The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)

WICASA NAGPUR

UDAAN

Umeed (Hope) | Disha (Direction) | Aatmavishwas (Self-confidence) | Aasha (Aspiration) | Nayi Soch (New Thinking)

WEEKLY E-NEWSLETTER MAY 2025

Vol. II | Pages 9 | May 2025

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TAX AUDIT SERIES III

Clause 9 to 12

Kashish Raut - WRO0784939

- **S. No. 9(a):** In the case of a firm or an association of persons (AOP), the names of the partners or members and their respective profit-sharing ratios must be stated.
- **S. No. 9(b):** If there has been any change in the partners or members, or in their profit-sharing ratios, since the last date of the preceding financial year, the details of such change must be reported.
- For assessees structured as a Partnership Firm, Limited Liability Partnership (LLP), Association of Persons (AOP), or Body of Individuals (BOI), the names of the partners or members along with their profit-sharing ratios (%) should be disclosed. These details must be supported by relevant agreements or other documentary evidence of such partnership or association.
- In case of any change in the partners/members or their profit-sharing ratios from the last date of the previous year:
  a. Obtain certified copies of the partnership deed, LLP agreement, and other supporting documents.
  b. Ensure all changes in the constitution or profit-sharing arrangements that occurred since the last date of the previous year are appropriately disclosed.
  c. Verify the acknowledgment of notice of change filed with the Registrar of Firms, if applicable.
  d. Confirm that relevant disclosures are made where a member's share in the AOP is indeterminate.
  e. Obtain a written representation from the assessee.
- If a minor has been admitted to the benefits of the firm, ensure that their name and profit-sharing ratio are clearly mentioned.
- This clause does not apply in cases where the firm has been dissolved, as it ceases to exist.
- **S. No. 10(a):** State the nature of the business or profession. If the assessee is engaged in more than one business or profession during the previous year, the nature of each should be specified.
- **S. No. 10(b):** If there has been any change in the nature of the business or profession, the particulars of such change must be provided.
- The nature of business or profession should be verified using financial statements, particularly the notes and schedules. Additionally, review incorporation-related documents such as the Memorandum of Association (MOA), partnership deed, or trust deed. If multiple businesses or professions exist during the year, the nature of each should be mentioned. The auditor must also indicate the appropriate sub-sector within the selected sector.
- For any change in the nature of business or profession, verify the following:
  a. Whether the change in nature, business line, or permanent cessation has been reported.
  b. Whether changes due to reconstruction or

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reorganization are disclosed.

c. Review minutes of meetings where the change was approved and obtain a declaration from the assessee.

Note: Temporary suspension of business activity does not constitute a change and need not be reported.

- **S. No. 11(a):** If books of account are prescribed under Section 44AA, list those prescribed.
- Books are prescribed only for professionals. Therefore, in the case of professionals, books required under Section 44AA read with Rule 6F should be listed under this clause.
- For business entities, since no books are specifically prescribed, this should be clearly stated as "No."
- **S. No. 11(b):** Provide a list of books of account actually maintained and the address(es) where these are kept.
- Obtain this list from the assessee, including the location(s) where the books are maintained.
- **S. No. 11(c):** List the books of account and the nature of relevant documents examined.

a. Obtain a complete list of both financial and non-financial books of account maintained, either manually or digitally.

b. Confirm the addresses where books are maintained, as books may be kept at multiple business locations.

c. If books are maintained using a computerized system, obtain the location of the server or the principal place of business/head office/registered office.

d. Ensure appropriate markings or identifiers are in place for recognizing the books presented for audit.

e. For manufacturing or trading businesses, verify that quantitative records of raw materials, stores, and finished goods are maintained.

f. In the case of a company, confirm if a form has been filed with the Registrar of Companies (ROC) for maintaining books at a location other than the registered office.

g. Examine not just the books of account, but also other relevant source documents such as original purchase invoices, bank statements, bills, vouchers, contracts, agreements, and any supporting documents for accounting entries.

- **S. No. 12:**Determine whether the profit and loss account includes any income assessable on a presumptive basis. If so, report the amount and specify the applicable section (e.g., Sections 44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule, etc.).
- The auditor must assess whether any income is subject to presumptive taxation. This can arise under different scenarios:

1. Books not separately maintained for both businesses:

- The auditor must reasonably estimate the profit for the business under the presumptive scheme, based on available evidence or an estimate prepared by the assessee.
- The basis of allocating common expenses should be documented and reviewed.
- If the auditor is not satisfied with the fairness of such allocation, this fact should be noted in the report.

2. Books separately maintained:

- If a separate set of books is maintained for the presumptive business, the auditor can readily ascertain and report the profits.

3. Additional presumptive business without separate books:Where the presumptive income pertains to an additional business with no separate books maintained, the auditor may not

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be able to verify the accuracy of the reported income.

- In such cases, the auditor should include a suitable note indicating their inability to verify the amount.
- If the auditor cannot form an opinion on the true and fair view of the accounts due to such limitations, a qualification should be included in Form 3CB.

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Clause 13

Manish Nagdev - WRO0799526

S. No. 13(a):
Method of accounting employed during the previous year

S. No. 13(b):
Whether there has been any change in the method of accounting as compared to the immediately preceding previous year

S. No. 13(c):
If the response to (b) is affirmative, provide details of the change and its impact on profit or loss

Under clauses 13(a), (b), and (c), the tax auditor must report the method of accounting followed by the assessee during the previous year. If any changes have occurred, the details of such changes and their financial impact must be stated.

All companies are mandatorily required to adopt the mercantile system of accounting.

Other entities such as LLPs, sole proprietorships, partnerships, societies, trusts, individuals, and HUFs may opt for either the cash or mercantile system, unless a governing statute mandates a specific method.

The tax auditor must compare the method of accounting used in the current year with that of the immediately preceding year to identify any deviations. (Note: In the case of companies, the method of accounting cannot vary year to year.)

If the impact of a change in the method of accounting cannot be quantified, this fact should be appropriately disclosed.

S. No. 13(d):
Whether any adjustments are required to profits or losses for compliance with ICDS notified under section 145(2)

S. No. 13(e):
If yes, provide details

The tax auditor is required to disclose any deviations in the method of accounting followed by the assessee that result in non-compliance with the Income Computation and Disclosure Standards (ICDS) notified under section 145(2) of the Income-tax Act, 1961, via Notification No. S.O. 3079(E) dated 29th September 2016.

Some provisions of the Act have been amended or inserted with retrospective effect from AY 2017–18 to override a Delhi High Court ruling on this matter.

ICDS does not apply to assessees following the cash basis of accounting. For such cases, clauses 13(d), (e), and (f) are not applicable.

Clause 13(e) requires a standard-wise reporting of adjustments made to profit or loss for ICDS compliance, clearly indicating increases or decreases in profit and the net overall impact.

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S. No. 13(f):
Disclosures as per ICDS

This clause requires reporting of disclosures as specified under each applicable ICDS. Out of 10 notified standards, disclosures are typically required under 8.

These disclosures vary depending on the assessee and the nature of their business or profession.

Changes to the disclosure requirements have been introduced through retrospective amendments to the Income-tax Act and updates in ITR Forms from AY 2018–19 onward.

Summary of ICDS-wise Disclosure Requirements for Clause 13(f):

ICDS I – Accounting Policies
Disclose all significant accounting policies.

If fundamental assumptions (going concern, consistency, accrual) are not followed, disclose specifically.

Sample Disclosure: Refer Note No. _ of the Financial Statements. Marked-to-market losses or expected losses are not adjusted under ICDS and are disallowed u/s 40A.

ICDS II – Valuation of Inventories
Disclose accounting policy and cost formula used.

Where standard costing is used, confirm it approximates actual cost.

Total carrying amount and classification of inventories must be disclosed.

Sample Disclosure: Refer Note No. _ (Inventory Policies). Standard costing used approximates actual cost. Inventories exclude duties/taxes; see Form 3CD S. No. 14(b).

ICDS III – Construction Contracts
Disclose contract revenue recognized, method used to determine stage of completion.

For contracts in progress: show costs incurred, profits recognized (less losses), advances received, and retentions.

Sample Disclosure: Refer Note No. _ (Construction Revenue) and Note No. _ (Contracts in Progress) of the Financial Statements.

ICDS IV – Revenue Recognition
For sale of goods: disclose amounts not recognized due to uncertainty and its nature.

For service contracts: disclose revenue recognized, method of completion, and for ongoing contracts, disclose costs incurred, profits recognized, advances, and retentions.

Sample Disclosure: Refer Note No. _ (Revenue Recognition) and Note No. _ (Service Transactions in Progress) of the Financial Statements.

ICDS V – Tangible Fixed Assets
Disclose asset/block description, depreciation rate, actual cost/WDV, additions/deductions, date of use, effects of CENVAT, exchange rate changes, subsidies, and depreciation allowed.

Sample Disclosure: Refer S. No. 18 of Form 3CD. Note that depreciation is governed by Section 32, not ICDS.

ICDS VII – Government Grants
Disclose the nature and extent of grants:

Deducted from asset cost/WDV

Recognized as income

Not recognized (with reasons)

Sample Disclosure: Refer appropriate note to Financial Statements covering each applicable case.

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ICDS IX – Borrowing Costs
Disclose the policy for borrowing cost recognition and the amount capitalized during the year.

Sample Disclosure: Refer Note No. _ (Borrowing Costs Policy) and Note No. _ (Capitalized Costs) of Financial Statements.

ICDS X – Provisions, Contingent Liabilities, and Contingent Assets

For provisions: disclose nature, opening and closing balances, additions, amounts used/reversed, and any expected reimbursement.

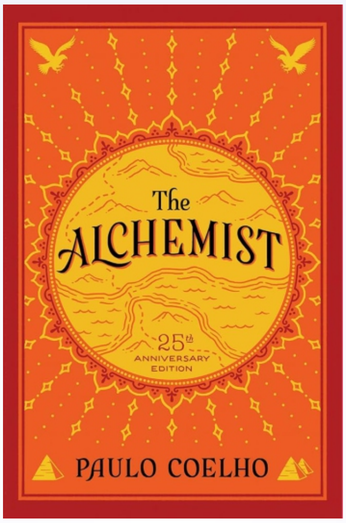
For contingent assets: disclose nature, carrying amounts, new recognitions, and reversals.

Sample Disclosure: Refer Financial Statement Notes on Provisions and Contingent Assets.

BOOK RECOMMENDATION

The Alchemist

Disha Tahaliyani, Managing Committee Member – WICASA Nagpur Branch



Book: The Alchemist
Author: Paulo Coelho

Have you ever felt like you're chasing goals just to check boxes — clear exams, crack interviews, earn titles — without really understanding what you're meant for?

The Alchemist is a modern classic that encourages you to pause and ask: "What is my Personal Legend?"

Why You Should Read This Book:
This isn't just a story about a shepherd named Santiago, it's a journey every dreamer takes. The Alchemist is about finding your true purpose, listening to your heart, and trusting the universe to help you reach your dreams. It's poetic, philosophical, and profoundly motivational.

What the Book Actually Talks About:
Coelho weaves a narrative around:

- **Personal Legend**– your true purpose in life.
- **Omens** – the signs the universe gives when you're on the right path.
- **Faith and Fear** – how belief in your dreams overcomes doubt.
- **Alchemy** – a metaphor for personal transformation.

Santiago's journey shows that while the treasure may lie far away, the real gold is found in the growth and wisdom gained along the way.

Core Message of the Book:
When you truly want something, the entire universe conspires to help you achieve it. The Alchemist teaches you to follow your heart fearlessly, even when the path seems uncertain.

Why This Matters to You as a CA Student:
The CA journey can be overwhelming. Amid

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deadlines, attempts, and expectations, it's easy to lose your "why." This book helps you reconnect with your inner calling — be it making a difference in finance, creating impact through integrity, or simply growing into the person you're meant to be.

Practical Takeaways:

- Don't ignore your dreams — nurture them.
- Obstacles are part of the journey, not the end of it.
- Listen to your inner voice — it knows the way.
- Success is personal, not always conventional.