The Institute of Chartered Accountants of India

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TAX AUDIT SERIES V

Clause 14 to 15

Dhruv Agrawal - WRO0768170

S. No. 14 (a)
Method of Valuation of Closing Stock Employed During the Previous Year

S. No. 14 (b)
In Case of Deviation from the Valuation Method Prescribed Under Section 145A, and Its Effect on Profit or Loss, Please Furnish the Details

This clause requires disclosure of the inventory valuation method adopted by the assessee, and details of any deviation from the valuation method mandated under section 145A, including its impact on the profit and loss account.

It is important to note that section 145A has been amended retrospectively with effect from AY 2017-18 to align with the provisions of ICDS (Income Computation and Disclosure Standards).

Key aspects of the amended Section 145A (applicable from AY 2017–18 onwards) include:

It applies to goods, services, and securities.

Closing stock must be valued at the lower of actual cost or net realisable value (NRV), using valuation methods such as Specific Identification, FIFO, or Weighted Average Cost.

If a capital asset is converted into stock-in-trade, it must be valued at Fair Market Value (FMV), which must be disclosed. Non-compliance with AS 2 should be reported in the audit report (Form 3CB) through a qualification.

Inventories Include:
- Finished goods held for sale during ordinary business operations
- Stock-in-trade (goods held for resale)
- Raw materials
- Work-in-progress
- Maintenance supplies
- Consumables
- Loose tools (excluding machinery spares categorized under Property, Plant & Equipment)

Cost of Inventory Includes:
- **Cost of purchase:** Purchase price (inclusive of duties and taxes not recoverable under AS 2), inward freight, etc., reduced by trade discounts, rebates, etc.
- **Cost of conversion:** Directly attributable costs such as labour
- **Other costs:** Any additional expenses incurred to bring inventory to its present location and condition

The tax auditor must ensure that the valuation method is appropriate and complies with AS 2 principles. Consistent application of the method is necessary. If the method is found inappropriate, a qualification should be included in Form 3CB.

Section 145A permits change in valuation method under the following conditions:

A different policy is mandated by statute

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The change leads to improved presentation of the enterprise's financial statements

Since AS 2 follows the exclusive method of accounting (which excludes taxes and duties), whereas Section 145A mandates the inclusive method, the following adjustments are required:

Taxes, duties, or fees paid on purchases/inventory must be added to the cost of purchase/inventory

Taxes, duties, or fees on sales must be added to sales revenue

According to ICAI's Revised 2014 Tax Audit Guidance Note (Para 28), adopting either the exclusive or inclusive method does not affect the entity's profit computation.

Illustrative Disclosure for Clause 14(b) (as per ICAI Guidance Note):

S. No.	Particulars	Increase in Profit (Rs.)	Decrease in Profit (Rs.)
1	Increase in Opening Stock on inclusion of VAT	30,000	
2	Increase in Purchases on inclusion of VAT	90,000	
3	Increase in Sales on inclusion of VAT		90,000
4	Increase in Closing Stock on inclusion of VAT		60,000
5	VAT paid on sales	90,000	
6	VAT credit availed on cost of goods sold		60,000
	Total	2,10,000	2,10,000

Note: VAT should be replaced by GST, as applicable.

Where applicable, the assessee may provide a note stating:

"Inventories are not inclusive of taxes and duties; however, there is no impact on profits due to this, based on the computations performed."

S. No. 15

Details of Capital Asset Converted into Stock-in-Trade (in the Prescribed Format)

i. **Reporting Requirement:** Disclosure must be made in the previous year in which the conversion of the capital asset into stock-in-trade occurs; it must not be deferred to the year of sale.

ii. **Description of Capital Asset:** Details should include the nature of the capital asset (e.g., shares, securities, land, buildings, plant, or machinery). For depreciable assets, reference section 32, which governs depreciation and asset classification.

iii. **Date of Acquisition:** Assess the holding period to determine whether the asset is long-term or short-term. Confirm the acquisition date through the assessee's purchase records.

iv. **Cost of Acquisition:** Verify the acquisition cost of the capital asset using documents such as the purchase invoice, bank/cash records, and the Fixed Asset Register. Apply AS 10 where applicable.

v. **Amount at Conversion:** Confirm the value at which the asset is converted into stock-in-trade (per AS 2).

If the conversion is at FMV rather than cost, disclose this under Clause 14(a) of Form 3CD. Non-compliance with AS 2 due to FMV valuation should result in a qualification in the Form 3CB audit report.

Note: Conversion of capital assets (e.g., land or building) into stock-in-trade is subject to Section 50C of the Income Tax Act, under Section 45(2) read with Section 2(47)(iv). Therefore, additional disclosure is required under Clause 17 of Form 3CD.

TAX AUDIT SERIES VI

Clause 16 to 17

Afreen Khan - WRO0800516

S. No. 16
Amounts Not Credited to the Profit and Loss Account

Requirement:
This clause requires the tax auditor to report items specified in sub-clauses (a) to (e) that have not been credited to the Profit and Loss Account. These items fall under two possible scenarios:

Items not credited to the Profit and Loss Account and also not recorded in the books of account:In such cases, the auditor should obtain a written representation from the assessee for each item under this clause, along with reasons for not crediting the same.

Items recorded in the books of account but not reflected in the Profit and Loss Account.

S. No. 16(a) – Items Covered Under Section 28
The auditor must report all income items falling within the scope of Section 28 that have not been credited to the Profit and Loss Account.

A thorough review of all credit entries in the books is necessary to confirm that such items have either been properly accounted for or are duly reported here.

S. No. 16(b) – Claims Admitted by Authorities But Not Credited
This sub-clause requires reporting of the following types of claims if they have been admitted as due by the concerned authorities but have not been credited to the Profit and Loss Account:

- Pro-forma credits
- Duty drawback
- Refund of customs duty
- Refund of excise duty
- Refund of service tax
- Refund of sales tax or VAT

The auditor should examine relevant documentation, regulator websites (if applicable), and other supporting records to verify such claims. A suitable management representation should also be obtained.

S. No. 16©) – Escalation Claims Accepted During the Previous Year
Escalation claims that have been accepted during the relevant financial year but not credited to the Profit and Loss Account must be disclosed here.

These typically arise from contractual agreements (which may have been entered into in earlier years), and the claim is considered accepted when the counterparty gives unconditional approval.

S. No. 16(d) – Other Items of Income
This sub-clause pertains to any other income identified by the auditor during the review of records and supporting documents, which has not been credited to the Profit and Loss Account.

It should not include items taxable under Section 28,

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which are reportable under S. No. 16(a).

For disclosures under sub-clauses (c) and (d), the auditor should consider the principles of AS 9 – Revenue Recognition.

S. No. 16(e) – Capital Receipts, If Any
This clause is intended to inform the tax authorities about any capital receipts that have not been credited to the Profit and Loss Account, enabling them to evaluate their taxability.

It should be noted that loans and borrowings should not be reported under this clause.

S. No. 17 – Transfer of Land or Building for Consideration Below Stamp Duty Value
This clause applies to all assessees and requires reporting in cases where land, building, or both have been transferred during the previous year for a consideration less than the value adopted, assessed, or assessable by a State Government authority for stamp duty purposes.

Section 50C:
Applicable when a capital asset (land or building or both) is transferred for less than the value assessed for stamp duty purposes.

The stamp duty value is deemed to be the full value of consideration for computing capital gains under Section 48.

Section 43CA:
Applies when the asset transferred is not a capital asset (i.e., stock-in-trade) but consists of land, building, or both.

Similar to Section 50C, it requires the stamp duty value to be treated as consideration if it exceeds the actual transaction value.

Tax Auditor's Responsibilities:

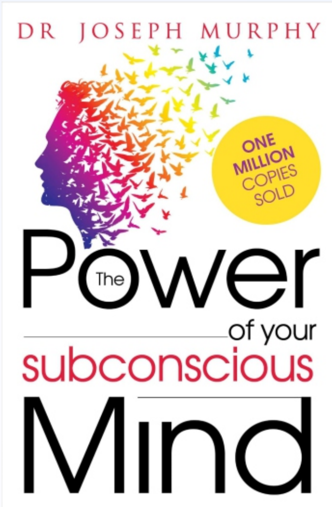
a) Obtain information from the assessee about any land or building sold during the year.
b) Cross-check with books of account and financial statements. For Individuals and HUFs, properties not recorded in the audited books may be excluded from reporting.
c) Examine the Profit and Loss Account for any entries regarding profit or loss on the sale of land/building.
d) Determine whether Section 43CA or 50C is applicable, based on the nature of the asset.
e) Review the registered sale deed to identify the value considered for stamp duty purposes.

The auditor must report both the stamp duty value and the consideration received or receivable. Even if the assessee contends that the fair market value is lower than the stamp duty value, the details must still be disclosed under this clause. Any such contention should be addressed before the Assessing Officer under Section 50C(2).

BOOK RECOMMENDATION

The Power of Your Subconscious Mind

Laxmi Gajrani - WRO0807507



Book: The Power of Your Subconscious Mind
Author: Dr. Joseph Murphy

Have you ever felt stuck in a loop of limiting thoughts unable to move past fears, doubts, or failures? What if the key to unlocking success, health, and happiness lies not in effort, but in belief?

The Power of Your Subconscious Mind is a timeless classic that empowers you to understand and reshape your inner world to create the life you desire.

Why You Should Read This Book:
This book isn't just about positive thinking — it's a deep dive into how your thoughts shape your reality. Dr. Murphy draws from psychology, religion, and philosophy to show how the subconscious mind can be trained to achieve anything — from healing and abundance to confidence and peace.

It's simple, spiritual, and powerfully transformative.

What the Book Actually Talks About:

Murphy weaves a narrative around:

- **Mind Programming –** How the subconscious mind accepts what you repeatedly think and say.
- **Visualization –** The power of mental imagery in shaping real-world outcomes.
- **Belief & Autosuggestion –** Repeated belief systems become your reality.
- **Healing Power –** How the mind can influence physical well-being.
- **Success Psychology –** Aligning your inner self with outer goals.

Core Message of the Book:
You become what you constantly believe and affirm. The subconscious mind does not filter — it simply acts. If you feed it doubt, you manifest barriers. If you feed it belief and purpose, miracles happen.

BOOK RECOMMENDATION

The book teaches: **Change your thoughts, and you change your life.**

Why This Matters to You as a CA Student:

The CA journey is mentally and emotionally challenging. Whether it's the pressure of exams or self-doubt creeping in, your mindset can be your greatest asset or your biggest barrier.

This book helps you build a resilient inner world — one that supports, uplifts, and empowers you to reach your highest potential. It teaches you how to overcome anxiety, focus better, and believe in the power of calm, focused preparation.

Practical Takeaways:

* Your mind is your most powerful tool — train it wisely.
* Repeat affirmations to reprogram your beliefs.
* Visualize success as if it's already yours.
* Replace fear with faith — they cannot coexist.
* You already have everything you need within you.