) of the Explanation to Sec. 56(2)(viib).
- For alternate situation where shares are issued at a premium and valuation report of a Merchant Banker is relied upon by the Auditor, the following note & auditors' note may be incorporated:
- Note: During the previous year, the Company has received consideration of Rs.5 crores for issue of 50,000 fully paid up equity shares of Rs. 10/- each, issued at a premium of Rs. 990 per share. The fair market value of the shares issued has been determined by M/s Above Board, Merchant Bankers, as contemplated in Rule 11UA of the Rules at Rs. 1,000 per share
- Auditors' Note: We have relied upon the above referred Valuation report of M/s Above Board, Merchant Bankers and accordingly treated the aggregate consideration received as not exceeding the fair market value of the shares issued for the purposes of this clause as contemplated in Sec. 56(2)(viib)."

XXVIII. CLAUSE 30

- Transfer Pricing Primary Adjustment
- Repatriation as per 92CE
- On or before 90 days from date of filing return
- Imputed interest income

XXIX. CLAUSE 30B

- Section 94B provides that, where an Indian company or a permanent establishment of a foreign company in India, incurs any expenditure by way of interest or of similar nature exceeding Rs. 1 crore which is deductible in computation of income under the head "Profits & Gains of Business or Profession" in respect of a debt issued by a non-resident AE, such interest, to the extent of excess interest, shall not be deductible.

XXX. CLAUSE 31

- 269SS receipts
- account payee cheque or account payee bank draft or use of electronic clearing system through a bank account or through such other electronic mode as may be prescribed (hereinafter referred to as approved banking channels)

● 269SS

- The CBDT, vide notification no. 8/2020/F. No. 370142/14/2019-TPL dated 29th January 2020, has prescribed the other electronic modes under Rule 6ABBA with effect from 1st September 2019. Under the said Rule the following shall be the other electronic modes for the purposes of Section 269SS:
- Credit Card;
- Debit Card;
- Net Banking;
- IMPS (Immediate Payment Service);
- UPI (Unified Payment Interface);
- RTGS (Real Time Gross Settlement);
- NEFT (National Electronic Funds Transfer), and
- BHIM (Bharat Interface for Money) Aadhar Pay.

XXXI. CLAUSE 35

- Quantitative Details

CLAUSE 35

QUANTITATIVE DETAILS OF PRINCIPAL ITEMS OF RAW MATERIAL, GOODS TRADED AND FINISHED GOODS

Traded Goods - CLAUSE 35(a)

Sr. No.	Description	Units	Opening Stock	Purchases During the Year	Sales During the Year	Closing Stock	Shortage/Excess, if any
1	Garments	Nos.	3,500	35,000	33,000	5,500	0

Note: For the purpose of the above, only principal items (constituting at least 10% of aggregate sales) are considered

Manufactured Goods - CLAUSE 35(b)

Raw Materials

Sr.	Particulars	Units	Opening Stock	Purchases During the Year	Consumption During the Year	Sales During the Year	Closing Stock	Yield of Finished Products	% of Yield	Shortage/Excess, if any
1	X	MT	8,900	75,700	75,000	5,000	4,600	50,000	66.67	0
2	Y	MT	1,200	14,300	15,000	-	500	Not Ascertainable	Not Ascertainable	
3	Y	MT	1,200	14,300	15,000	-	500	Not Ascertainable	Not Ascertainable	

Notes: a) For the purpose of the above, principal items (constituting at least 10 % of total consumption of raw materials) are considered.

b) Yield of finished goods from consumption of Y is not ascertainable in view of multiple product mix of the finished goods manufactured therefrom.

XXXII. CLAUSE 41

- Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income Tax Act, 1961 and Wealth tax Act, 1957 along with details of relevant proceedings



XXXIII. CLAUSE 42

80. (a) Whether the assessee is required to furnish statement in Form No.61 or Form No. 61A or Form No. 61B? (Yes/No)

(b) If yes, please furnish:

S. No.	Income-tax Department Reporting Entity Identification Number	Type of Form	Due date for furnishing	Date of furnishing, if furnished	Whether the Form contains information about all details/ transactions which are required to be reported.	If not, please furnish list of the details/transactions which are not reported.
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[Clause 42]

● SFT CLAUSE

- > Rs 50000
- Purchase, sale or exchange of goods, property, right or interest in a property.
- Delivering of services.
- Works contract.
- Investment made or expenditure incurred.
- Taking or accepting any loan or deposit.

XXXIV. CLAUSE 44

S.NO.	Total Amount of Expenditure incurred during the year	Expenditure in respect of entities registered under GST				Expenditure relating to entities not registered under GST
		Relating to Goods or Services exempt form GST	Relating to the Entities falling under Compositions Scheme	Relating to other Registered Entities	Total Payments to Registered Entities	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	22355475.00	199660.00	177040.00	19488780.00	19865480.00	2489995.00

- Circular No 06/2018



- Circular No 09/2019
- Circular No 10/2020
- Circular No 05/2021
- The language used here is total payment to registered entities. A question may arise whether the total payment to the registered entities is to be reported or the total expenditure as booked in the books of account is to be reported here. A harmonized interpretation shall be that in column (6), the total of column (3) (4) and (5) is to be reported and hence, the value of expenditure booked as per books of account shall be reported
- In the table under clause 44, the language used is “expenditure in respect of”. Since, the word used is ‘expenditure’, it is advised that the capital expenditure may also be reported separately as serial no. 2 in the format prescribed.

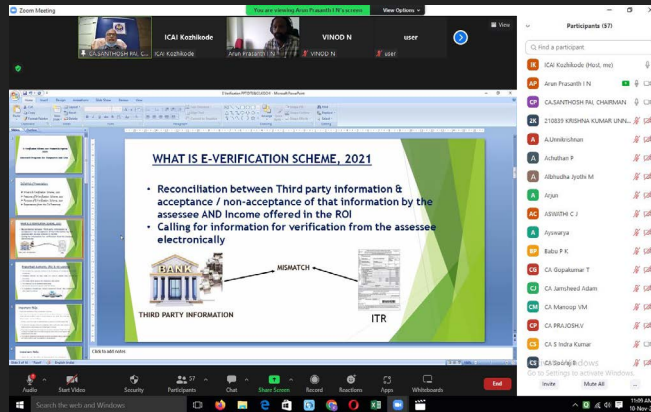
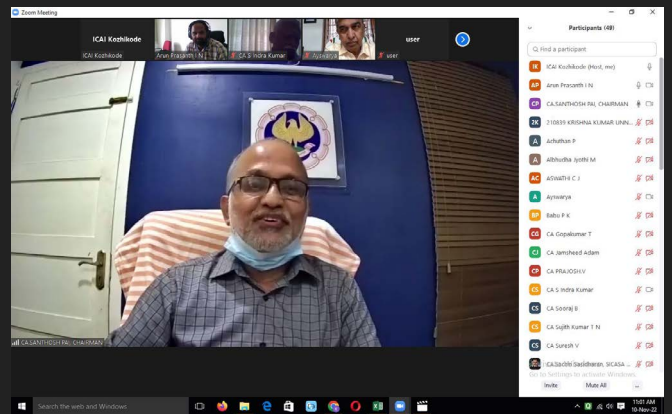
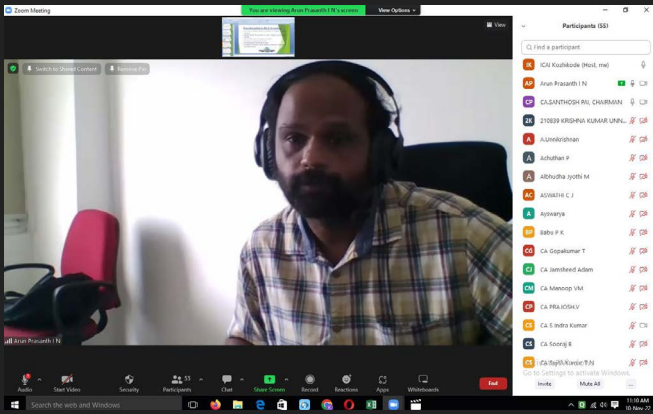
● **CLAUSE 44- ISSUES**

- Many Assesseees do not maintain bifurcation of purchases from registered and unregistered persons. For eg, there may be printing and stationary expenses from registered persons on which ITC is not claimed and there may be purchases from unregistered persons also – in such situation, going itemwise purchases to give bifurcation might be a very cumbersome job.
- We verify that purchases on which ITC is claimed are from registered persons. But if ITC is not claimed on purchases (like building construction etc), then assessee does not maintain whether it is from registered or unregistered.
- Among the purchases from registered persons, very difficult to bifurcate purchases from composition and regular registered persons.
- In case of purchases on which RCM is applicable, how to report? – If reported as unregistered purchases, their system may capture excessive purchases from unregistered persons, thereby selecting cases for scrutiny.
- If bifurcation as expected in Clause 44 is to be given, then lot of training to be given to accountants and even after doing so, the authenticity of data in case of big assesses would be always be difficult.
- Do the figures have to be reconciled?

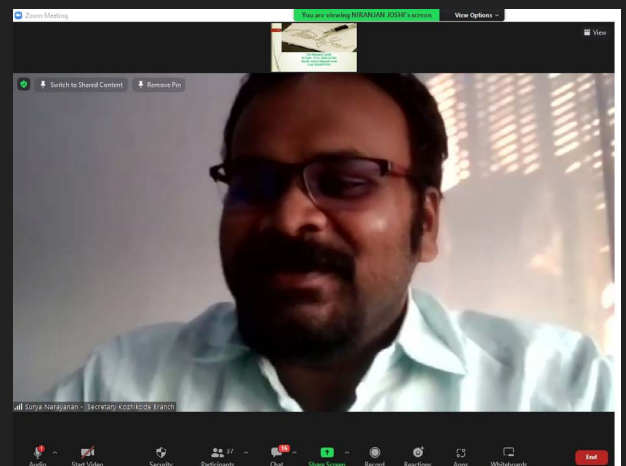
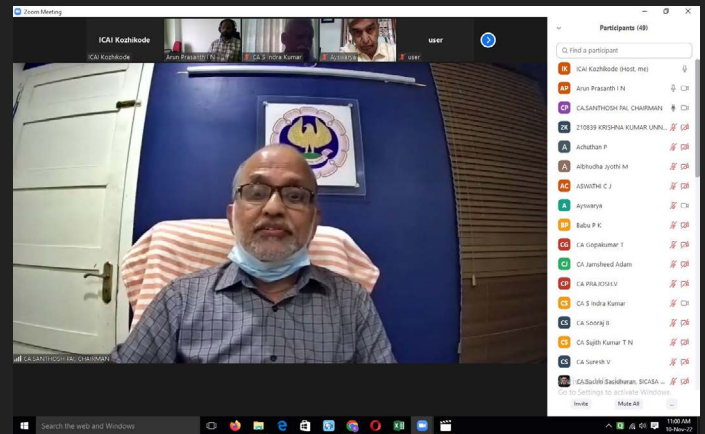
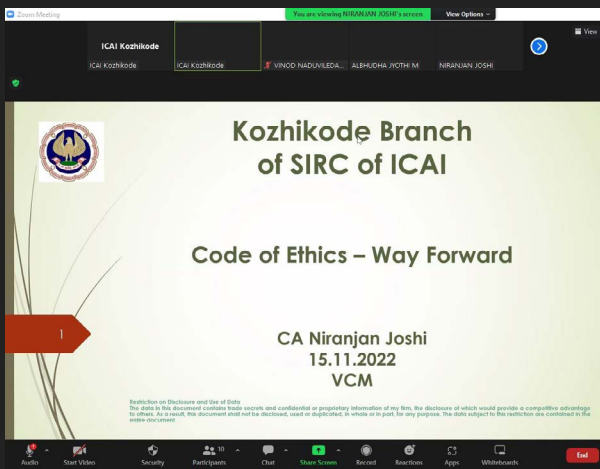
ACTIVITIES - NOVEMBER, 2022



ICAI MSME Yatra of the Committee on MSME & Start-up of ICAI at Regional Science Centre and Planetarium, Kozhikode. SBI, NSIC, SIDBI, DIC, Exim Bank and Canara partnered the programme with their helpdesk and presentation. Programme inaugurated by Sri. T.M. Muraleedharan, Lead District Manager, Canara Bank. Representatives from partnering organisations also presented their products and projects related to MSME sector in the programme. - 06.11.2022



Virtual CPE Meeting on “E Verification - Procedures & FAQs in Income tax”
Speaker - Mr. Arun Prasant I N, Income Tax Officer, I & CI, Kozhikode - 10.11.2022



Virtual CPE Meeting on “Code of Ethics – Way Forward”
Speaker - CA. Niranjan Joshi, Mumbai- 15.11.2022



**CPE Seminar on "Income Tax Aspects of Charitable Trusts"
Speaker - CA. Prashanth Srinivas Ayyar - 25.11.2022**

Contributions to e-newsletter

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