

Practical aspects of Tax Audit &



Financial Statements for Non-Corporates



Professional Forum

2nd September 2025

CA. PRAMOD JAIN

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

Legislation for AY 2025-26

S. 44AB

- Business – exceeds Rs. 1 Cr. / 10 Cr
- Profession – exceeds Rs. 50 L
- Business u/s 44AE /44BB/44BBB; income < deemed profit
- Profession u/s 44ADA; deemed profit < 50% and TI > MANCT
- Business u/s 44AD(4) and 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

Applicability of 44AD(44ADA) /44AB

Mr. E - Turnover (all bank) – AY 2024-25 -150L availed S. 44AD; AY 2025-26 – Tr 225 L (all bank) NP – 10 L; TI - 8.50 L

- AD - No
- AB - Yes

Ms. F - Turnover in 1st year (all cash) – AY 2024-25 - 120L; NP - 10L; No 44AD; Turnover (all bank) AY 2025-26 – 220L; NP – 20 L – 44AD!!

- AD - Yes
- AB - No

Ms. G - CA Turnover (all Bank)– 60L NP – 35 L; TI- 32 L

- ADA – Yes
- AB - No

Mr. H – CA Turnover – 18L; NP– 7L ; TI- 7 L

- ADA – No
- AB - Yes

Applicability of 44AB – Spl. cases

Mr. I – Salaried Employee- 15 lacs; F&O Turnover 8 Lacs, Net Loss 3 Lacs

• No

Ms. J – Profession – 80 L; Business – 70 L

• Yes, B & P

M/s K Inc – Non- Resident, FTS II Cr.TDS u/s 195, DTAA

• Yes

CA. L – Remuneration 90 L from firm in which partner

• No, Perizad Zorabian Irani v. PCIT Mumbai WP 1333/2021 Bombay HC

Section 44AD essentials

- **Should be eligible assessee**
 - **Ind., HUF, Firm (except LLP); and**
 - **No s. 10A, 10AA, 10B, 10BA & Chp VIA Part C**
- **Should be doing eligible business**
 - **Any except 44AE; and**
 - **Turnover < 2 Crs / 3 crs**
- **Section not applicable to a person carrying:**
 - **Profession u/s 44AA(I)**
 - **Commission or brokerage**
 - **Agency business**
- **Deemed profit 8% / 6% or more**
- **Commensurate with fund flow!!!**

PRESUMPTIVE TAXATION AMENDMENT FROM AY 2024-25

- **S. 44AD**

- **2 Cr to 3 Cr, if aggregate of amounts received during PY in cash do not exceed 5% of total turnover or gross receipts**

- **S. 44ADA**

- **50 L to 75 L – same basis**

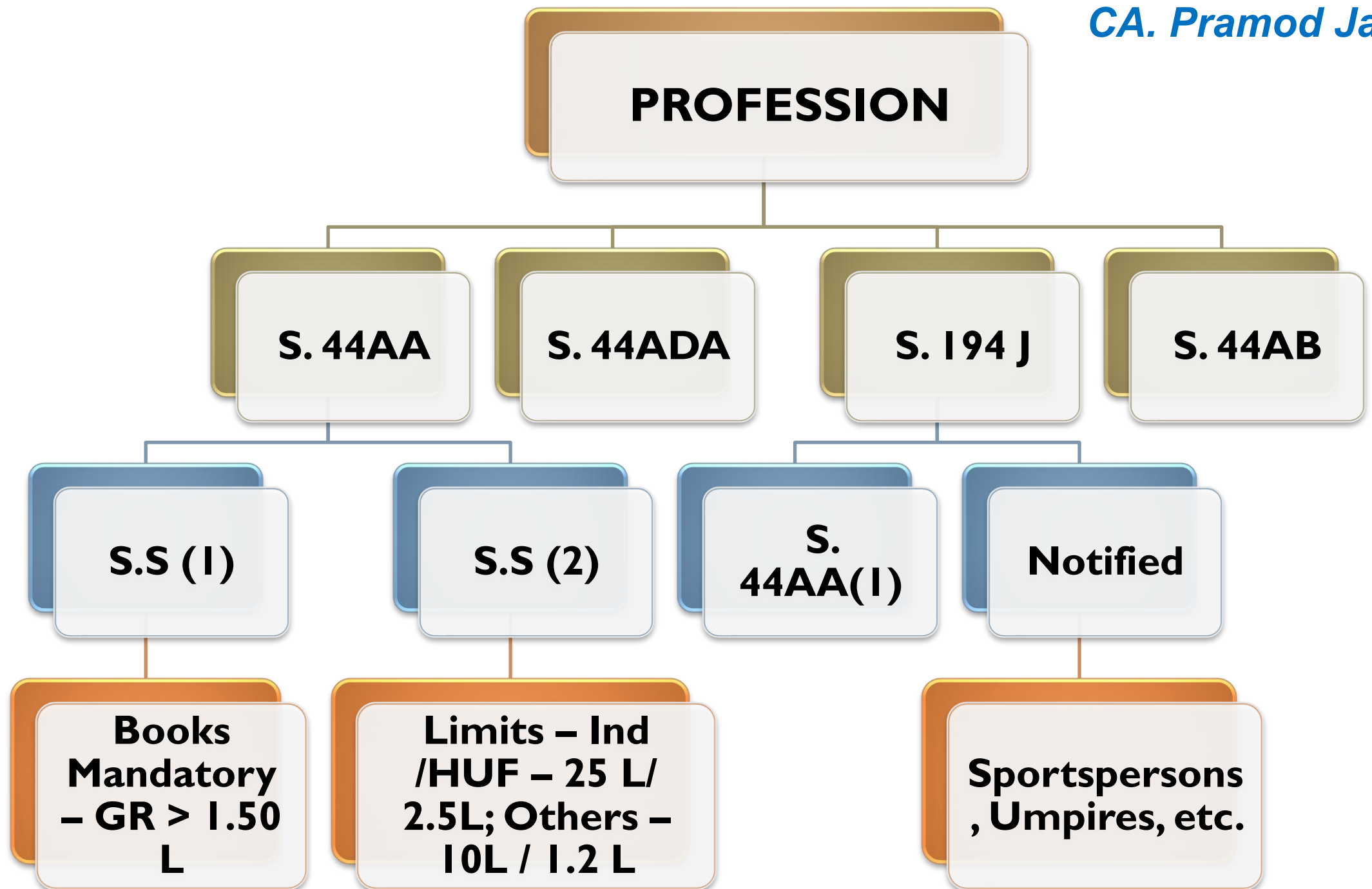
- **S. 44AB – 1st Proviso – s. 44AD / ADA excluded**

Section 44ADA essentials

- Applicable to Individual, ~~HUF~~, Firm (excluding LLP)
- Should be engaged in profession – section 44AA(I) read with rule 6F
- Gross receipt < 50 Lakhs / 75 Lakhs
- Deemed profit 50% or more
- Commensurate with fund flow!!!

Profession – s. 44ADA

- **Section 44AA (I) read with Rule 6F**
 - **Legal**
 - **Medical**
 - **Engineering**
 - **Architectural**
 - **Accountancy**
 - **Technical Consultancy**
 - **Interior Decoration**
 - **Authorised Representative**
 - **Company Secretary**
 - **Film Artist, actors, cameramen, editor.....**
 - **Information Technology**



S. 194 J Notified List

- **Sports Persons**
- **Umpires & Referees**
- **Coaches & Trainers**
- **Team Physicians & Physiotherapists**
- **Event managers**
- **Commentators**
- **Anchors**
- **Sports Columnists**

S. 44AB(a)

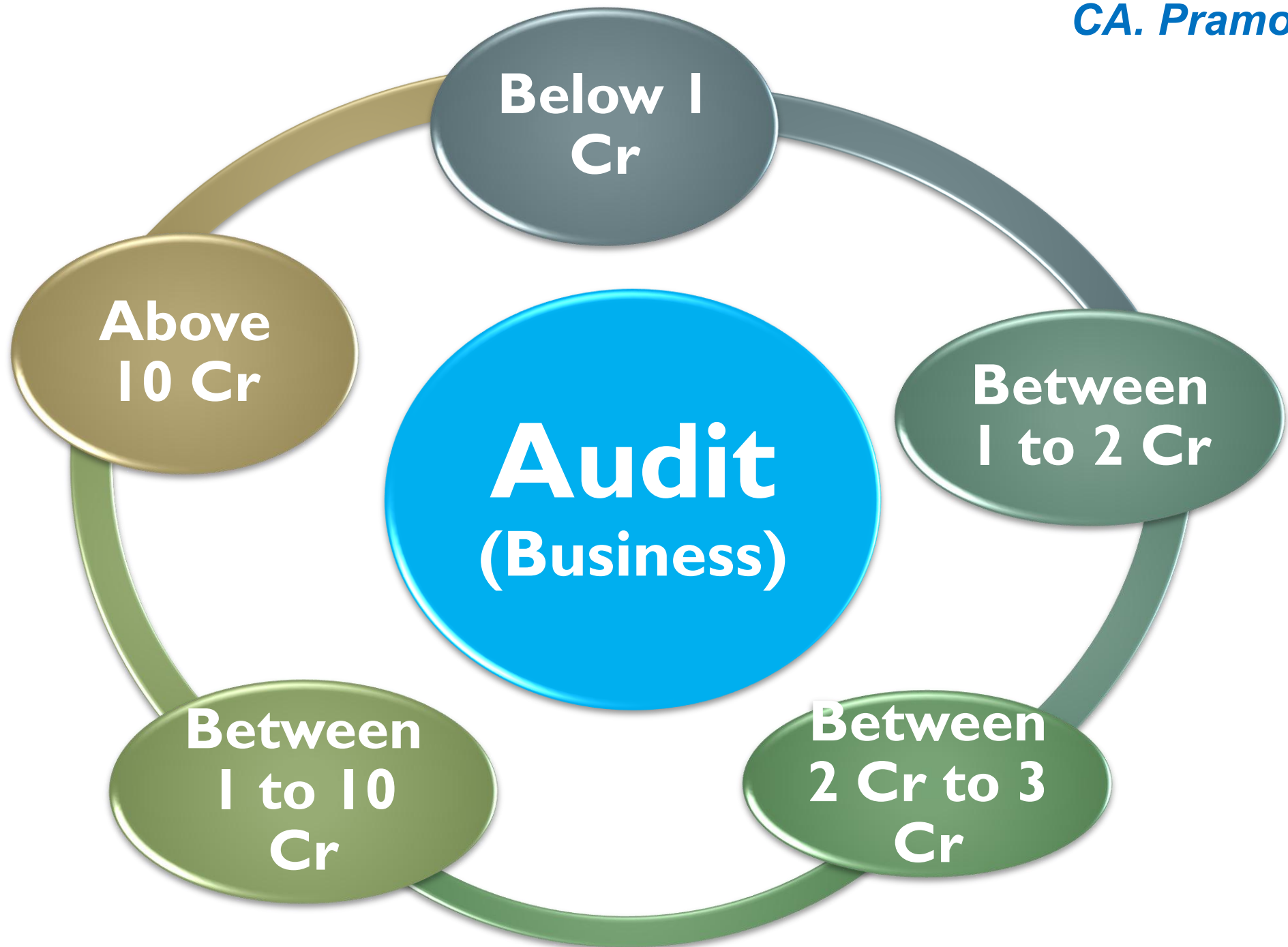
- **Limit 1 Cr / 10 Cr !!**
- **Limit of 10 Cr Only if:**
 - **Aggregate of all amounts received in cash do not exceed 5% of said amt.**
 - **AND**
 - **Aggregate of all Payments made in cash do not exceed 5% of said payment**

44AB(a) ???

- **Payments all by banking channels**
- **Receipts:**
 - **6 Crs sales out of which 20 Lacs in Cash**
 - **Proprietor introduces capital – 25 Lacs in cash**
 - **Loans received– 50 Lacs by NEFT**
 - **Is tax audit u/s 44AB required?**
 - **Yes, as total receipts - 675 L ; cash – 45L**
- **Is it mandatory or optional??**
 - **Mandatory - Part I (I) of 2nd schedule**
- **Non -A/c Payee Cheque/ Draft - Cash**

Presumptive Incomes

| S. No. | Section | Nature of Activity | Less than Deemed Profits | Provisions for Audit | Audit Provision |
|----------|--------------|--|--|-------------------------|-----------------|
| I | 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) |



???

- **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?**

AS Applicability for Non-Companies

- Effective for Accounting Periods **from 1.4.2024**. Instead of 4 levels.. Now 2 levels :
 - Large
 - Micro, Small and Medium Sized Entity (MSME)

| LEVEL | TURNOVER (in immediately Preceding FY) | | | BORROWING (in immediately Preceding FY) | |
|--------------------------|--|----------|--|---|---------|
| | Existing | Revised | | Existing | Revised |
| I Large | > 250 Cr | > 250 Cr | | > 50 Cr | > 50 Cr |
| II MSME | 50-250 Cr | ≤ 250 Cr | | 10-50 Cr | ≤ 50 Cr |
| III | 10-50Cr | NA | | 2-10Cr | NA |
| IV | < 10 Cr | NA | | < 2 Cr | NA |

MSME Disclosure

Non-Corporate

- **“The Entity is a Micro Small and Medium Sized Entity (MSME) as per the announcement made by ICAI and has complied with the Accounting Standards insofar as they are applicable to an MSME.”**
- **Two year wait period if change from Large to MSME.**

AS Applicability

| AS No. | Short Title | Companies | | Non - Companies | |
|--------|--|-----------|--------|-----------------|--------|
| | | Non-SMC | SMC | Large | MSME |
| 1 | Disclosure of Accounting Policies | Y | Y | Y | Y |
| 2 | Valuation of Inventories | Y | Y | Y | Y |
| 3 | Cash Flow Statements | Y | N/Y | Y | N |
| 4 | Events after Balance Sheet date | Y | Y | Y | Y |
| 5 | Prior Period Items & Changes in Policies | Y | Y | Y | Y |
| 6 | Depreciation (Omitted 30.3.16) | NA | NA | NA | NA |
| 7 | Construction Contracts | Y | Y | Y | Y |
| 9 | Revenue Recognition | Y | Y | Y | Y |
| 10 | Property, Plant & Equipment | Y | Y | Y | Partly |
| 11 | Changes in Foreign Exchange Rates | Y | Y | Y | Partly |
| 12 | Accounting for Government Grants | Y | Y | Y | Y |
| 13 | Accounting for Investments | Y | Y | Y | Y |
| 14 | Accounting for Amalgamations | Y | Y | Y | N |
| 15 | Employee Benefits | Y | Partly | Y | Partly |

AS Applicability

CA. Pramod Jain

| AS No. | Short Title | Companies | | Non - Companies | |
|--------|---------------------------------------|------------|--------|-----------------|--------|
| | | Non-SMC | SMC | Large | MSME |
| 16 | Borrowing Cost | Y | Y | Y | Y |
| 17 | Segment Reporting | Y | N | Y | N |
| 18 | Related Party Disclosures* | Y | Y | Y | N* |
| 19 | Leases | Y | Partly | Y | Partly |
| 20 | Earning Per Share | Y | Partly | N | N |
| 21 | Consolidated Financial Statements | N/Y | N/Y | (listed) | N |
| 22 | Accounting for Taxes on Income | Y | Y | Y | Partly |
| 23 | Accounting for Associates in CFS | N/Y | N/Y | (listed) | N |
| 24 | Discontinuing Operations | Y | Y | Y | N |
| 25 | Interim Financial Reporting | Y (listed) | N** | N** | N |
| 26 | Intangible Assets | Y | Y | Y | Partly |
| 27 | Interest in Joint Ventures | N/Y | N/Y | (listed) | N |
| 28 | Impairment of Assets* | Y | Partly | Y | N* |
| 29 | Provisions, Contingent Liab. & Assets | Y | Partly | Y | Partly |

AS Relaxations for MSME

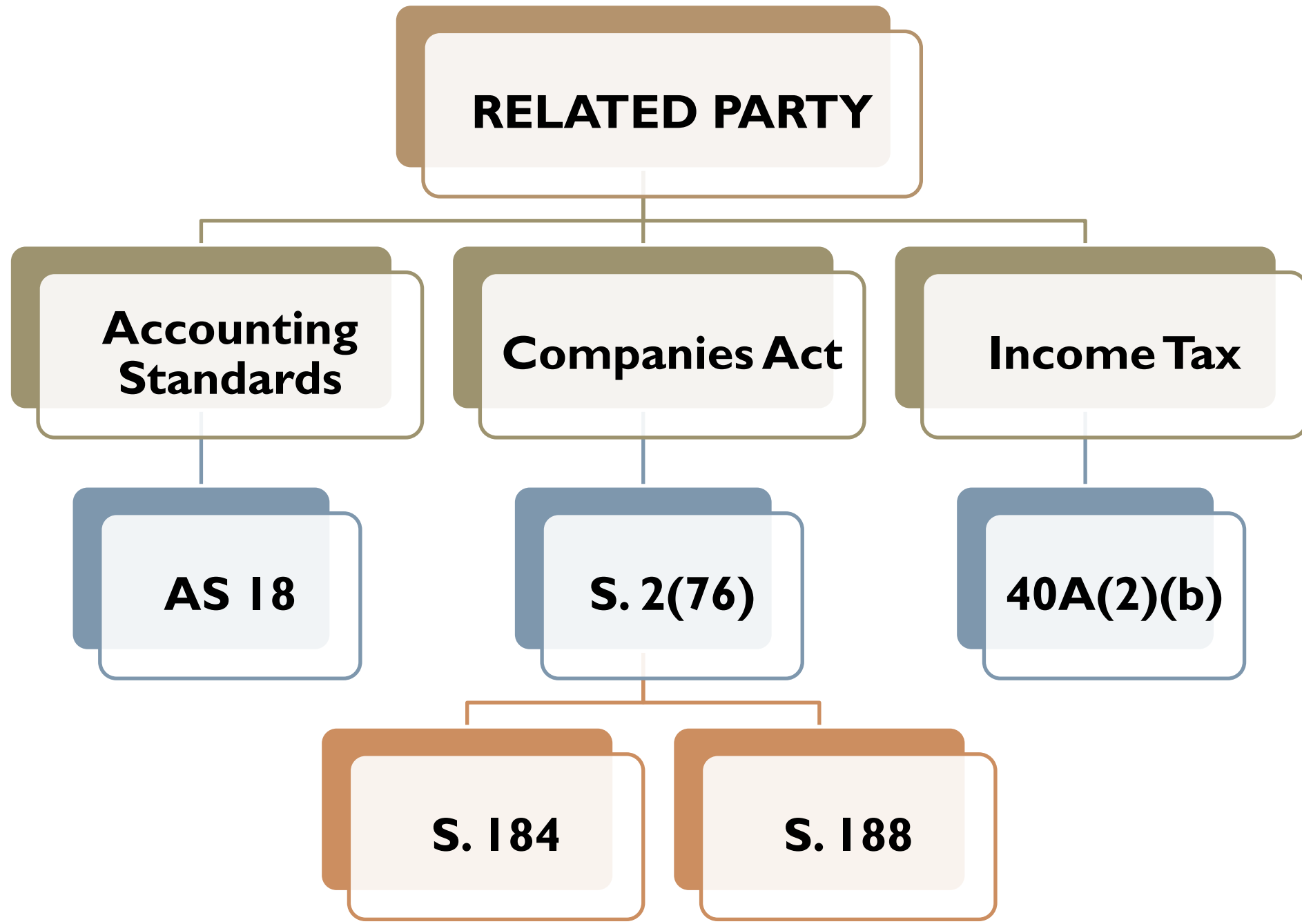
| | | |
|--------------|--|--|
| AS 10 | <i>Property, Plant and Equipment</i> | May not comply with paragraph 87 relating to encouraged disclosures. |
| AS 11 | <i>The Effects of Changes in Foreign Exchange Rates</i> | May not comply with paragraph 44 relating to encouraged disclosures. |
| AS 15 | <i>Employee Benefits</i> | Paragraph 11 to 16, paragraphs 46 and 139, paragraphs 50 to 116, paragraphs 117 to 123, paragraphs 129 to 131. Discounting not required. Actuarial valuation not mandatory. Instead of following PUCM these entities can follow any other rational method to calculate and account for accrued liability - on assumption that such benefits are payable to all employees at the end of accounting year |
| AS 19 | <i>Leases</i> | May not comply with paragraph 22 (c), (e) and (f); 25 (a), (b) and (e); 37 (a), (f) and (g); 38; and 46 (b), (d) and (e). |

AS Relaxations for MSME

| | | |
|--------------|--|--|
| AS 22 | <i>Accounting for Taxes on Income</i> | To comply with current tax related provisions only. Transitional - the accumulated deferred tax asset/liability appearing in FS of immediate previous accounting period, shall be adjusted against the opening revenue reserves / owner's funds |
| AS 26 | <i>Intangible Assets</i> | May not comply with paragraphs 90(d)(iii), 90(d)(iv) and 98 |
| AS 28 | <i>Impairment of Assets</i> | Allowed to measure value in use on basis of reasonable estimate instead of PV technique and hence, may not comply with paragraph 121 (g). May not comply with paragraphs 121(c)(ii); 121(d)(i); 121(d)(ii) and 123. |
| AS 29 | <i>Provisions, Contingent Liabilities and Contingent Assets</i> | May not comply with paragraphs 66 and 67 |

AS 18 & AS 28

- **AS 18 (Related Party)**
- **AS 28 (Impairment)**
- **Applicable if :**
 - **Turnover (excluding other income) exceeds Rs. 50 crore in the immediately preceding accounting year; or**
 - **Have borrowings in excess of Rs. 10 crore at any time during the immediately preceding accounting year**



Financial Statements Formats by ICAI

Non-Corporates

LLPs

NPOs

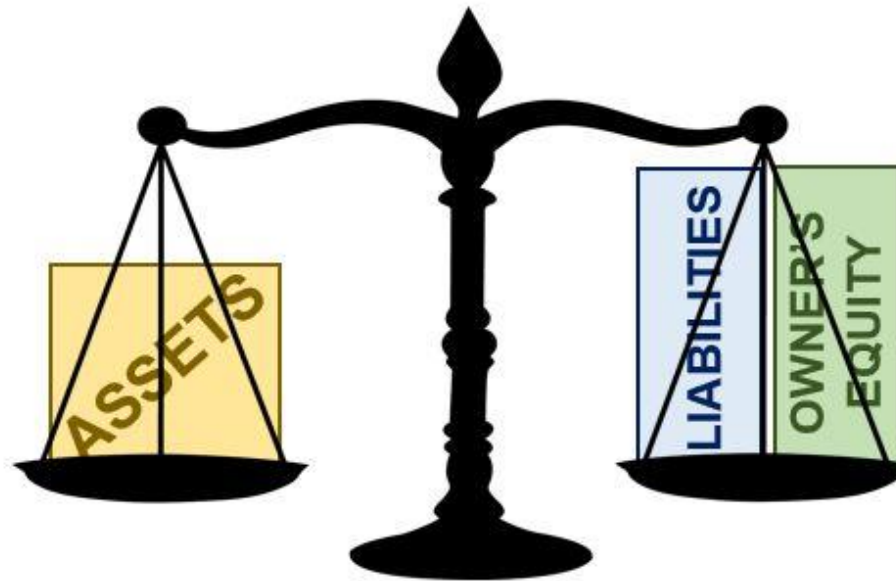
Formats of Financial Statements for Non-corporate Entities

Proprietorship

Partnership

LLP

Balance Sheet



It has to balance

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' FUND 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) | | | |

Balance Sheet Items

Owner's Fund

| (Amount in Rs. XX) | | | | |
|--------------------|---|---------|---------------|---------------|
| | Particulars | Note No | 31 March 20XX | 31 March 20XX |
| I 1. (a) | OWNERS' FUNDS AND LIABILITIES | | | |
| | Owners' Funds | | | |
| | Owners' Capital Account | | - | - |
| | (i) Owners'/Partners' Capital Account ⁴ | 3a | | |
| | (ii) Owners'/Partners' Current Account ⁴ | 3b | | |

Owner's Capital Account A/c

Note - 3 Owners' Capital Account

| (Amount in Rs.) | | | | | | | | | |
|--------------------|--|-----------------------------------|--|--|------------------------------|--------------------------|--------------------------------|---|---|
| Sr. No. | Name of Partner/ Proprietor/ Owner | Share of profit/ (loss) (%) | As at 1st April 20XX (Opening Balance) | Capital Introduced/cont ributed during the year | Remuneration for the year | Interest for the year | Withdrawals during the year | Share of Profit / Loss for the year | As at 31st March 20XX (Closing Balance) |
| 1 | | | | | | | | | - |
| | | | - | - | - | - | - | - | - |
| Previous Year (PY) | | | - | - | - | - | - | - | - |

- In case of a prop, it should be sufficient to give the movement as
 - Opening balance
 - Add: Contribution
 - Add/ less : Profit / loss
 - less Withdrawals (No harm if you need to segregate withdrawals like for tax/ insurances etc)

| | 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 | | | |

Current Liabilities

| 3 | | | (Amount in Rs.) | |
|----------|--|----|-----------------|---------------|
| | | | 31 March 20XX | 31 March 20XX |
| 3 | Current liabilities | | | |
| (a) | Short-term borrowings | 5 | - | - |
| (b) | Trade payables | | | |
| (i) | Total outstanding dues of micro, small and medium enterprises | 9 | - | - |
| (ii) | Total outstanding dues of creditors other than micro, small and medium enterprises | 9 | - | - |
| (c) | Other current liabilities | 10 | - | - |
| (d) | Short-term provisions | 8 | - | - |
| | | | - | - |
| | Total | | - | - |

Other Current Liabilities

| 10 | | (Amount in Rs.) | |
|-----------|---|-----------------|---------------|
| | | 31 March 20XX | 31 March 20XX |
| 10 | Other current liabilities | | |
| (a) | Current maturities of finance lease obligations (Refer note XX) | - | - |
| (b) | Interest accrued but not due on borrowings | - | - |
| (c) | Interest accrued and due on borrowings | - | - |
| (d) | Income received in advance | - | - |
| (e) | Unearned revenue | - | - |
| (f) | Goods and Service tax payable | - | - |
| (g) | TDS payable | - | - |
| (h) | Other payables (specify nature) | - | - |
| | Total Other current liabilities | - | - |

| | 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) |
|-----|--|---------|---|---|
| | (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 | | | |

Current Assets

| 2 | | | (Amount in Rs.) | |
|-----|-------------------------------|----|-----------------|---------------|
| | | | 31 March 20XX | 31 March 20XX |
| | Current assets | | | |
| (a) | Current investments | 12 | - | - |
| (b) | Inventories | 15 | - | - |
| (c) | Trade receivables | 16 | - | - |
| (d) | Cash and bank balances | 17 | - | - |
| (e) | Short Term Loans and Advances | 13 | - | - |
| (f) | Other current assets | 18 | - | - |
| | | | - | - |
| | Total | | - | - |

Inventories

| 15 | Inventories | 31-March-20XX | 31-March-20XX |
|-----|-------------------------|---------------|---------------|
| (a) | Raw materials | - | - |
| (b) | Work-in-progress | - | - |
| (c) | Finished goods | - | - |
| (d) | Stock-in-trade | - | - |
| (e) | Stores and spares | - | - |
| (f) | Loose Tools | - | - |
| (g) | Others (Specify nature) | - | - |
| | Total | - | - |

Other Important Disclosures

- **In case of secured loans, disclose:**
 - **Nature of security**
 - **Terms of repayment**
 - **Where loans guaranteed by owners, details thereof**
- **Details as per section 22 of MSMED Act 2006**
- **PPE schedule for previous year too**
- **Trade Receivables – more than 6 months, less than 6 months – good / doubtful**

Applicability of GN

The Accounting Standards Board has now prescribed the formats for the presentation of the financial statements of Non-corporate Entities in the form of Guidance Note, which were earlier issued as a part of Technical Guide. The objective is to standardise the formats of financial statements for these entities and to enhance the quality and comprehensiveness of the financial reporting by these entities.

This Guidance Note is relevant for the purpose of preparation of the financial statements of the above mentioned Non-Corporate Entities unless any formats/principles are specifically prescribed by the relevant Statute or Regulator or any Authority, e.g., formats have been prescribed for Trusts under Maharashtra Public Trust Rules, 1951, Autonomous Bodies under Government of India are required to compile their accounts in a uniform format of accounts as prescribed by Government of India, Ministry of Finance, Guidance has been specifically given by ICAI (e.g., Educational Institutions, Political Parties, NPOs, etc.).

STATEMENT OF PROFIT AND LOSS



Name of the Non-Corporate Entity.....
Statement of Profit and loss for the year ended
(Rupees in.....)

| | Particulars | Note | Figures for the current reporting period From ____ To _____ | Figures for the previous reporting period From____ To_____ |
|------|---|------|--|---|
| | 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 Material Consumed | | xxx | xxx |
| (b) | Purchases of Stock-in trade | | xxx | xxx |
| (c) | Changes in Inventories of Finished goods, WIP & Stock in trade | | xxx | xxx |
| (d) | Employee benefits expense | | xxx | Xxx |
| (e) | Depreciation and amortization expense | | xxx | Xxx |
| (f) | Finance Cost | | xxx | Xxx |
| (g) | Other expenses | | xxx | xxx |

Revenue from Operations

| | | (Amount in Rs.) | |
|-----|---------------------------------|-----------------|---------------|
| 19 | Revenue from operations | 31 March 20XX | 31 March 20XX |
| (a) | Sale of products | - | - |
| (b) | Sale of services | - | - |
| (c) | Grants or donations received | - | - |
| (d) | Other operating revenue | - | - |
| | Revenue from operations (Gross) | - | - |
| | Less: Excise duty | - | - |
| | Revenue from operations (Net) | - | - |

Other Income

| | | (Amount in Rs.) | |
|-----|---|-----------------|---------------|
| 20 | Other income | 31 March 20XX | 31 March 20XX |
| (a) | Interest income | - | - |
| (b) | Dividend income | - | - |
| (c) | Net gain on sale of investments | - | - |
| (d) | Other non-operating income (Please specify) | - | - |
| | Total other income | - | - |

Partner's Interest

3. Finance Costs

Finance costs shall be classified as:

- (a) Interest expense (other than interest on partners'/members' capital);
- (b) Interest on partners'/members' capital;
- (c) Other borrowing costs;
- (d) Applicable net gain/loss on foreign currency transactions and translation.

| | Particulars | Note | Figures for the current reporting period (in Rs.) From ____ To ____ | Figures for the previous reporting period (in rs.) From ____ To ____ |
|-------|--|------|--|---|
| | Total expenses | | xxx | xxx |
| V | Profit before exceptional and extraordinary items, partner's remuneration & tax (III-IV) | | xxx | xxx |
| VI | Exceptional items | | xxx | xxx |
| VII | Profit before extraordinary items, partner's remuneration and tax (V - VI) | | xxx | xxx |
| VIII | Extraordinary Items | | xxx | xxx |
| IX | Profit before partner's remuneration & tax (VII- VIII) | | xxx | xxx |
| X | Partner's Remuneration | | | |
| XI | Profit before Tax (IX-X) | | | |
| XII | Tax expense: | | | |
| (i) | Current tax | | xxx | xxx |
| (ii) | Excess / Short provision of tax related to earlier years | | | |
| (iii) | Deferred tax | | xxx | xxx |
| XIII | Profit (Loss) for the period from continuing operations (XI-XII) | | xxx | xxx |
| XIV | Profit/(loss) from discontinuing operations | | xxx | xxx |
| XV | Tax expense of discontinuing operations | | xxx | xxx |
| XVI | Profit/(loss) from Discontinuing operations (after tax) (XII-XIII) | | xxx | xxx |
| XVII | Profit/ (Loss) (XI + XIV) | | xxx | xxx |

Previous Year Figures

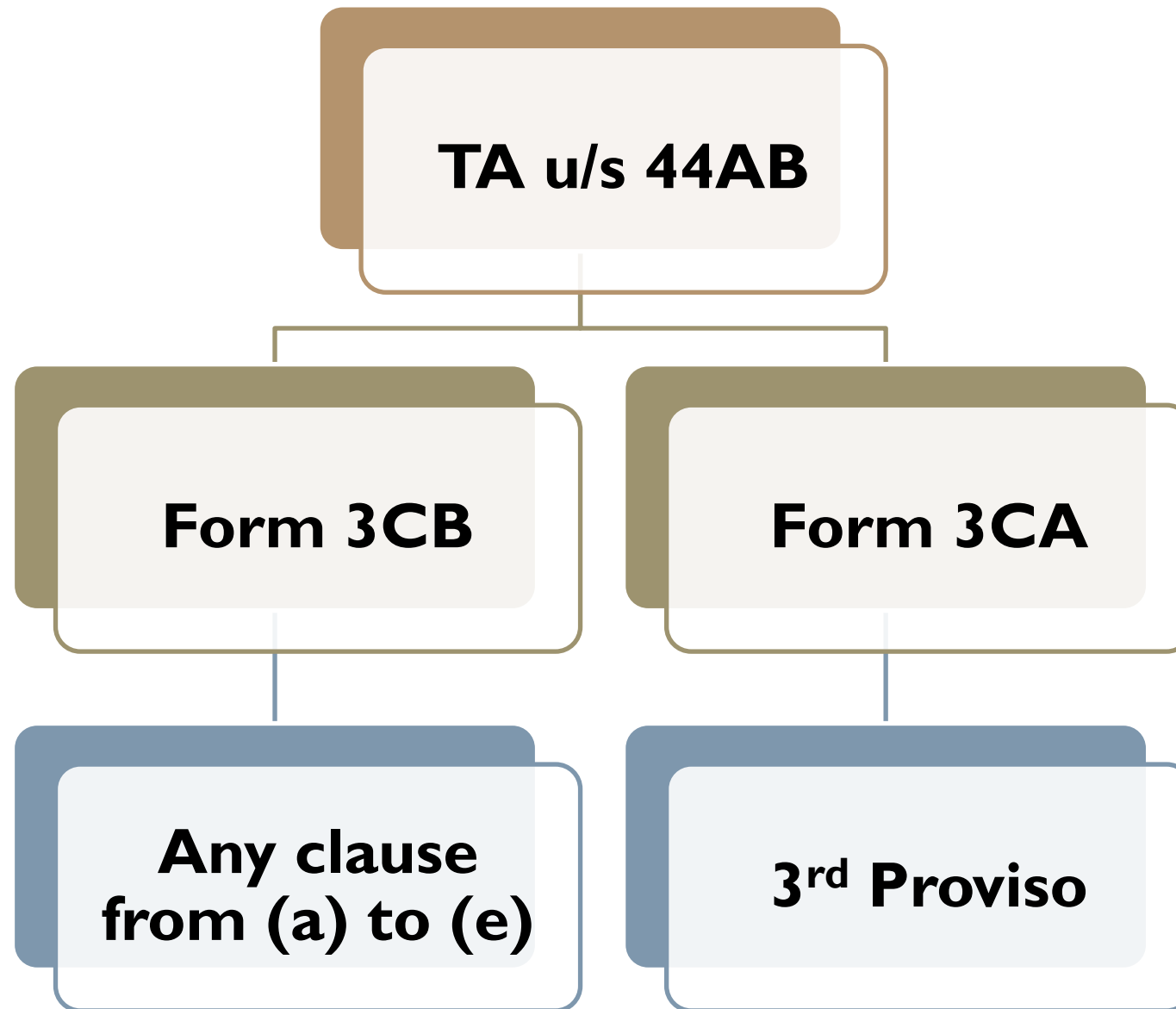
- Framework for preparation and presentation of financial statements
- SA 710 – Comparative Information – Corresponding Figures and Comparative Financial Statements
- To state in Other matter:
 - Para 17 - If the financial statements of the prior period were audited by a predecessor auditor.
 - Para 19 - If the prior period financial statements were not audited.

Matters for FS of non-corporates

- **Rounding off not mandatory**
- **Offset of income / Expenses or Assets / liability**
NOT allowed
- **Disclose Contingent liabilities**
- **Disclose PPE instead of Fixed assets or Tangible assets**
- **Can Penalties / other than business Incomes be credited to capital A/c?**
- **Are list of Trade Receivables / Payables / Unsecured Loans mandatory?**

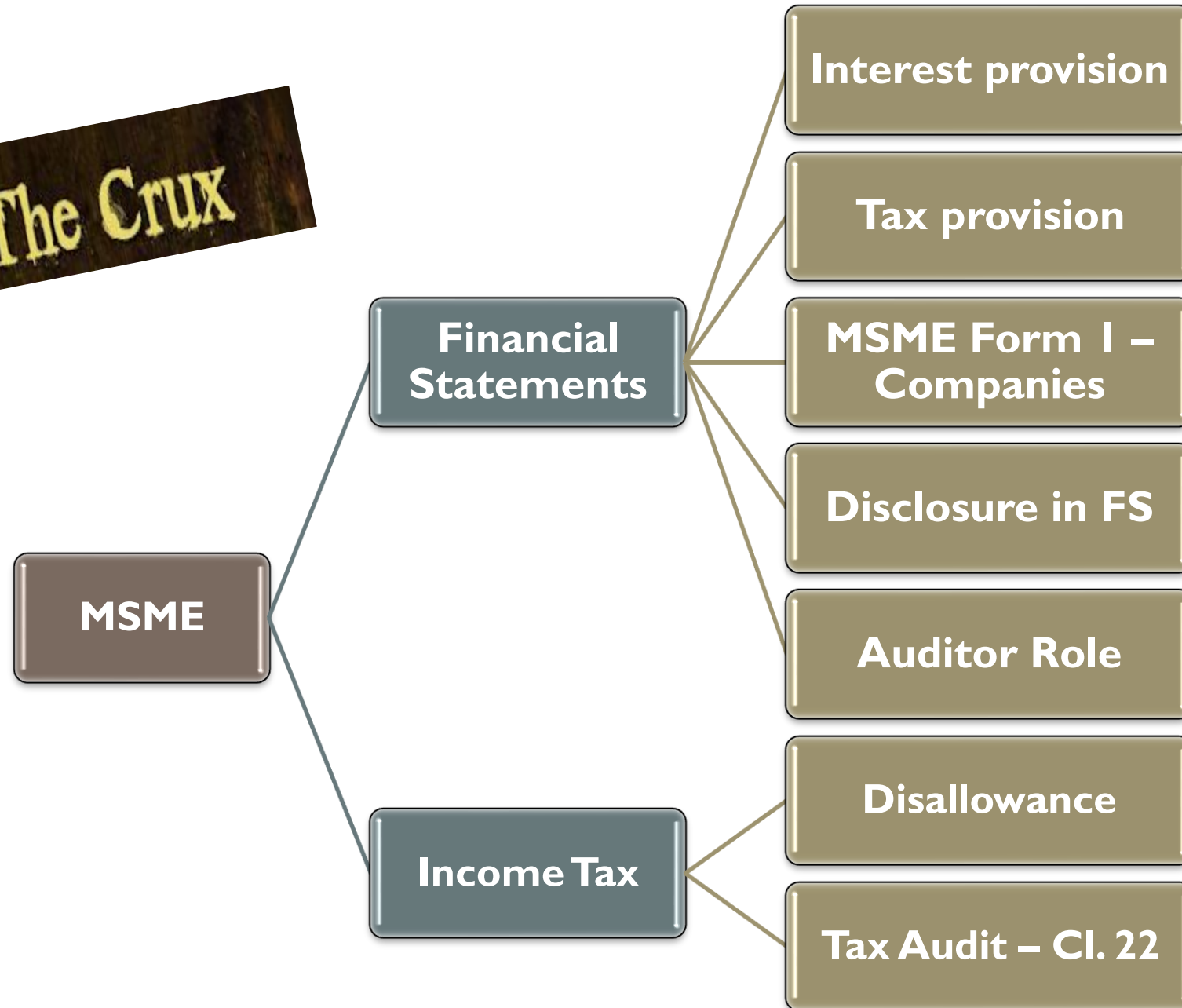
Derecognition / Cessation of Liability

- **Settlement of a present obligation may occur by:**
 - **payment of cash;**
 - **transfer of other assets;**
 - **provision of services;**
 - **replacement of that obligation with another obligation; or**
 - **conversion of the obligation to equity.**
- **Creditor waiving or forfeiting its rights.**





The Crux



S. 43B(h) & FORM 3CD

- **CI 22 amended for S. 43B(h) on 28th March 2025**
 - **(i) Amount of interest inadmissible u/s 23 of the MSMED Act, 2006; or**
 - **(ii) Total amount required to be paid to a micro or small enterprise, as referred to in section 15 of MSMED Act, during PY;**
 - **(iii) Of amount referred to in (ii) above, amount –**
 - **(a) paid up to time given under section 15 of the MSMED Act;**
 - **(b) not paid up to time given under section 15 of the MSMED Act and inadmissible for the PY.**
- **CI 26(A) amended for allowability of disallowed 43B(h) in last year**
- **Guidance Note for Tax Audit issued by ICAI (Revised 2025)**

CL. 26 AMENDED – 28.3.2025

- In respect of any sum referred to in s. 43B, the liability for which:—
- (A) pre-existed on the first day of the PY but was not allowable in the assessment of any preceding PY and was
 - (a) paid during the PY;
 - (b) not paid during the PY;
- (B) was incurred in PY and (for clauses other than S. 43B(h) was,
 - (a) paid on or before the due date for furnishing the return of income of the previous year u/s 139(I);
 - (b) not paid on or before the aforesaid date.
- (State whether sales tax, customs duty, excise duty or any other indirect tax, levy, cess, impost, etc., is passed through the profit and loss account.)

SUGGESTED DETAILS

| S. No. | Name of Supplier (All Suppliers) | Micro / Small / Medium / Not a MSME | Udyam Aadar No. (UAN) | Date of UAN | Major Activity | Written Agreement or Not | Credit period as per Agreement | Cr. Period as per MSME D Act | Total amount payable to micro or small enterprises during the year | Amount paid during the year to micro / small enterprises within Cr. Period | Interest Payable due to delayed payment | Amount outstanding to micro / small enterprise on 31 st March which is not paid within MSMED Act due date |
|--------|----------------------------------|-------------------------------------|-----------------------|-------------|----------------|--------------------------|--------------------------------|------------------------------|--|--|---|--|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| Total | | | | | | | | | | | | |

SITUATIONS

- **Assessee identifies MSE suppliers**
 - Interest
 - S. 43B(h)
- **Assessee does not identify**
 - Auditor to identify through invoices
 - MRL
- **Non - provision of interest by assessee**
 - Audit Report
- **Non - disallowance u/s 43B(h) by assessee**
 - Audit Report – Form 3CA/CB
 - Tax provision

AUDIT



True and Fair View



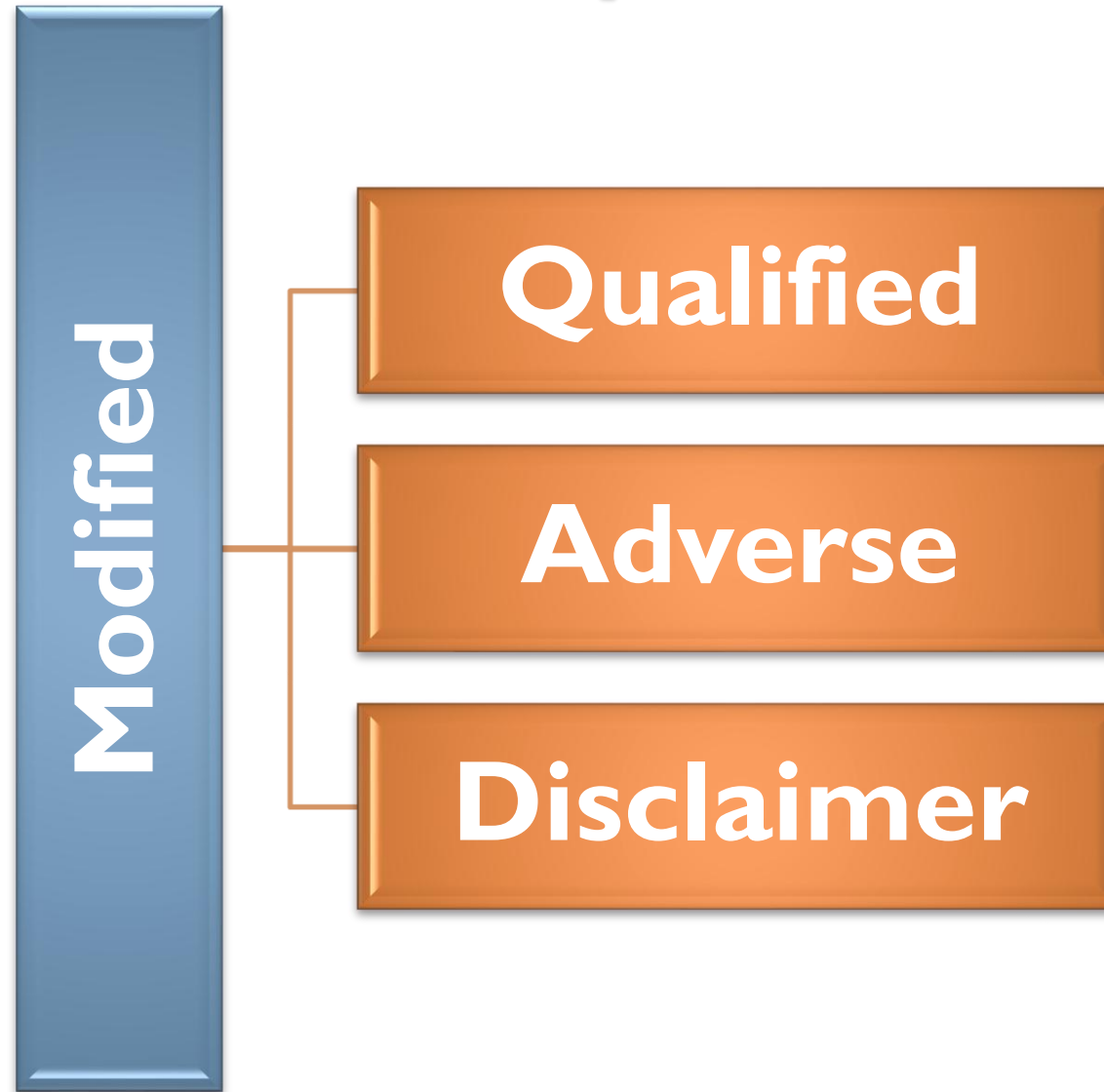
Types of Audit Reports



Unmodified

Modified

Modified Audit Reports



Modified Audit Reports

| | Auditor's judgment about Pervasiveness of the matter | |
|--|--|---|
| Nature of Matter | Material but NOT Pervasive | Material AND Pervasive |
| Financial statements are Materially misstated | Qualified Opinion (...except for...) | Adverse Opinion (...do not present true & fair...) |
| Unable to obtain Sufficient Appropriate Audit Evidence | Qualified Opinion (...except for...) | Disclaimer of Opinion (...we do not express an opinion...) |

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(a) – Form 3CB

- **Assessee's Responsibility for the Financial Statements**
 - The assessee is responsible for the preparation and fair presentation of the aforesaid financial statements that give true and fair view of the financial position and financial performance in accordance with the applicable Accounting Standards and financial reporting framework. The assessee is also responsible for design, implementation and maintenance of such internal controls as assessee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
 - In preparing the financial statements, assessee 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.

SA 700 – PARA 3(a) – Form 3CB

- **Tax Auditor's Responsibility**

- Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted this audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit **to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error.**
- Reasonable assurance is a high level of assurance **but is not a guarantee** that an audit conducted in accordance with Standards of Auditing **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 Financial Statements.
- As part of an audit in accordance with Standards of Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit.

SA 700 – PARA 3(a) – Form 3CB

- **Tax Auditor's Responsibility**

- **An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.**
- **We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.**

SA 700 – Para 5 – Form 3CB / Para 3 – Form 3CA

Assessee's Responsibility for Form 3CD

- 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) **[3CB]** / Rule 6G(1)(a) **[3CA]** 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 – Form 3CB / Para 3 – Form 3CA

Tax auditor responsibility

- 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) [3CB] / Rule 6G(1)(a) [3CA] 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.

Other Important Amendment - Form 3CD

- **Clause 3 I amended to create dropdown**
- **Nature of amount or receipt or repayment & Code**

1. Cash payment A
2. Cash receipt B
3. Payment through non account payee cheque C
4. Receipt through non account payee cheque D
5. Transfer of asset E
6. Transfer of liability F
7. Conversion of assets G
8. Conversion of liabilities H
9. Journal entry [Debit] I
10. Journal entry [Credit] J
11. Any other mode [Debit] K
12. Any other mode [Credit] L

Other Important Amendment - Form 3CD

- **Clause 36B inserted for buy-back of shares**
- **(a) Whether the assessee has received any amount for buyback of shares as referred to in sub-clause (f) of clause (22) of section 2? (Yes/No)**
- **(b) If yes, please furnish the following details:**
 - **(i) Amount received (in Rs.)**
 - **(ii) Cost of acquisition of shares bought back**

GN on TA

- **Form 3CD notified vs. Schema**
- **Hard Copy vs. uploaded copy**
- **Cl. 16 (d) – Other Income – 194 R, unbilled revenues**
- **Cl. 21 – Contingent Liability**
- **Cl. 21 [S. 40A(7)] vs. Cl. 26 [S. 43B] – Gratuity**
 - **S. 40A(7) – provision**
 - **S. 43B – gratuity fund**

Few aspects

- **Reporting in 3CD relating to heads of income other than “PGBP” are concerned, these can only be in relation to entries made in such books of a/c, and does not extend to transactions not recorded in such books of account**
- **Particulars in 3CD are responsibility of assessee - tax auditor is required to verify whether the particulars therein are true and correct**

Few aspects

- **Tax Audit is also under Peer Review – document adequately**
- **Get 3CD authenticated by assessee**
- **Tax Audit Guidance Note by ICAI (Revised 2025)**

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