



## Seminar on Tax Audit & Documentation

# Issues in the Clauses of Tax Audit

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# Background

*The compulsory audit is intended to ensure proper maintenance of books of account and other records, in order to reflect the true income of the tax payer and to facilitate the administration of tax laws by a proper presentation of the accounts before the tax authorities. This would also save the time of the Assessing Officers considerably in carrying out the verification.*

**As observed by the FM, while presenting the Union Budget for 1984-85 and as stated in the Memorandum explaining the provisions of the Finance Bill, 1984.**

# Issues in the Clauses of Tax Audit ~ Contents

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# Amendments

## Amendments ~ Rule 12

- ❖ From A.Y. 2013-14 *inter-alia* e-filing of Audit Reports u/s. 44AB (Tax Audit Report) has been made mandatory *alongwith*:
  - ❖ Form 3CEB (Section 92E Transfer Pricing Report – international & domestic),
  - ❖ Form 29B (Section 115JB for MAT),
  - ❖ Form 10B (Charitable Trusts),
  - ❖ Form 10BB (educational/medical institutions), and
  - ❖ Form 10CCB (80-IA/80IB/80IC/80ID/80JJAA/80LA)
  
- ❖ Registration mandatory for the CA who will be signing the Tax Audit Report ~ CA required to have a valid PAN and DSC.

***Notification No. 34/2013 F.No.142/5/2013-TPL dated 01 May 2013***

# Amendments ~ Rule 12



Indicative STEPS to be followed here:

1. Registration of the CA;
2. Add CA by the assessee;
3. Download and fill the Tax Audit Report;
4. Upload the Forms, Balance Sheet and P & L A/c.  
*CA to digitally sign*
5. Approval by the assessee  
*Approval / rejection by using digital signature*

# Amendments ~ to the Income-tax Act, 1961

## Section 9

- ❖ Definition of the term “royalty” widened to include within its ambit:
  - ❖ Computer software (including granting of a license) irrespective of the medium through which such right is transferred;  
*Also refer Notification No. 21/2012 dated 13.06.2012*
  - ❖ Right, property, information whether or not:
    - ❖ Its control or possession is with the payer;
    - ❖ It is directly used by the payer;
    - ❖ Its location is in India.
  - ❖ Transmission by satellite (including up-linking, amplification, conversion for down-linking of any signal) cable, optic fiber or by any other similar technology whether or not such process is secret.

## Impact on Clause No. 17 (f) & 27

# Amendments ~ to the Income-tax Act, 1961

## Section 32.

- ❖ Additional depreciation available on any new machinery or plant (other than ships and aircraft) acquired and installed by an assessee engaged in the business of generation or generation and distribution of power.

**Impact on Clause No. 14**



# Amendments ~ to the Income-tax Act, 1961

## Section 35 (2AB).

- ❖ Weighted deduction at the rate of 200% of expenditure (not being in the nature of cost of any land or building) incurred on approved in-house research and development facilities - extended to 31st March 2017.

## Impact on Clause No. 15

# Amendments ~ to the Income-tax Act, 1961

## Section 40(a)(ia) .

- ❖ No disallowance u/s. 40 (a) (ia) if the recipient has:
  - ❖ Furnished his return;
  - ❖ Taken into account such sum for computing income in such return of income; and
  - ❖ Paid the tax due on the income declared by him in such return of income, and furnishes a certificate to this effect from an accountant in such form as may be prescribed (i.e. **Form No. 26A** ~ refer **Rule 31ACB**)

## Impact on Clause No. 17(f)

# Amendments ~ to the Income-tax Act, 1961

## Section 40A(2)(b).

❖ Scope expanded:

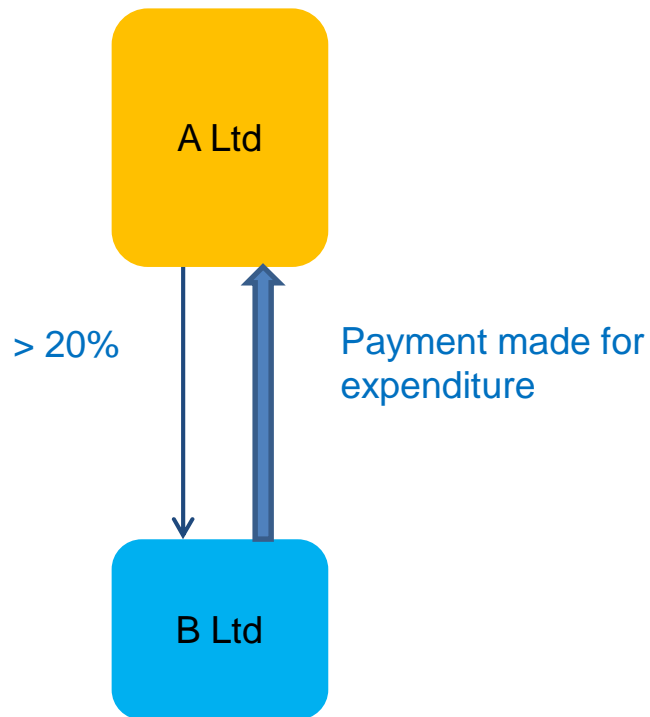
- ❖ **Previously:** A company having substantial interest in the business of the assessee or any director of such company or relative of such director was covered – **refer section 40A(2)(b)(iv)**
- ❖ **Now:** Any other company carrying on business in which the first mentioned company has substantial interest will also be covered – refer - **section 40A(2)(b)(v)**

**Impact on Clause No. 18**

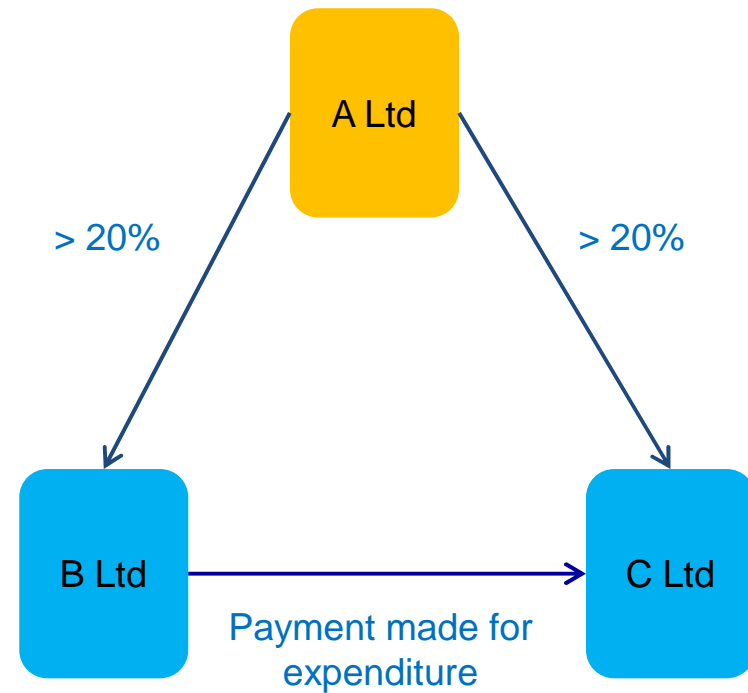
# Amendments ~ to the Income-tax Act, 1961

## Section 40A(2)(b).

### Existing

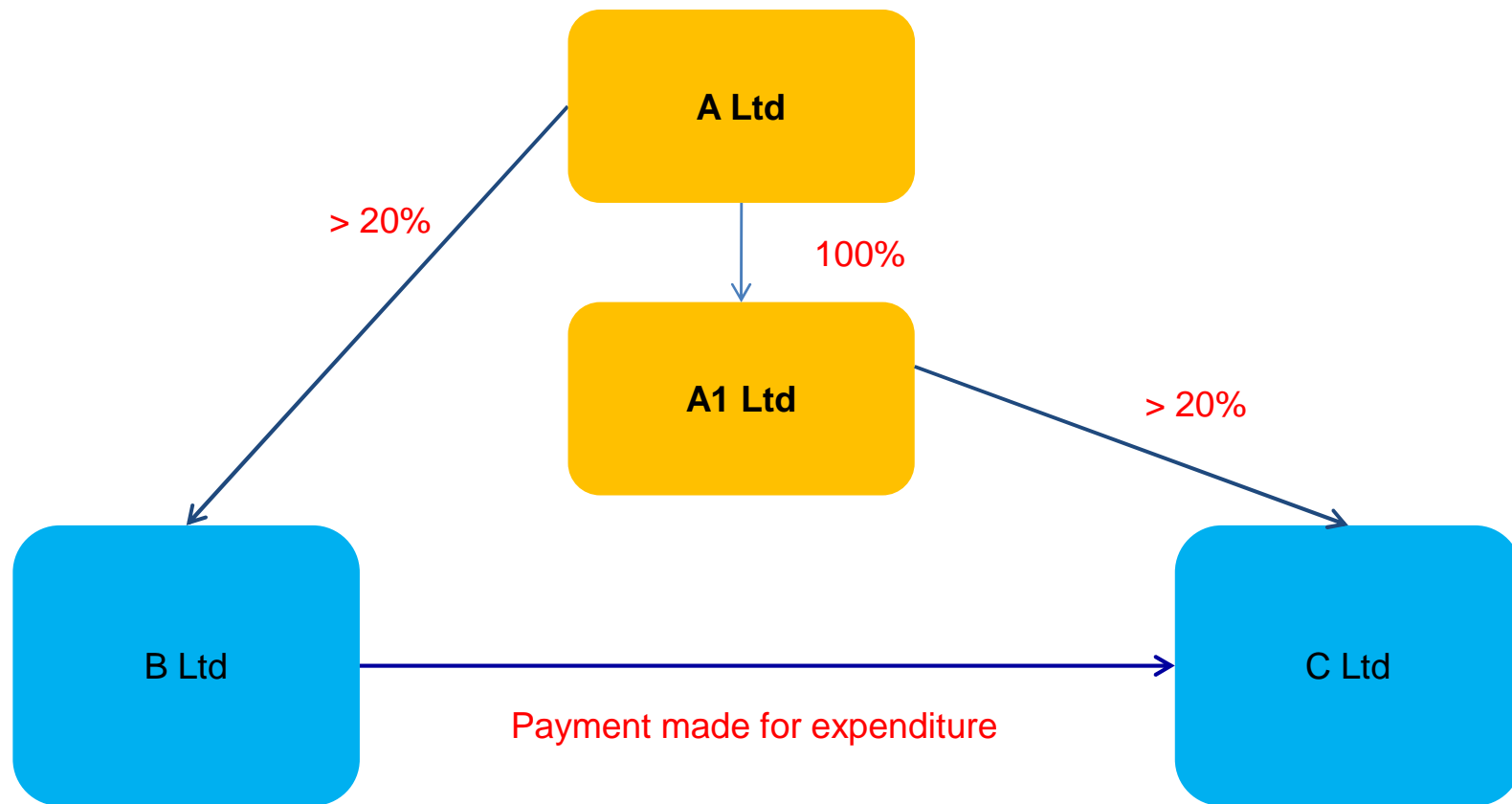


### New



# Amendments ~ to the Income-tax Act, 1961

Section 40A(2)(b) ~ *Whether this situation gets covered even in the new scenario?*



# Amendments ~ to the Income-tax Act, 1961

## Section 44AB

- ❖ Increase in the threshold limit for compulsory tax audit of accounts and obtaining a Tax Audit Report:
  - ❖ Threshold limit for gross turnover/ sales/ gross receipts for person carrying on business increased upto Rs. 1 crore ~ *up from Rs. 60 lakhs.*
  - ❖ Threshold limit for gross receipts carrying on profession increased upto Rs. 25 lakhs ~ *up from Rs. 15 lakhs.*

# Relevant amendments to the Income-tax Act, 1961 - at a glance

## Section 44AD ~ presumptive taxation.

- ❖ Threshold limit increased to Rs. 1 crore from the current limit of Rs. 60 lakhs.
- ❖ Section 44AD is not applicable to any person carrying on any profession referred to in section 44AA and to a person earning commission or brokerage or to a person's carrying on agency business.

## Impact on Clause No. 10

# Relevant amendments to the Income-tax Act, 1961 - at a glance

## Section 90 (4) and 90 (5)

- ❖ Obtaining of a Tax Residency Certificate from tax authorities of the overseas jurisdiction made mandatory for non-residents to claim benefits under the DTAA's.

## Impact on Clause No. 26





# Relevant amendments to the Income-tax Act, 1961 - at a glance

## Section 80 – IA.

- ❖ Tax holiday u/s. 80-IA(4) for power sector – extended for new units set-up upto 31<sup>st</sup> March 2014.

## Impact on Clause No. 27

# Relevant amendments to the Income-tax Act, 1961 - at a glance

Amendment to **Section 193 (v)** ~ w.e.f. **01 July 2012** .

- ❖ No deduction of tax on payment of interest on any debenture, (whether listed or not), if the aggregate amount of interest on such debenture paid by an account payee cheque during the financial year does not exceed Rs. 5,000.

*Applicable only to debentures issued by a company in which the public are substantially interested*

**Impact on Clause No. 27**

# Relevant amendments to the Income-tax Act, 1961 - at a glance

Amendment to **Section 194E** ~ w.e.f. **01 July 2012**.

- ❖ Payments made to non-resident sportsmen or an entertainer who is not an Indian citizen or non-resident sports association/institution are now subject to TDS at the rate of 20% instead of 10%.

**Impact on Clause No. 27**

# Relevant amendments to the Income-tax Act, 1961 - at a glance

Amendment to **Section 194J** ~ w.e.f. **01 July 2012**.

- ❖ Any remuneration/fees/ commission by whatever name called other than those mentioned under section 192, paid to directors - covered under the purview of fees for professional or technical services.



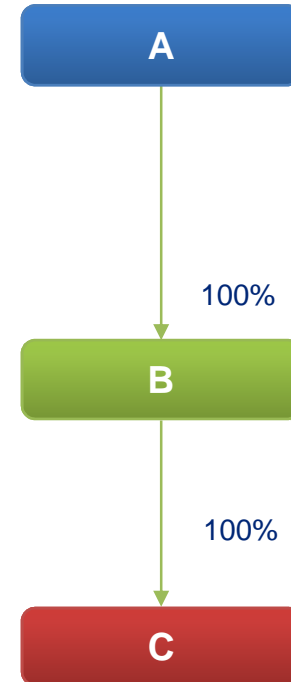
**Impact on Clause No. 27**

# Relevant amendments to the Income-tax Act, 1961 - at a glance

## Amendment to Section 115 – O(1A).

- ❖ Removal of cascading effect of Dividend Distribution Tax.

*In order to remove the cascading effect of DDT in multi-tier corporate structures, the condition that the company should not be the subsidiary of any other company has been done away with.*



## Impact on Clause No. 29

# Discussion

# What is Business?

Section 2(13) defines business:

- ❖ “**Business**” includes any trade, commerce, or manufacture or any adventure or concern in the nature of trade, commerce or manufacture.

Section 2(36) defines Profession:

- ❖ “Profession” includes vocation
- ❖ Whether a particular activity can be classified as ‘business’ or ‘Profession’ will depend on the facts and circumstances of the each case - **CIT v. Manmohan Das (Deceased) (1966) 59 ITR 699(SC)**
- ❖ Controversy vis-à-vis share dealings – whether it constitutes business or not.
- ❖ Whether the following is a business or profession:
  - A teacher running a nursery school
  - A doctor running a x-ray unit

**All professions are businesses, but all businesses are not professions. Only those businesses are professions the profit of which are dependent mainly upon the personal qualification and in which no capital expenditure is required or only capital expenditure of comparatively small amount - P.Stanwill & Co. v/s CIT, (1952) 22 ITR 316,320-21(All).**

# Issues ~ Share trading (business or capital gains) ?

## *Held to be capital gains*

| Case  | Basis for the view  |
|---|---|
| Hero MotoCorp Ltd. (Formerly known as Hero Honda Motors Ltd.) ITA No. 1980 /Del/ 2012 | <ul style="list-style-type: none"><li>❖ Intention at the time of purchase of shares, treatment in books of accounts,</li><li>❖ Whether borrowed funds were utilized to make the investment,</li><li>❖ Frequency of transactions,</li><li>❖ The intention of holding it as an investment was manifested, the sales were effected by delivery and the frequency was not high.</li></ul> |
| Trinetram Consultants Pvt. Ltd. v/s. DCIT [2013] 34 taxmann.com 39 (Mumbai Tribunal)  | <ul style="list-style-type: none"><li>❖ All transactions undertaken by assessee were delivery based and there was no speculative or derivative trading of shares.</li><li>❖ No interest bearing borrowed funds or loans had been diverted for purchase of shares and surplus funds available with assessee were used.</li></ul>   |



# Issues ~ Share trading (business or capital gains) ?

*Held to be capital gains*

| Case  | Basis for the view  |
|---|---|
| Salil Shah Family Pvt. Trust - ITA No. 2446/Mum/2012                  | <p><u><i>Case of PMS:</i></u><br/>Since assessee had no control in decision making and volume of transactions was not substantial;<br/>Entire investment made out of corpus funds and not borrowed funds.</p> <ul style="list-style-type: none"><li>❖ Other decisions in favour of PMS: Pune Bench of the ITAT in <i>Apoorva Patni and Prakash H Parakh</i>.</li><li>❖ Followed over : Delhi Bench of the ITAT in <i>Radials International v/s. ACIT</i> [2012] 18 taxmann.com 20</li></ul> |
| D & M Components Ltd. vs. ACIT [2012] 17 taxmann.com 24 (Delhi Trib.) | <ul style="list-style-type: none"><li>❖ Assessee had not used borrowed funds for purchase of shares.</li><li>❖ Further, value of shares at close of year had been taken at cost and not at market price or cost whichever is lower, which showed that shares were not treated as stock-in-trade.</li></ul>  |

# Issues ~ Share trading (business or capital gains) ?

*Held to be business income*

| Case  | Basis for the view   |
|---|--|
| Mafatlal Fabrics P. Ltd. vs. ACIT - ITA No. 2236/Mum/2011     | <ul style="list-style-type: none"><li>❖ On the basis of charter documents, board resolutions and systematic nature of activity to earn profits;</li><li>❖ Lower volume of share trade &amp; holding period are also business decisions, can't change nature of share trading income as capital gains from business;</li></ul>  |
| Devji Nenshi Palani v/s. ITO [2012] 28 taxmann.com 209 (Mum.) | <ul style="list-style-type: none"><li>❖ Number of transactions of shares was very large with high frequency.</li><li>❖ In most cases shares had been sold on very date of purchase which showed that sales had been made even without taking delivery.</li><li>❖ Assessee while giving details of transactions had himself mentioned 'Speculative Short-term Capital Gain'</li></ul> |
| Shreyas M. Jhaveri v. ITO(2013) 21 ITR 644 (Mum.) (Trib.)     | Purchase of shares in initial public offer and sale thereof within few days after allotment, profits to be treated as business profits not short-term capital gains.   |

# Issues ~ Share trading (business or capital gains) ?

*Held to be business income*

| Case  | Basis for the view   |
|---|--|
| ACIT v/s. Manoj Kumar Samdaria [2012] 27 taxmann.com 102 (Delhi)          | Most important test – intention of initial acquisition of shares. Magnitude, frequency and ratio of sales and purchases of shares on total holdings was evidence that assessee had not purchased shares as an investment, but with intention to trade in such scrip's. |
| DCIT v. Mukeshbhai Babulal Shah [2013] 32 taxmann.com 6 (Rajkot Tribunal) | Dominant intention of assessee behind purchase and sale of shares was to quickly realize profits by frequently turning over stock of shares and not to earn dividend from them.  |
| ACIT v/s. Anil Kumar Jain [2012] 28 taxmann.com 236 (Hyderabad Trib.)     | Transactions of purchase of shares with high volume, frequency and regularity of activity carried on in systematic manner would amount to business activity rather than investment in shares.  |

# Issues ~ Share trading (business or capital gains) ?

*Held to be business income*

| Case  | Basis for the view   |
|---|--|
| Tarun<br>Amarchand Jain<br>[2012] 21<br>taxmann.com<br>319 (Mum.) | <ul style="list-style-type: none"><li>❖ Assessee was regularly purchasing and selling shares in more than 50 scrips and dividend income was quite negligible.</li><li>❖ Most of shares had been sold within three months and in many cases within a month and in some cases within few days.</li></ul> |

## Issues ~ Business income v/s capital gains

| Case   | Particulars  |
|--|--|
| Ruby Mills Ltd.<br>[2013] 34<br>taxmann.com 145<br>(Mumbai - ITAT) | <ul style="list-style-type: none"><li>❖ Assessee could not make use of its property for business, and hence transferred leasehold rights to third party under tripartite agreement , treating it as capital gain.</li><li>❖ Held that transaction of sale of property cannot be treated as adventure in nature of trade, if intention was to hold property and utilise it for different purpose.</li></ul> |

# ICAI Guidance Note ~ Turnover

- ❖ The term ‘turnover’ for the purposes of this clause may be interpreted to mean the aggregate amount for which sales are effected or services rendered by an enterprise.
- ❖ If sales tax and excise duty are included in the sale price, no adjustment in respect thereof should be made for considering the quantum of turnover.
- ❖ Trade discounts can be deducted from sales but not the commission allowed to third parties.
- ❖ If, however, the Excise duty and / or sales tax recovered are credited separately to Excise duty or Sales tax Account (being separate accounts) and payments to the authority are debited in the same account, they would not be included in the turnover.
- ❖ Sales of scrap shown separately under the heading ‘miscellaneous income’ will have to be included in turnover.

# ICAI Guidance Note ~ Turnover

## Examples:

- ❖ Discount allowed in the sales invoice will reduce the sale price and, therefore, the same can be deducted from the turnover.
- ❖ Cash discount otherwise than that allowed in a cash memo/sales invoice is in the nature of a financing charge and is not related to turnover. The same should not be deducted from the figure of turnover.
- ❖ Turnover discount is normally allowed to a customer if the sales made to him exceed a particular quantity. This being dependent on the turnover, as per trade practice, it is in the nature of trade discount and should be deducted from the figure of turnover even if the same is allowed at periodical intervals by separate credit notes.
- ❖ Special rebate allowed to a customer can be deducted from the sales if it is in the nature of trade discount. If it is in the nature of commission on sales, the same cannot be deducted from the figure of turnover.

# ICAI Guidance Note ~ Turnover

Examples:

- ❖ Price of goods returned should be deducted from the figure of turnover even if the returns are from the sales made in the earlier year/s.
- ❖ Sale proceeds of fixed assets would not form part of turnover since these are not held for resale.
- ❖ Sale proceeds of property held as investment property will not form part of turnover.
- ❖ Sale proceeds of any shares, securities, debentures, etc., held as investment will not form part of turnover. However if the shares, securities, debentures etc., are held as stock-in-trade, the sale proceeds thereof will form part of turnover.



# ICAI Guidance Note ~ Turnover

| Nature of business                 | What is Turnover  | ICAI Guidance Note [GN] – reference |
|------------------------------------|---|-------------------------------------|
| Day trader/speculator              | Sum total of differences, whether positive or negative  | Para 5.12(a) of ICAI GN             |
| Security derivatives transactions  | Sum total of differences, whether positive or negative, also premium on sale of options   | Para 5.12(b) of ICAI GN             |
| Commodity derivatives transactions | – in case of settlement without delivery, sum total of differences, whether positive or negative<br>– in case of delivery, total value of sales | Para 5.12(b) & (c) of ICAI GN       |

# ICAI Guidance Note ~ Turnover

| Nature of business                                       | What is Turnover  | ICAI Guidance Note [GN]- reference |
|--|---|------------------------------------|
| Clearing & forwarding agent                              | Reimbursement of customs duty & other charges collected by an agent not part of turnover                            | Para 5.15(vi) of ICAI GN           |
| Travel agent, where no commission is payable by airlines | Amount received from clients for payment to airlines is reimbursement   | Para 5.15(viii) of ICAI GN         |
| Advertising agency booking space                         | Advertising charges recovered not turnover, provided by way of reimbursement [ABP(P) Ltd. v/s. ACIT 23 SOT 28(Kol)] | Para 5.15(ix) of ICAI GN           |

# ICAI Guidance Note ~ Section 145A

~ Clause 12 (b) ~ Details of deviation from the methods of valuation of closing stock.

The adjustments provided in section 145A can be made while computing the income for the purpose of preparing the return of income. These adjustments are:

- ❖ Any tax, duty, cess or fee actually paid or incurred on inputs should be added to the cost of inputs (raw materials, stores, etc.); if not already added in the books of account.
- ❖ Any tax, duty, cess or fee actually paid or incurred on sale of goods should be added to the sales, if not already added in the books of account.
- ❖ Any tax, duty, cess or fee actually paid or incurred on the inventory (finished goods, work-in-progress, raw materials etc.) should be added to the inventories, if not already added while valuing the inventory in the accounts.

*Paragraph No. 23.8*

# ICAI Guidance Note ~ Case Laws Section 145A

- ❖ CIT v/s. Mahalaxmi Glass Works Pvt. Ltd. (2009) 318 ITR 116 (Bom.) and
- ❖ CIT v/s. Mahavir Aluminium Ltd. (2008) 297 ITR 77 (Del.)
- ❖ Unreported decision of the Mumbai Bench of the Income Tax Appellate Tribunal in the case of Hawkins Cookers Ltd. v/s. ITO in ITA. No. 505/Mum/04
- ❖ CIT v/s. Kolsite Maschine Fabrik Ltd. ITA No.302 of 2009 (Bom. HC)
- ❖ Unreported decision of the Mumbai Bench of the Income Tax Appellate Tribunal in the case of GSL (India) Ltd. in ITA. No. 4233/Mum/2007

*Held : Assessing Officer to decide the issue by making adjustment not only to the opening and closing stock but also the amounts of purchase and sales.*

# ICAI Guidance Note

## ~ Clause 13 Amounts not credited to the P & L A/c.

- ❖ Under sub-clause (e), capital receipt, if any, which has not been credited to the profit and loss account has to be stated.
- ❖ The tax auditor should use his professional expertise and judgement in determining whether the receipt is capital or revenue.
- ❖ The tax auditor may record various judicial pronouncements on which he has relied in his working papers.

*Illustrations provided in the Guidance Note – refer paragraph No. 25.13*

# ICAI Guidance Note ~ Depreciation

- ❖ Classification of assets;
- ❖ Disputes with tax authorities;
- ❖ Date on which the asset is 'put to use';
- ❖ Variance of Accounting Standard – 11 with section 43A;
- ❖ Claim of additional depreciation;
- ❖ Reliance on any judgment/opinion/contentions – *should be disclosed*.

*Reference can be made to Clauses 14 (a) to 14(f)*

# ICAI Guidance Note ~ Depreciation

## Recommended Note in the ICAI Guidance Note *vis-à-vis* ‘Disputes with tax authorities’:

*NOTE: Certain disputes about (a) the rate of depreciation on \_\_\_\_\_ (b) determination of WDV of block of assets relating to \_\_\_\_\_ and (c) ownership of \_\_\_\_\_ have arisen in the assessment years \_\_\_\_\_ for which assessments are pending/appeals are pending. The figures of WDV and/or rate of depreciation mentioned in the above statement may require modification when these disputes are resolved. Therefore, the amount of depreciation allowable as stated in the above statement will have to be accordingly modified.*

*Paragraph No. 26.7*

# ICAI Guidance Note ~ Depreciation

- ❖ The provisions of Section 36(1)(iii) and the Explanation 8 to section 43(1) of the Act, should be kept in mind for capitalization of interest to the cost of assets.
- ❖ *To ascertain when the asset has been put to use, the tax auditor could call for basic records like production records/installation details/excise records/records relating to power connection for operating the machine and any other relevant evidence.*

*Paragraph No. 26.9*

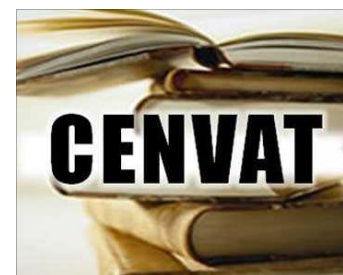




# ICAI Guidance Note ~ Depreciation

- ❖ The assessee should not include duty paid on capital goods eligible for CENVAT credit as part of the cost of fixed assets, otherwise he will not be eligible to claim the CENVAT credit.
- ❖ Whenever, CENVAT credit is rejected in the subsequent year, the auditor should make separate disclosure for the amount of CENVAT credit adjusted during the year which pertains to earlier years. Similarly, if the CENVAT credit is claimed and allowed but which has not been deducted from the cost of the asset, such credit should be deducted from the cost and the appropriate disclosure should be made separately for such adjustment.
- ❖ The tax auditor should also verify that the amount of CENVAT credit deducted from cost of capital goods tallies with the credit availed on this account.

*Paragraph No. 26.14 and 26.15*



## Issues ~ Depreciation

| Case   | Particulars  |
|--|--|
| Edwise Consultants (P.) Ltd. - [2013] 35 taxmann.com 149 (Mumbai - Trib.)      | Whether, merely because cars were shown as assets in books of account of assessee company, depreciation could not be allowed where cars were registered in name of its directors                                     |
| Sonic Biochem Extractions (P.) Ltd. [2013] 35 taxmann.com 463 (Mumbai - Trib.) | Even if some of assets in block of assets are functioning, entire block gets depreciation  |
| Dy.CIT v. Cosmo Films Ltd. (2012) 139 ITD 628 (Delhi)(Trib.)                   | Benefit of additional depreciation under section 32(1)(iia) is available in full as soon as new assets are purchased and fact that said assets were put to use for less than 180 days, does not affect such benefit. |

## Issues ~ Depreciation

| Case   | Particulars   |
|--|---|
| Macawber Engineering System (I) (P.) Ltd. [2013] 33 taxmann.com 587 (Mumbai - Trib.) | Where due to frequent power failure at assessee's place, UPS was an essential ingredient in order to run computer effectively, assessee was entitled to depreciation on UPS at rate at which depreciation was allowable to computers .      |
| International Cars & Motors Ltd (2013) 56 SOT 50 (Delhi.) (Trib.)                    | The ITAT held that the requirement of section 32(ia) was that both the conditions had to be satisfied viz. acquired as well as installed. Since the machinery was not installed, the assessee was not entitled for additional depreciation. |

# Issues ~ Depreciation on intangibles

| Case   | Particulars   |
|--|---|
| SKS Micro Finance Limited, [2013] ITA No.435 /Hyd/2010                 | Payment for “ <u>client acquisition</u> ” in a slump sale will be held to be towards acquiring intangible asset, being "business or commercial rights of similar nature“. Thus depreciation u/s 32(1)(ii) will be allowed on client acquisition cost in a slump sale agreement. |
| India Capital Markets (P.) Ltd. v. DCIT(2013) 56 SOT 32 (Mum.) (Trib.) | Depreciation is allowable on amount paid to party for purchase of its clientele, which is treated as ‘purchase of goodwill’ in virtue of section 32(1)(ii) i.e. ‘any other business or commercial right of a similar nature’.   |
| Smifs Securities Ltd. [2012] 24 taxmann.com 222 (SC)                   | Goodwill - Goodwill is an asset under Explanation 3(b) to section 32(1) and, thus, it is eligible for depreciation.   |

# ICAI Guidance Note

## ~ Clause 17 (a) ~ Capital expenditure debited to P & L A/c.

Some tests which are generally applied to determine whether a particular item of expenditure is of capital nature, are set out hereunder:

- ❖ Whether it brings into existence an asset or advantage of enduring benefit.

*The question whether a particular benefit is of an enduring or permanent nature will depend upon the facts and circumstances of each case, the concept of permanency being relative.*

- ❖ Whether it is referable to fixed capital or fixed assets in contrast to circulating capital or current assets.
- ❖ Whether it relates to the basic framework of the assessee's business.
- ❖ Whether it is an expenditure to acquire an intangible asset.

*Paragraph No 30.2*

## Issues ~ capital v/s. revenue expense

| Case  | Particulars  |
|---|--|
| Five Star Audio [2013] 34 taxmann.com 12 (Chennai ITAT)                           | Where assessee was engaged in business of purchasing of copyrights of sound tracks of feature films and converting them into tradable goods by copying them in audio cassettes, compact discs, etc., expenditure incurred on purchasing such copyrights were allowable as revenue expenditure. |
| Gujarat Narmada Valley Fertilizers Co. Ltd. - [2013] 33 taxmann.com 117 (Gujarat) | Where loan taken is incidental to assessee's business, any expenditure incurred on restructuring of such loan does not result in an enduring benefit and is allowable as business expenditure  |
| CIT v. Cadaila Healthcare Ltd. (2013) ACAJ-April P. 27(Guj.)(HC)                  | The expenses made to Drug Regulation Authorities in various countries for product registration only enabled the assessee to run the existing business smoothly hence the said expenses are revenue in nature.  |
| Fenner (India) Ltd. v. ACIT (2012) 139 ITD 406/20 ITR 48 (Chennai)(Trib.)         | Lump-sum amount paid for use of licensed trade mark and brand name for a period of 10 years to be allowed as revenue expenditure.  |

# Issues ~ capital v/s. revenue expense

*Held to be revenue expense*

| Case   | Particulars   |
|--|---|
| G.S.F.C. Ltd. v.DCIT (2012) 210 Taxman 448(Guj.)(High Court)               | Expenditure incurred for purpose of sub-division of shares for purpose of easy trading of shares in market is revenue in nature and, therefore, allowable.  |
| CIT v. Toyota Kirloskar Motors P. Ltd(2012) 349 ITR 65 (Karn.)(High Court) | Fee paid for obtaining software and license and for renewing license is revenue expenditure. Provision for warranty is deductible.  |
| CIT v. Modi Revlon (P) Ltd (2012) 78 DTR 342 (Delhi) (High Court)          | Royalty paid by assessee for supply of technical know how is revenue in nature where: <ul style="list-style-type: none"><li>❖ License agreement can be terminated</li><li>❖ Does not grant the licensee any right to exploit or use the know how after the expiration of the agreement.</li></ul> |
| Eimco Elecon (India) Ltd. [2013] 33 taxmann.com 476 (Ahmedabad ITAT)       | Where software in question only increased organizational efficiency of assessee, but same could not be treated as forming part of profit making apparatus of assessee-company; expenditure incurred for such software should be treated as revenue expenditure                                    |

# Issues ~ capital v/s. revenue expense

*Held to be capital expense*

| Case   | Particulars   |
|--|---|
| Larsen & Toubro Ltd v. CIT (2012) 79 DTR 225 (Bom)(High Court)           | Professional fees paid by the assessee in respect of its <b>new project</b> was a capital expenditure and not revenue expenditure.  |
| I.J. Tools & Castings (P.) Ltd. v. ACIT (2012) 139 ITD 414 (Asr.)(Trib.) | Foreign travel expense incurred to explore possibility of expansion of business will be allowed as deduction even when the orders are not booked due to commercial reasons. |



# ICAI Guidance Note

## ~ Clause 17 (b) ~ Personal expenditure debited to P&L A/c.

- ❖ In view of e-filing format of tax audit report only numeric data can be furnished. The tax auditor is advised to maintain the following details as part of his working papers. Only the total amount of expenditure is to be reported under the relevant column of Form No.3CD

| Sr. No. | Nature and particulars of expenditure | Account head under which debited | Amount of expenditure | Remarks |
|---------|---------------------------------------|----------------------------------|-----------------------|---------|
|         |                                       |                                  |                       |         |

**Personal means – personal to the assessee and not to others (say employees)**

*Paragraph No 31.3*

# ICAI Guidance Note

## ~ Clause 17 (c) ~ Political party ~ Advertisement

- ❖ The tax auditor may come across advertising expenditure incurred on advertising in a souvenir, brochure, tract, pamphlet or journal published by a trade union or a labour union formed by a political party.
- ❖ The trade union or labour union though promoted or formed by a political party may have a distinct legal entity. In that event, expenditure incurred by the assessee by way of advertisement given in the souvenir, brochure, tract, pamphlet or journal published by the trade union or the labour union is not required to be indicated against clause 17(c) in Form No. 3CD.
- ❖ If the trade union or labour union formed by the political party does not have a separate and distinct legal entity, then the expenditure incurred on such an advertisement will have to be indicated against this clause.

*Paragraph No 32.2*

# ICAI Guidance Note

## ~ Clause 17 (d) ~ Club expenditure debited to P & L A/c.

- ❖ The e-filing portal requires reporting in numeric, non-negative and non decimal value. Thus only the total amount is to be reported in the respective fields. However, the following particulars may be maintained as working papers by the auditor:

| Sr. No. | Name of the Club | Nature of Amount paid    |                       |                       | Remarks |
|---------|------------------|--------------------------|-----------------------|-----------------------|---------|
|         |                  | Entrance/ admission fees | Subscription expenses | Cost of Club Services |         |
| (1)     | (2)              | (3)                      | (4)                   | (5)                   | (6)     |
|         |                  |                          |                       |                       |         |
|         |                  |                          |                       |                       |         |

*Paragraph No 33.3*

## Clause 17 (e) ~ Penalty

- ❖ The tax auditor's opinion is not required.
- ❖ Payments for breach of contract of payments not required to be reported under this clause.
- ❖ If the impact is purely compensatory in nature, the same is not required to be reported.
- ❖ Even if the assessee is contesting against such order before the higher authorities, tax auditor will still have to disclose the amount of penalty.

## Clause 17 (e) ~ Penalty

Some instances:

| Nature   | Allowable Yes/ No | Case  |
|--|-------------------|---|
| Payment to police personnel and rowdies – to ensure security of office premises. | No                | CIT v/s. Neelavathi & Ors. (2010) 322 ITR 643 (Kar.)          |
| Penalty by share brokers to the Stock Exchange                                   | Yes               | ITO v/s. VRM Share Broking (P.) Ltd. (2009) 27 SOT 469 (Mum.) |
| State Electricity Board for extra charge for drawing extra load in peak hours    | Yes               | CIT v/s. Hero Cycles Ltd. (2009) 178 Taxman 484 (P & H)       |
| Penalty by a Company for SEBI infraction   | Yes               | Kaira Can Co. Ltd. v/s. DCIT (2010) 127 TTJ 514 (Bom.)        |

## Clause 17 (e) ~ Penalty

| Nature   | Allowable Yes/ No    | Case  |
|--|----------------------|---|
| Payment to municipal corporation for regularization of unauthorized construction (unapproved plan)               | No                   | Radhaballabh Silk Mills P. Ltd. 12 SOT 423 (Mum).   |
| Payment to municipal corporation for condoning deficiency in open space  | Yes                  | CIT v/s. Lokenath & Co. (construction) 147 ITR 624 (Del).   |
| Penalty to stock exchange for delayed payment of dues, delayed filing of certificates, exceeding exposure limits | Contrary views taken | <p>ITO v/s. GDB Share &amp; Stock Broking Services Ltd. 88 TTJ 352 (Kol) – no infringement of law</p> <p>Master Capital Services Ltd. v/s. DCIT 23 SOT 60 (Chd) (URO) &amp; ACIT v/s. Subhash Chand Shorewala 91 TTJ 57 (Del) – infringement of law</p> |

# ICAI Guidance Note

## ~ Clause 17 (e) - Penalties and fine

- ❖ The tax auditor should obtain in writing from the assessee the details of all payments by way of penalty or fine for violation of any laws have been made and paid or incurred during the relevant previous year and how such amounts have been dealt with in the books of accounts produced for audit.
- ❖ He can rely on the expert opinion. It must be borne in mind that the tax auditor while reporting under this clause is not required to express any opinion as to the allowability or otherwise of the amount of penalty or fine for violation of law.
- ❖ Even if the assessee is contesting against such order before higher authorities, the same will not be relevant and the mere point for ascertaining is whether such sum is debited to the profit and loss account and if yes, the same has to be disclosed.

*Paragraph No. 34.1*

# ICAI Guidance Note

## ~ Clause 17 (e) - Penalties and fine

- ❖ A penalty imposed for violation of any law during the course of trade cannot be described as a commercial loss. Even if the need for making payments has arisen out of trading operations, the payments are not wholly and exclusively for the purpose of the trade.
- ❖ Where the penalty or fine is in the nature of penalty or fine only, the entire amount thereof will have to be stated.
- ❖ With reference to certain penalty/penal interest courts have held that it is partially compensatory payment and partially in the nature of penalty. In such a case, on the basis of appropriate criteria, the amount charged will have to be bifurcated and only the amount relating to penalty may be stated.

*Paragraph No. 34.1*



# ICAI Guidance Note

## ~ Clause 17 (e) Penalties and fine

| Case   | Particulars  |
|--|--|
| CIT vs. Rajarani Exports Pvt. Ltd. ITAT No. 49 of 2013 (Calcutta – High Court) | Payment is used for ‘illegal’ purpose does not attract Explanation to section 37(1). It was held that the “purpose” of the expenditure has to be seen and if the payment is for bonafide business purposes, the fact that they end up being used as illegal kickbacks, will not attract Explanation to s. 37(1).     |
| Huber+Suhner Electronics (P.) Ltd. [2013] 34 taxmann.com 149 (Delhi ITAT)      | Where assessee-company was under obligation to deliver ordered goods to purchasers within period fixed for delivery in contract and on failure to deliver goods within stipulated period was liable to pay liquidated damages to purchaser, payment of such liquidated damages was allowable as revenue expenditure. |

# Issues ~ Penalty/Penal Charges

| Case   | Particulars   |
|--|---|
| Regalia Apparels (P.) Ltd.<br>[2013] 32<br>taxmann.com 237<br>(Bom.)     | ❖ Forfeiture of bank guarantee against export entitlements was compensatory in nature and allowable as business expenditure in absence of contravention of any provision of law.          |
| Gujarat State Financial Corporation - [2013] 35 taxmann.com 64<br>(Guj.) | ❖ Where assessee paid interest to State Government on delayed payment of installment of loan, said interest not being penal in nature, was to be allowed as deduction under section 37(1) |

# Issues ~ Pharma Sector ~Penalty/Penal Charges

## Circular No. 5/2012 dated 01 August 2012

- ❖ Pharmaceutical and allied health sector Industries are providing freebies (freebies) to medical practitioners and their professional associations in violation of the regulations issued by Medical Council of India (the 'Council') which is a regulatory body constituted under the Medical Council Act, 1956.
- ❖ The Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002 impose prohibition on the medical practitioner and their professional associations from taking any gift, travel facility, hospitality, cash or monetary grant from the pharmaceutical and allied health sector Industries

# Issues ~ Pharma Sector ~Penalty/Penal Charges

## Impact of the Circular

- ❖ The claim of any expense incurred in providing above mentioned or similar freebies in violation of the aforesaid regulations shall be inadmissible u/s. 37(1) being an expense prohibited by the law.
- ❖ It is also clarified that the sum equivalent to value of freebies enjoyed by the aforesaid medical practitioner or professional associations is also taxable as business income or income from other sources as the case may be depending on the facts of each case.
- ❖ The Assessing Officers of such medical practitioner or professional associations should examine the same and take an appropriate action.

# Issues ~ Pharma Sector ~Penalty/Penal Charges

**Confederation of Indian Pharmaceutical Industry (SSI) v. CBDT (2013)  
353 ITR 388/ 258 CTR 332/86 DTR 34 (HP)(HC)**

- ❖ S.37(1): Business expenditure–Unlawful purpose–Circular- Expenditure which is not in violation of the Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002, then he may legitimately claim a deduction.
- ❖ The sum and substance of Circular No. 5 of 2012, dated August 1, 2012, issued by the CBDT is that any expenditure incurred by an assessee for any purpose which is prohibited by law shall not be deemed to have been incurred for the purpose of business or profession. Therefore, if the assessee satisfies the assessing authority that the expenditure is not in violation of the Indian Medical Council (Professional Conduct, Etiquette and Ethics) Regulations, 2002, then he may legitimately claim a deduction, but it is for the assessee to satisfy the Assessing Officer that the expense is not in violation of the Regulations.

# Issues ~ Pharma Sector ~Penalty/Penal Charges

## Related judgments:

- ❖ Even without this Circular the Courts have decided that such expenditure is not allowed:
- ❖ **CIT v/s. KAP Scan and Diagnostic Centre P. Ltd. (2012) 344 ITR 476 (P & H)**
- ❖ **CIT v/s. Pt. Vishwanath Sharma (2009) 182 taxman 63 (All)**
- ❖ **CIT v/s. J. K. Panthaki & Co (2009) 316 ITR 452 (Kar)**

# ICAI Guidance Note

## ~ Clause 17 (f) ~ Amounts inadmissible u/s. 40(a)

- ❖ Details of payments referred to in section debited to P & L A/c to be obtained.
- ❖ Reliance can be placed on legal opinions and CA certificate.
- ❖ Need to report only if different opinion.
- ❖ Professional judgment to be exercised.
- ❖ Reliance can be placed on judicial pronouncements.
- ❖ In case of disagreement, both views to be stated.

# ICAI Guidance Note

## ~ Clause 17 (f) ~ Amounts inadmissible u/s. 40(a)

- ❖ The tax auditor will be required to examine whether the provisions relating to tax deduction at source have been complied with in respect of payments specified under the clause. For this purpose the tax auditor may examine the accounts and tax deduction returns pertaining to these payments.
- ❖ Where the assessee claims deduction under the second proviso to Section 40 (ia) it is deemed that he has deducted and paid the tax and hence such sum on which tax is so deemed to be deducted and paid is not inadmissible, the tax auditor should verify compliance with the requirements of section 201. He should also obtain and keep in his record a copy of certificate in Form 26A as required by section 201 read with section 40(a)(ia).
- ❖ Any tax paid by an employer on non-monetary perquisites is exempt in the hands of the employee as per section 10(10CC).
- ❖ The amount of provision or payment of Income Tax, surcharge, education cess including interest under section 234A, 234B, 234C and 234D will not be allowed as deduction under section 40(a)(ii) and thus the same is required to be reported under this clause.



# ICAI Guidance Note ~ Clause 17 (f) ~ Amounts inadmissible u/s. 40(a)

## FORM No. 26A

[See rule 31ACB]

**Form for furnishing accountant certificate under the first proviso to sub-section (1) of section 201 of the Income-tax Act, 1961**

I (name) \_\_\_\_\_ am the person responsible for paying (within the meaning of section 204) in the case of (name of the payer) \_\_\_\_\_ with PAN # (PAN of the payer) \_\_\_\_\_ and TAN (TAN of the payer) \_\_\_\_\_ located at (address of the payer) \_\_\_\_\_

I do hereby state that I, being the person responsible for paying had paid to/credited to the account of (name of the payee) \_\_\_\_\_ a sum of \_\_\_\_\_ rupees without deduction of whole or any part of the tax

A certificate from an accountant certifying that the payee has fulfilled all the conditions mentioned in the first proviso to sub-section (1) of section 201 of the Income-tax Act, 1961 is enclosed as Annex 'A' to this Form

I further state that the interest under sub-section (1A) of section 201 amounting to \_\_\_\_\_ rupees for non-deduction/short deduction of tax \* has been paid by me the details of which are as under -

| BSR Code/**24G Receipt Number (first seven digits of BIN) | Challan Serial Number/**DDO Serial Number (last five digits of BIN) | Date of deposit through challan/**date of transfer voucher |
|---|---|--|
|   |   |  |

or

\*has not yet been paid by me.

Place \_\_\_\_\_

Date \_\_\_\_\_

Signature \_\_\_\_\_

Designation \_\_\_\_\_

# In case of Government deductors "PAN NOT REQD" should be mentioned

\* Delete whichever is not applicable

\*\* For payment made without the production of challan

### ANNEXURE A

**Certificate of accountant under first proviso to sub-section (1) of section 201 of the Income-tax Act, 1961 for certifying the furnishing of return of income, payment of tax etc. by the payee**

I/We \*hereby confirm that I/we\* have examined the relevant accounts, documents and records of (name) \_\_\_\_\_ and address \_\_\_\_\_ of the payee with PAN) \_\_\_\_\_ for the period \_\_\_\_\_ and hereby certify the following:

(i) \_\_\_\_\_ (payer) has paid to or credited following sum to the account of \_\_\_\_\_ (payee) without deduction of whole or any part of the tax in accordance with the provisions of Chapter-XVII-B

| Nature of | Date of | Section under | Amount | Amount of | Details of amount |
|-----------|---------|---------------|--------|-----------|-------------------|
|           |         |               |        |           |                   |

# ICAI Guidance Note ~ Clause 17 (f) ~ Amounts inadmissible u/s. 40(a)

Rent for use of Plant, machinery and equipments – TDS under which section?

| <b>Section 194J – Royalties (@10%)</b>  | <b>Section 194I – Rent (@2%)</b>   |
|---|--|
| Royalty - Definition includes:<br><br>“the use or right to use, any industrial, commercial or scientific equipment but not including the amounts referred to in section 44BB” | Rent means: any payment, for the use of:<br><br>“machinery; or plant; or equipment; or furniture; of fittings” |

## Issues:

*Which section is applicable ?*

*What when composite rent paid for building & plant, etc.?*

## Issues ~ 40(a)(i)/ 40(a)(ia) disallowance

| Case  | Particulars   |
|---|---|
| <p>Faizan Shoes (P.) Ltd.<br/>[2013] 34<br/>taxmann.com 79<br/>(Chennai ITAT)</p>   | <p>Where assessee, engaged in business of manufacture and export of shoes, made payments to non-residents for procuring export orders, said payment not being in nature of FTS or royalty, were not taxable in India and, thus, assessee was not required to deduct tax at source while making said payments. In view of above, impugned disallowance u/s. 40(a)(i) was to be deleted</p> |
| <p>C.U.Inspections (I) (P.) Ltd. [2013] 34<br/>taxmann.com 75<br/>(Mumbai ITAT)</p> | <p>When Indian subsidiary company incurs expenses or makes purchases or avails any service from some third party abroad and payment to such third party is routed through its holding or related company abroad, provision for deduction of tax at source apply as if assessee has made payment to such independent party de hors routing of payment through holding company</p>          |

## Issues ~ 40(a)(i)/ 40(a)(ia) disallowance

| Case   | Particulars   |
|--|---|
| Hero MotoCorp Ltd.(Formerly known as Hero Honda Motors Ltd.) | <ul style="list-style-type: none"><li>❖ TDS u/s. 194C not applicable for purchase of customized material where raw material sourced by vendor from third party, though at insistence of assessee;</li><li>❖ TDS u/s 194I applicable to car rentals;</li><li>❖ No TDS attracted on leased line rental to MTNL/BSNL;</li><li>❖ No Sec 40(a)(ia) disallowance for short deduction of tax</li></ul> |

## Issues ~ 40(a)(i)/ 40(a)(ia) disallowance

| Case  | Particulars   |
|---|---|
| CIT vs. Silver Oak Laboratories Pvt. Ltd. (Supreme Court)         | S. 194C TDS does not apply to contract manufacturing agreements. It is clarified that the definition of the word “work” will not include manufacturing or supplying a product according to the requirement or specification of a customer by using material purchased from a person other than such customer.   |
| Gokuldas Virjibhai & Co. v. ITO (2012) 139 ITD 284 (Pune)(Trib.)  | Payment to labours through Maharashtra Mathadi Hamal will not be liable for TDS u/s. 194C as there is no relationship of principal and contractor between parties.  |
| CIT v. Krishak Bharati Co-op. Ltd. (2012) 349 ITR 68 (Gujarat HC) | <p>Contract is for purchase of natural gas. Payment of charges for transportation of natural gas to seller will not liable to tax deduction at source u/s. 194C as:</p> <ul style="list-style-type: none"> <li>❖ There was no contract between the seller and the assessee for carriage of goods.</li> <li>❖ Transportation of gas by the seller was only in furtherance of contract of sale of goods.</li> <li>❖ The transportation charges did not depend on the consumption of quantity of gas but were a fixed monthly charges to be borne by the assessee as part of the agreement.</li> </ul> |

# Common issues ~ Whether TDS provisions applicable ?

- ❖ Inter-group company support services agreement, etc.
  - ❖ Whether tax is deductible at source ?
  - ❖ If “YES” under 194C or 194J?
  - ❖ TDS on sharing of office premises
  
- ❖ Common area maintenance charges.
  
- ❖ Provision of expenses which are reversed immediately during the next month.
  
- ❖ TDS on incentives to stockists.
  
- ❖ TDS on advertising services.

# Issues ~ 40(a)(i)/ 40(a)(ia) disallowance

## Merilyn Shipping (Special Bench ruling)

Section 40(a)(ia) disallowance applies only to amounts “payable” as of 31st March and not to amounts already “paid” during the year.

APPROVED in  
CIT vs. Vector  
Shipping Services  
Pvt. Ltd.  
(Allahabad High  
Court)

## DISAPPROVED in :

- CIT VS. Crescent Export Syndicate (Calcutta High Court)
- CIT VS. Sikandarkhan N. Tunvar (Gujarat High Court).
- Odedara Construction - [2013] 34 taxmann.com 133 (Gujarat) says requires serious consideration – pending final disposal

## **ICAI Guidance Note ~ Clause 17 (g) ~ Amounts inadmissible u/s. 40(b)/ 40(ba)**

- ❖ The word "inadmissible" implies that the tax auditor will have to examine the facts, apply the conditions for allowance or disallowance and accordingly determine the prima facie inadmissibility of the deduction and also quantify the same.
- ❖ The tax auditor may note that the information required to be reported is the amount of inadmissible expenditure as per section 40(b) or 40(ba) and not the total amount debited to profit and loss account.

*Paragraph No. 36.1 and 36.8*



## ICAI Guidance Note ~ Clause 17 (h) ~ Amounts inadmissible u/s. 40A(3)

- ❖ No disallowance would be made if the payment or aggregate of payments, exceeding Rs. 20,000 is made to a person in a day otherwise than by an account payee cheque drawn on a bank or account payee bank draft in respect of cases and circumstances prescribed under Rule 6DD having regard to the nature and extent of banking facilities available, considerations of business expediency and other relevant factors. Notification No.208/2007 dated 27.6.2007 has amended Rule 6DD w.e.f. A.Y. 2008-09..
- ❖ The e-filing portal requires reporting of inadmissible amount under section 40A(3) read with Rule 6DD under Item (B) of this clause in the following format:

| Particulars | Amount |
|-------------|--------|
|             |        |
|             |        |

# ICAI Guidance Note ~ Clause 17 (h) ~ Amounts inadmissible u/s. 40A(3)

- ❖ The auditor should maintain the following particulars in his audit working papers file:

| Sl. No. | Nature and particulars of expenditure | Date of Payment | Payment or aggregate payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft | Total amount of expenditure | Remarks |
|---------|---------------------------------------|-----------------|--|-----------------------------|---------|
|         |                                       |                 |  |                             |         |
|         |                                       |                 |  |                             |         |

# ICAI Guidance Note ~ Clause 17 (k) ~ Liability of a contingent nature

- ❖ The expenses relating to disputed claims will be revealed only on the basis of the scrutiny of records relating to contingent liabilities.
- ❖ The tax auditor may look into particular items of contingent liabilities of the earlier year in order to determine whether or not any items has been charged to the profit and loss account of the current year and if so, whether the liability continues to be contingent in nature.
- ❖ Wherever necessary, a suitable note should be given by the tax auditor as to the non-availability of such particulars relating to the contingent liabilities.

# ICAI Guidance Note ~ Clause 17 (1) ~ Disallowance u/s. 14A

- ❖ At the time of tax audit the tax auditor will have to verify the amount of inadmissible expenditure as determined by the assessee. The method under sub-rule (2) of Rule 8D is to be adopted by the Assessing Officer when he is not satisfied with the amount as determined by the assessee.
- ❖ The tax auditor will verify the amount of inadmissible expenditure as estimated by the assessee with reference to established principles of allocation of expenditure based on logical parameters like proportion of exempt and taxable income recorded, turnover, man hours spent to earn the relevant income etc.
- ❖ For allocation of interest between taxable and nontaxable income, the quantum of investment, the period and the rate of interest are generally the relevant factors to be considered. This requires proper estimates to be made by the assessee. The tax auditor is required to audit such estimates. Attention is invited to Standard on Auditing - 540 “Audit of Accounting Estimates”.

# ICAI Guidance Note ~ Clause 17 (1) ~ Disallowance u/s. 14A

Other issues in the: Components of the Formula:

| <i>Item</i>  | <i>View</i>              |
|--|--------------------------|
| Fixed assets – gross (before depreciation) or net                      | Net (after depreciation) |
| Investments – before or after provision for diminution in value        | After                    |
| Deferred tax asset   | To be included           |
| Current assets – gross amount or net of current liabilities?           | Gross                    |
| Deferred revenue expenditure / Profit and loss account (Debit balance) | Not to be included       |
| Interest capitalized   | Not to be included       |

# ICAI Guidance Note ~ Clause 17 (1) ~ Disallowance u/s. 14A

- ❖ An assessee may claim that no expenditure has been incurred by him in relation to income which does not form part of the total income under the Act. Even in such a case the provisions of section 14A will apply. Accordingly, the tax auditor is required to verify such contention of the assessee.
- ❖ After verifying the amount of inadmissible expenditure, if the tax auditor:
  - ❖ is in agreement with the assessee, he should report the amount with suitable disclosures of material assumptions, if any.
  - ❖ is not in agreement with the assessee with regard to the amount of expenditure determined, he may give:
    - ❖ A qualified opinion:
    - ❖ A qualified opinion can be given when the auditor is of the opinion that the effect of any disagreement with the assessee is not so material and pervasive as to require an adverse opinion or limitation on scope is not so material and pervasive as to require a disclaimer of opinion.

# ICAI Guidance Note ~ Clause 17 (1) ~ Disallowance u/s. 14A

## ❖ An adverse opinion:

The auditor in rare circumstances may come across a situation where the impact of his disagreement about the computation of such inadmissible expenditure is so material and pervasive that it affects the overall opinion. In such a case the tax auditor may give an adverse opinion.

## ❖ The disclaimer of opinion:

When the assessee has neither provided the basis nor the supporting documents, for the claim of such inadmissible expenditure, then due to limitation on the scope of auditors work, the auditor can give disclaimer of opinion.

## Issues ~ 14 A disallowance

| Case  | Particulars  |
|---|--|
| Oriental Structural Engineers Pvt. Ltd. (2013) 35 taxmann.com 210 (Delhi) | Where major interest expenses were not towards earning of exempted income, disallowance of expenditure under section 14A was to be restricted.   |
| Damani Estates & Finance Pvt. Ltd. I.T.A. No.3029/Mum/2012 (Mumbai ITAT)  | Sec. 14A applicable to shares held as stock in trade, despite share trading activity yielding taxable as well as exempt income.  |
| Ethio Plastics Pvt. Ltd v. DCIT (Ahd.)(Trib.)                             | Section 14A does not apply to shares held as stock-in-trade. As the assessee is engaged in the business of dealing in shares and the shares were held as stock-in-trade, the intention of the assessee was not to earn dividend income and no notional expenditure could be disallowed u/s. 14A. |



## Issues ~ 14 A disallowance

| Case   | Particulars   |
|--|---|
| Eimco Elecon (India) Ltd.<br>[2013] 33 taxmann.com<br>476 (Ahmedabad ITAT) | Where own funds of assessee were many times more than amount invested in shares and there was no nexus between investment and interest bearing borrowed funds, no disallowance under section 14A was warranted.   |
| Gujarat State Fertilizers & Chemicals Ltd                                  | HC deletes 14A disallowance for interest expenditure on exempt dividend, since assessee's owned funds higher than share investment; Nothing on record to indicate utilization of borrowed funds for making investment. Question of determining reasonable expenditure does not arise, when employment of Sec. 14A not found to be correct |

## Issues ~ 14 A disallowance

| Case  | Particulars   |
|---|---|
| <p>REI Agro Ltd [2013]<br/>I.T.A. No. 331/Kol/2011</p>                            | <ul style="list-style-type: none"> <li>❖ Average value of investment to compute disallowance under Rule 8D restricted to investments generating exempt income only;</li> <li>❖ New investment in shares made during the year, which did not generate any exempt dividend income, not to be considered for Rule 8D calculation;</li> </ul> |
| <p>MSA Securities Services (P.) Ltd. [2013] 33 taxmann.com 508 (Chennai ITAT)</p> | <ul style="list-style-type: none"> <li>❖ Section 14A is not applicable in respect of investment in share application money.</li> <li>❖ Intention with which shares were acquired is a relevant criterion for application of section 14A.</li> </ul>   |
| <p>ITO vs. Karnavati Petrochem Pvt. Ltd (ITAT Ahmedabad)</p>                      | <p>Rule 8D: Interest expenditure has to be netted against interest income and only the difference, if any, can be considered for disallowance.</p>  |

# ICAI Guidance Note ~ Clause 17 (1) ~ Payments made to persons specified under section 40A(2)(b)

- ❖ Under this clause, the e-filing portal requires reporting in the following format:

| Name of the related party | Relation | Date | Payment made (Amount) |
|---------------------------|----------|------|-----------------------|
|                           |          |      |                       |
|                           |          |      |                       |

- ❖ Finance Act, 2012 has amended Section 40A(2)(a) to provide that the transactions referred to in Section 92BA (called Specified Domestic Transactions) with persons referred to in 40A(2)(b) shall be at Arm's Length Price.
- ❖ The tax auditor is advised to refer the ICAI Guidance Note on Transfer Pricing for compliance of these provisions.

# **ICAI Guidance Note ~ Clause 17A ~ Amounts inadmissible u/s. 23 of the MSME Act**

- ❖ The tax auditor while reporting in respect of clause 17A should take the following steps:
  - ❖ The auditor should seek information regarding status of the enterprise i.e. whether the same is covered under the Micro, Small and Medium Enterprises Development Act, 2006. Where the information is available and has been disclosed the same should be reported as such in Form No. 3CD. Where the information is not available the auditor should also mention the same in the Form No.3CD.
  - ❖ Since Section 22 of the Micro, Small and Medium Enterprises Development Act, 2006 requires disclosure of information, the tax auditor should cross check the disclosure made in the financial statements.
  - ❖ Obtain a full list of suppliers of the assessee which fall within the purview of the definition of “Supplier” under section 2(n) of the Micro, Small and Medium Enterprises Development Act, 2006. It is the responsibility of the assessee to classify and identify those suppliers who are covered by this Act.

# ICAI Guidance Note ~ Clause 17A ~ Amounts inadmissible u/s. 23 of the MSME Act.

- ❖ Review the list so obtained.
- ❖ Verify from the books of account whether any interest payable or paid to the buyer in terms of section 16 of the MSME Act has been debited or provided for in the books of account.
- ❖ Verify the interest payable or paid as mentioned above on test check basis.
- ❖ Verify the additional information provided by the assessee relating to interest under section 16 in his financial statement.
- ❖ If on test check basis, the auditor is satisfied, then the amount so debited to the profit and loss account should be reported under clause 17A.
- ❖ Where the tax auditor, upon due verification, finds that the assessee has neither provided for nor paid any interest payable under the MSME Act, the no amount is inadmissible under section 23 of MSME Act. In such a case, since the e-filing portal requires data in numeric, non-decimal and non negative form, '0' (Zero) can be reported against clause 17A.

# ICAI Guidance Note ~ Clause 22 (a) ~ CENVAT

- ❖ The tax auditor should verify that there is a proper reconciliation between balance of CENVAT credit in the accounts and relevant excise and service tax records.
- ❖ Further the sub-clause requires reporting of the credits availed of or utilized during the previous year, it is desirable to report both the credits availed and the credits utilized.
- ❖ In so far as the reporting of accounting treatment of CENVAT credit is concerned the clause requires that its treatment in profit and loss account and the treatment of outstanding CENVAT credit in the account have to be reported upon.

# ICAI Guidance Note ~ Clause 22 (a) ~ CENVAT

- ❖ The e-filing portal requires reporting in the following format:
- ❖ Amount of Modified Value Added Tax Credit is availed of or utilized during the previous year and its treatment in the profit & loss account.  
 Yes  No

| Amount | Treatment in Profit & Loss Account |
|--------|------------------------------------|
|        |                                    |

- ❖ Treatment of outstanding Modified Value Added Tax Credits in the accounts.  
 Yes  No

| Amount | Treatment of outstanding Modified Value Added Tax Credits in the accounts |
|--------|---|
|        |   |

# ICAI Guidance Note

## ~ Clause 22(b) Prior Period Expenses

- ❖ It may be noted that there is a difference between expenditure of any earlier year debited to the profit and loss account and the expenditure relating to any earlier year, which has crystallized during the relevant year. Material adjustments necessitated by circumstances which though related to previous periods but determined in the current period, will not be considered as prior period items.
- ❖ In such cases, though the expenditure may relate to the earlier year, it can be considered as arising during the year on the basis that the liability materialized or crystallized during the year and such cases will not be reported under this clause. Similar consideration will apply in relation to income also.

*Paragraph No. 49.2 and 49.3*



# ICAI Guidance Note

## ~ Clause 22(b) Prior Period Expenses

- ❖ In AS - 5 as also in AS (IT)-II notified by the Government under section 145, it has been explained that material charges (expenses) or credits (income) which arise in the current year as a result of errors or omissions in the accounts of the earlier years will be considered as prior period items. In view of this, the statutory auditor would normally take into consideration all items of prior period income and expenditure while giving his report on the financial statements.
- ❖ It would, therefore, be advisable for the tax auditor to ascertain the circumstances under which a particular expenditure has not been considered as a prior period expenditure. If, on making the enquiries he comes to the conclusion that a particular item has to be treated as prior period expenditure, he should disclose the same against this sub-clause.

*Paragraph No. 49.4*

*Reference can be made to CIT v/s Jagatjit Industries Ltd. (ITA No. 848/2010 – Del. HC)*

## Issues ~ Business expense

| Case   | Particulars  |
|--|--|
| Rajmal Lakhichand v. ACIT (2012) 78 DTR 355/150 TTJ 111 (Pune) (Trib.) | Following a search in assessee's premises, seized silver was admittedly stock in trade. Hence, confiscation thereof is a business loss and the amount written off on account of confiscation of stock of silver is allowable as business loss.   |
| EID Parry (India) Ltd v. Dy. CIT (2012) 79 DTR 249 (Mad.) (High Court) | Purpose of expenditure not being in dispute, i.e. incurred in connection with raising the capital for the new projects as well as for expansion - relief under <b>section 35D</b> could not be disallowed for the reason that proceeds were kept in investment pending authorization from various Government Bodies. |
| State Bank of Mysore v. CIT (A) (2012) 139 ITD 526 (Bang.)(Trib.)      | Compliance with conditions of rule 2BA is mandatory only to avail exemption under section 10(10C) by employees but said rule is not relevant for companies to claim deduction under <b>section 35DDA</b> .   |

## Issues ~ Business expense

| Case  | Particulars   |
|---|---|
| <p>Standipack (P) Ltd v. CIT (2012) 78 DTR 252/211 Taxman 144 (Cal)(High Court)</p> | <p>Expenditure on sending a trainee abroad for higher education in the field of software development was not allowable as deduction as:</p> <ul style="list-style-type: none"><li>❖ It was not the business of assessee</li><li>❖ this was also not a regular practice of the company.</li></ul> <p>The commission payments made for purposes which are prima facie impermissible in law, will not be allowed as business expense u/s. 37(1) on the anvil of commercial expediency.</p> |

# Issues ~ Business income ~ Composite letting

## ❖ Whether business income or house property ?

Decisions of the ITAT wherein it has been held that composite letting out – like in the case of an IT Park is taxable as “business income” and not as “income from house property”:

- ❖ **DCIT v/s. Magarpatta Township Development & Construction Co. Ltd.** ITA No. 822/PN/2011 (Unreported).
- ❖ **ITO v/s. Information Technology Park Ltd.** ITA No. 1147 to 1152/Bang/2010 (Unreported).
- ❖ **Global Tech Park (P) Ltd. v/s. ACIT 119 TTJ 421 (Bang).**
- ❖ **DCIT v/s. Golflink Software Park Ltd. (ITA No. 40,41,52 and 53/Bang/2010).**

## Issues ~ Clause 20 ~Profits chargeable to tax u/s. 41(1)

| Case  | Particulars   |
|---|---|
| ACIT v. Samrat Rice Mills (P.) Ltd. (2012) 54 SOT 1 Delhi)(Trib.) | Unsecured loan cannot be added to assessee's income since there was nothing to suggest that assessee obtained any benefit either by way of remission or cessation of any liability and hence section 41(1) was not attracted. |
| ACIT v. Rajesh Kumar (2012) 54 SOT 28 (Cochin)(Trib.)             | Existence of both personal relationship and business relationship cannot convert a 'gift' into a 'remission of trading liability', unless situation warrants so, and hence section 41(1) was not attracted.                   |

## Issues ~ Clause 21 ~ 43B disallowance

| Case   | Particulars  |
|--|--|
| <p>CIT v/s. Textool Co. Ltd. (Supreme Court)<br/><i>Civil Appeal No. 447 of 2003</i></p> | <p>Though section 36(1)(v) requires direct payment to the gratuity trust fund, payment to the LIC Group Gratuity Scheme is also allowable.</p>                                 |
| <p>CIT vs. Kichha Sugar Co. Ltd. - [2013] 35 taxmann.com 54 (Uttarakhand)</p>            | <p>“Due date” in section 36(1)(va) for payment of employees’ Provident Fund, ESIC etc. contribution should be read with section 43B(b) to mean “due date” for filing ROI.</p>  |
| <p>ITO vs. LKP Securities (ITA No. 638/Mum/2012)</p>                                     | <p>Employees’ PF/ ESI Contribution is not covered by section 43B &amp; is only allowable as a deduction u/s 36(1)(va) <u>if paid by the “due date” prescribed therein.</u></p> |

# Issues ~ Hedging loss v/s. Speculation loss

## CIT vs. Friends and Friends Shipping Pvt. Ltd. (Gujarat High Court)

Section 43(5): Loss on foreign currency forward contracts by a manufacturer/ exporter is a “hedging loss” which is allowable and not a “speculation loss”.

### FOLLOWED:

- **CIT vs. Soorajmull Nagarmull** 129 ITR 169 (Calcutta High Court)
- **CIT vs. Badridas Gauridu** 261 ITR 256 (Bombay High Court)

### DISTINGUISHED:

- **M. G. Brothers vs. CIT** 154 ITR 695 (Andhra Pradesh High Court)
- **S. Vinodkumar Diamonds Pvt. Ltd. vs. ACIT** [2013] 35 taxmann.com 337 (Mumbai ITAT)

## Issues ~ Clause 25 ~ Brought forward losses

### Details of brought forward losses or depreciation allowance

- ❖ Cases where effects to appellate orders have to be given.
- ❖ Cases where suitable records are not produced.
- ❖ Change in shareholding :
  - ❖ Decision of the Bangalore Bench of the ITAT in the case of **Amco Power Systems Ltd. v/s. ITO** ~ talks about the concept of “beneficial ownership”.



# Issues ~ Clause 25 ~ Brought forward losses

## Details of brought forward losses or depreciation allowance

- ❖ Details of brought forward losses and unabsorbed depreciation to be reported in the following format:

| Sr. No. | A. Y. | Nature of loss/ allowance | Amount as returned | Amount as assessed | Remarks |
|---------|-------|---------------------------|--------------------|--------------------|---------|
|         |       |                           |                    |                    |         |

What happens when the Appellate authorities decide in favour of Appellant and Order giving effect is not passed?



## Issues ~ Clause 26 ~Deduction allowable u/c. VIA

| Case   | Particulars  |
|--|--|
| LG Electronics India (P.) Ltd. - [2013] 33 taxmann.com 465 (Delhi - Trib.) | Only new workmen employed for a period of 300 days in relevant previous year are eligible for deduction under section 80JJAA and there is no reference to new employees employed in preceding year |

## Issues ~ Clause 26 ~Deduction allowable u/c. VIA

- ❖ Whether in a case of an individual deductions claimed u/s. 80C, 80D, etc., need to be reported.?
- ❖ What are the conditions for availing deductions.
- ❖ What happens in cases when deduction not allowed in earlier years.

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

## Illustration:

### (I) Trading Concern

Assuming that the assessee has opening stock of Rs.3,30,000/- on which input tax rebate of Rs.30,000/- is available. During the year three items purchased @ Rs.3,00,000/- per item. VAT on purchase @ 10%. There is no opening stock. Two items are sold @ Rs.4,50,000/- per item. VAT on sales @ 10%

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

The Trading Account on “EXCLUSIVE METHOD”

| Particulars            | Qty. | Rate     | Amount                  | Particulars      | Qty. | Rate     | Amount                  |
|------------------------|------|----------|-------------------------|------------------|------|----------|-------------------------|
| To Opening Stock       | 1    | 3,30,000 | 3,30,000                | By Sales         | 2    | 4,50,000 | 9,00,000                |
| Less: Input tax rebate |      |          | 30,000                  |                  |      |          |                         |
|                        |      |          | 3,00,000                |                  |      |          |                         |
| To Purchases           | 3    | 3,00,000 | 9,00,000                | By Closing Stock | 2    | 3,00,000 | 6,00,000                |
| To Gross Profit        |      |          | <u>3,00,000</u>         |                  |      |          |                         |
| <b>Total</b>           |      |          | <b><u>15,00,000</u></b> |                  |      |          | <b><u>15,00,000</u></b> |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

The Trading Account on “INCLUSIVE METHOD”

| Particulars                                    | Qty. | Rate     | Amt              | Particulars      | Qty. | Rate     | Amt              |
|--|------|----------|------------------|------------------|------|----------|------------------|
| To Opening Stock                               | 1    | 3,30,000 | 3,30,000         | By Sales         | 2    | 4,95,000 | 9,90,000         |
| To Purchases                                   | 3    | 3,30,000 | 9,90,000         | By Closing Stock | 2    | 3,30,000 | 6,60,000         |
|  |      |          | <u>13,20,000</u> |                  |      |          |                  |
| Less: VAT credit availed on cost of goods sold |      |          | 60,000           |                  |      |          |                  |
|  |      |          | 12,60,000        |                  |      |          |                  |
| VAT paid on sales                              |      |          | 90,000           |                  |      |          |                  |
| Gross Profit                                   |      |          | 3,00,000         |                  |      |          |                  |
|  |      |          | <u>16,50,000</u> |                  |      |          | <u>16,50,000</u> |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

The statutory adjustments required under section 145A can be explained by the following example:

| Sr. 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                   |                          |
|         |   | <b>2,10,000</b>          | <b>2,10,000</b>          |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

The net impact on Profit & Loss Account is NIL.

The computation of total income total income would appear as under:-

|  |        |                            |
|--|--------|----------------------------|
| Profit as per Profit & Loss account on the basis of exclusive method |        | Rs.3,00,000                |
| Add: Adjustments required under section 145A                         |        |                            |
| 1. Increase in Sales on inclusion of VAT                             |        | Rs. 90,000                 |
| 2. Increase in Closing Stock on inclusion of VAT                     |        | Rs. 60,000                 |
| <b>Total</b>   |        | <b>Rs. 4,50,000</b>        |
| Less:  |        |                            |
| 1. Increase in Opening Stock on inclusion of VAT                     |        | Rs. 30,000                 |
| 2. VAT Credit Receivables (Input) A/c                                |        | Rs. 90,000                 |
| 3. VAT Paid on sales   | 90,000 |                            |
| Less: VAT Credit availed on  |        |                            |
| Cost of Goods Sold   | 60,000 |                            |
|  |        |                            |
| Net VAT Paid   |        | <u>Rs.30,000</u>           |
| Profit   |        | <u><b>Rs. 3,00,000</b></u> |



# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

## (II) Manufacturing concern

The following information is considered in the case of a manufacturing concern:-

|   |                          |
|---|--------------------------|
| <b>Opening Stock of Raw Material<br/>50 Units</b> | <b>@ Rs.100 per unit</b> |
| Purchases of Raw Material 300<br>units            | @ Rs.100 per unit        |
| Sales 250 units                                   | @ Rs.150 per unit        |
| Manufacturing Expenses                            | Rs.3,000                 |
| Closing Stock of Raw Material                     | 50 units                 |
| Closing Stock of Finished Goods                   | 50 units                 |
| Rate of VAT on purchases and sales                | 4%                       |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

Manufacturing Account on “INCLUSIVE METHOD”

| Particulars                          | Qty.       | Rate       | Amt.          | Amt.   | Particulars                        | Qty. | Rate | Amt.   |
|--------------------------------------|------------|------------|---------------|--------|------------------------------------|------|------|--------|
| Opening Stock                        | 50         | 104        | 5,200         |        | By Sales                           | 250  | 156  | 39,000 |
| Purchase of raw materials            | 300        | 104        | 31,200        |        | By closing stock of finished goods | 50   | 114  | 5,700  |
| <b>TOTAL</b>                         | <b>350</b> | <b>104</b> | <b>36,400</b> |        |                                    |      |      |        |
| Less: Closing stock of raw materials | 50         | 104        | 5,200         |        |                                    |      |      |        |
| Less: VAT on Raw Material Consumed   | 300        | 4          | 1,200         |        |                                    |      |      |        |
| Raw Material Consumed                | 300        | 100        |               | 30,000 |                                    |      |      |        |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

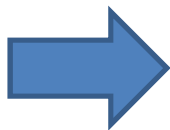
Manufacturing Account on “INCLUSIVE METHOD”

| Particulars  | Qty. | Rate | Amt.          | Particulars  | Qty. | Rate | Amt.          |
|--|------|------|---------------|--------------|------|------|---------------|
| To manufacturing   | 300  | 100  | 3,000         |              |      |      |               |
| To VAT on finished goods sold  | 250  | 6    | 1,500         |              |      |      |               |
| To VAT included in finished goods on account of inclusion of VAT in the raw material value | 50   | 4    | 200           |              |      |      |               |
| To gross profit  |      |      | 10,000        |              |      |      |               |
| <b>Total</b>   |      |      | <b>44,700</b> | <b>Total</b> |      |      | <b>44,700</b> |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

- ❖ The valuation of finished goods includes the raw material cost and the manufacturing expenses. The raw material costs is taken at Rs.100 per unit in the exclusive method and Rs.104 in the inclusive method. The overhead cost is Rs.10 per unit.
- ❖ It will be seen from the above that the gross profit is the same both under the inclusive and the exclusive method. Further, the closing stock of raw materials includes the appropriate VAT. But the VAT is not includible in the closing stock of finished goods since the incidence of VAT arises only on sale. However, VAT on raw material included in the finished goods has also been included in the value of closing stock of finished goods.

The statutory adjustments required under section 145A can be explained by an example :



# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock



| Sr. No. | Particulars  | Increase in Profit (Rs.) | Decrease in Profit (Rs.) |
|---------|--|--------------------------|--------------------------|
| 1.      | Increase in cost of opening stock of raw material on inclusion of VAT  |                          | 200                      |
| 2.      | Increase in purchase on account of inclusion of VAT.   |                          | 1,200                    |
| 3.      | Increase in sales of finished goods on inclusion of VAT.   | 1,500                    |                          |
| 4.      | VAT paid on sale of finished goods as a result of its inclusion in sales   |                          | 1,500                    |
| 5.      | Increase in closing stock of raw material on inclusion of VAT  | 200                      |                          |
| 6.      | Accounting of VAT credit availed and utilized on raw material consumed in payment of VAT on finished goods, accounted on the basis of raw material consumed. | 1,200                    |                          |
| 7.      | Increase on account of VAT included in finished goods on account of inclusion of VAT in the raw material value   | 200                      |                          |
| 8.      | Increase in VAT on closing stock of finished goods on account of inclusion of VAT in the raw material value  |                          | 200                      |
|         | <b>Total</b>   | <b>3,100</b>             | <b>3,100</b>             |

# ICAI Guidance Note ~ Clause 12 (a) & (b) ~ Valuation of Closing Stock

The net impact on the Profit & Loss Account is NIL.

The computation of total income total income would appear as under:-

|  |         |                |                  |
|--|---------|----------------|------------------|
| Profit as per Profit & Loss account on the basis<br>of exclusive method                            |         | Rs.10,000      |                  |
| Add: Adjustments required under section 145A   |         |                |                  |
| 1. Increase in Sales on inclusion of VAT   |         |                | Rs. 1,500        |
| 2. Increase in Closing Stock of Raw Material<br>on inclusion of VAT                                |         | Rs. 200        |                  |
| 3. Increase in Stock of finished goods on account<br>of inclusion of VAT in the raw material value |         | <u>Rs. 200</u> |                  |
|  |         |                | <u>Rs.1,900</u>  |
|  |         |                | <b>Rs.11,900</b> |
| <b>Total</b>   |         |                |                  |
| Less:  |         |                |                  |
| 1. VAT on Opening Stock of Raw Material  |         | Rs.200         |                  |
| 2. VAT included in Purchases   |         |                | Rs.1200          |
| 3. VAT Paid on Sales   | Rs.1500 |                |                  |
| Less: Input Tax Credit on Raw<br>Material Consumed   | Rs.1200 |                |                  |
| Add: VAT included in Closing Stock<br>Of Finished Goods  | Rs.200  |                | <u>Rs.500</u>    |
|  |         |                | <b>Rs 10,000</b> |
| <b>Profit</b>  |         |                |                  |



*Questions?*

**Q&A**

# Thank You

