Assurance Gazette

June, 2024

NANGIA & CO LLP
CHARTERED ACCOUNTANTS

Contents

Foreword	03
Tax Implications under Section 43B(h) w.e.f. April 1, 2024 on MSME Payments	04
EAC Opinions on accounting for subsequent expenditure on PPE, Export incentives and CSR expenditure	08
Revised Standard on Auditing SA 800/805/810	13

Foreword

Welcome to the June 2024 edition of the Assurance Gazette! We are excited to bring you valuable insights into the amendments in section 43B of Income Tax Act,1961. This Gazette offers valuable insights into tax implications of the same including reporting in FORM 3CD and provides you with an understanding of provisions related to MSME payments in a concise manner.

In this edition, we also present the Expert Advisory Committee's opinion on the accounting treatment of subsequent expenditure on Property, Plant and Equipment, Export incentives and CSR expenditure within the framework of Indian Accounting Standards (Ind AS) and Accounting standards (AS).

The edition also captures updated Standards on Auditing (SAs) 800, 805, and 810, aiming to enhance the quality and effectiveness of audits and align with evolving financial reporting frameworks. The new standards will be effective from April 1, 2024, while the existing standards remain applicable until the end of the financial year 2023-24.

We are committed to keeping you informed about the latest developments in the accounting and auditing world. We strive to present complex information in a clear and accessible manner, empowering you to make informed decisions.

We encourage you to share your feedback and suggestions on topics you'd like us to explore in future editions. Your input is invaluable in helping us tailor our content to meet your evolving needs.

Tax Implications under Section 43B(h) w.e.f. April 1, 2024 on MSME Payments

Section 43B of the Income Tax Act, 1961, underwent a significant amendment through the Finance Act 2023, introducing Clause(h). This clause focuses on payments to micro and small enterprises (MSEs) and brings about changes in the deduction mechanism.

As per Section 15 of MSME Act in relation to Liability of buyer to make payment - " Where any supplier supplies any goods or renders any services to any buyer, the buyer shall make payment therefor on or before the date agreed upon between him and the supplier in writing or, where there is no agreement in this behalf, before the appointed day: Provided that in no case the period agreed upon between the supplier and the buyer in writing shall exceed forty-five days from the day of acceptance or the day of deemed acceptance."

Key impact of these provisions including impact on tax audit is tabulated below:

#	PARTICULARS	DESCRIPTION		
a	**Specified time under Section 15 of the MSMED Act**		**Particulars**	
			If payment timelines have been specified Under an agreement between the buyer and MSE	Payment should be made within earlier of the following dates: • Due date specified in the agreement, or • 45 days from the 'day of acceptance'. 'Day of acceptance' is the day of actual delivery of goods or the rendering of services. However, if an objection is raised by the buyer in writing within 15 days of the delivery of goods or services, the 'day of acceptance' would be the day on which objection is removed by the MSE.
			If payment timelines have not been specified under an agreement between the buyer and MSE	Payment should be made within 15 days from the day of acceptance.

<table>
<tr><th>#</th><th>PARTICULARS</th><th>DESCRIPTION</th></tr>
<tr><td>b</td><td>Interest on delayed payment under Section 16 of the MSMED Act and its allowability under the IT Act</td><td>A buyer who fails to make payment within the Specified timelines as mentioned in Section 15 of MSMED Act, will be liable to pay compound interest at the rate of three times the bank rate. Further, Section 23 of the MSMED Act read with Section 37(1) of the IT Act provides that such interest on delayed payment will not be allowable as a deduction in the computation of income of a buyer.</td></tr>
<tr><td>c</td><td>Analysis of Section 43b(h) of the Income Tax Act</td><td>The tax implication arising under Section 43B(h) on payments made to MSEs under certain situations have been illustrated in the table below.
<table>
<tr><th>S. No</th><th>Day of acceptance of goods or services</th><th>Due date of payment as per agreement</th><th>Specified time as per Section 15 of MSMED Act</th><th>Date of actual payment</th><th>Tax implication under Section 43B(h)</th></tr>
<tr><td>1</td><td>April 01, 2023</td><td>April 30, 2023</td><td>April 30, 2023</td><td>March 31, 2024</td><td>FY 2023-24: No disallowance, as payment made within the FY</td></tr>
<tr><td>2</td><td>April 01, 2023</td><td>No agreement</td><td>April 16, 2023</td><td>March 31, 2024</td><td>FY 2023-24: No disallowance, as payment made within the FY.</td></tr>
<tr><td>3</td><td>March 01, 2024</td><td>April 10, 2024</td><td>April 10, 2024</td><td>April 10, 2024</td><td>FY 2023-24: No disallowance, as payment made within the specified time.</td></tr>
<tr><td>4</td><td>March 01, 2024</td><td>April 10, 2024</td><td>April 10, 2024</td><td>July 15, 2024</td><td>FY 2023-24: The payment to MSE will be disallowed, as payment not made within the specified time.

FY 2024-25: The amount disallowed in the preceding FY will be allowed on payment. However, the interest under Section 16 of MSMED Act for delay in payment will be disallowed.</td></tr>
</table>
</td></tr>
</table>

#	PARTICULARS	DESCRIPTION
d	**Implications of provisions of Section 43B(h) on GST component of payment to MSEs**	As discussed above, Section 43B(h) is applicable on payments to MSEs which is otherwise allowable under the IT Act. If GST component is claimed as input credit by the assessee, then such GST amount being not allowable under Section 37 of the IT Act (whether paid or unpaid), will not be subject to provisions of Section 43B(h). However, if the GST component is charged as expenditure, then such GST component will be allowed subject to satisfaction of conditions specified in Section 43B(h).
e	**Applicability of provisions of Section 43B(h) on unregistered micro and small enterprises**	Paragraph 2 of the Notification No. 2119(E) issued under the MSMED Act provides that any person who intends to establish, inter-alia, a micro or small enterprise 'may' apply for Udyam registration. This indicates that Udyam registration is discretionary for enterprise to set-up a micro or small enterprise. However, Section 43B(h) of the IT Act refers to Section 15 of the MSMED Act which prescribes payment timelines to 'supplier' and 'supplier' is defined under section 2 (n) of MSMED Act as a micro or small enterprise which has applied for Udyam registration. Accordingly, it can be said that Udyam registration is necessary for applicability of Section 43B(h).
f	**Reporting in Form 3CD vide corrigendum issued by CBDT.**	Clause 26 will continue to address clauses (a) to (g) of Section 43B. However, delayed payments to Micro and Small Enterprises (MSEs) which are disallowed under Section 43B(h) will be covered by Clause 22 instead of Clause 26. The amended Clause 22 now requires the tax auditor to report all amounts that are disallowable due to delayed payments to MSEs including principal amount disallowable under Section 43B(h) and the interest on delayed payments that is inadmissible under Section 23 of the MSMED Act.
g	**Applicability of provisions of Section 43B(h) on assessee availing presumptive scheme of taxation**	Presumptive taxation scheme allows assessee to compute their total income on the basis of a prescribed formula without considering the provisions of Sections 28 to 43C of the IT Act. Thus, if an assessee opts for presumptive taxation, the provisions of Section 43B(h) will not be applicable to it.
h	**Implications of provisions of Section 43B(h) on assessee following cash system of accounting**	Under the cash accounting system, an expenditure is charged to the profit and loss account on actual payment (i.e., on outflow of cash) and not merely on accrual. Accordingly, any payment to MSEs will be booked as expenditure and consequently claimed as allowance under the IT Act only on actual payment. This treatment under the cash system of accounting is consistent with the provisions of Section 43B(h) and hence there will be no impact of Section 43B(h) on assessee following cash accounting system.

Nangia's Take

The amendment to Section 43B(h) represents a significant change in the tax landscape, emphasizing the need for timely payments to MSEs and enhancing the accountability of taxpayers. As auditors and businesses adapt to these changes, it is crucial to meticulously follow the updated requirements to ensure compliance and optimize tax strategies.

Auditors must now verify compliance with the payment timelines to ensure accurate reporting in Firm 3CD leading to timely payments to MSEs however, on the flipside for assessee tracking and strictly monitoring payments to the MSE suppliers may have a bearing on the operational cost.

EAC Opinions on accounting for subsequent expenditure on PPE, Export incentives and CSR expenditure

The Expert Advisory Committee (“EAC” or “Committee”) of the ICAI serves as a crucial advisory body on matters pertaining to the accounting profession, financial reporting, auditing, and related domains. Its primary mandate is to offer expert counsel and direction on technical intricacies, ensuring that the standards, guidelines and practices adhered to by chartered accountants align with international benchmarks and regulatory mandates.

Following are some of the important EAC opinions issued in recent months.

Query 1 | Accounting treatment of subsequent expenditure as per Ind AS 16, ‘Property, Plant & Equipment’ (PPE)

Background:

A Company is engaged in coal mining business and operates a coal washery. Despite reaching the end of its useful life, the washery plant remains operational solely due to ongoing maintenance efforts by the Company. However, the plant's capacity utilization has been consistently low. With an objective to improve capacity utilisation and decrease downtime, a detailed report was drafted based on which, Company awarded the contract to a contractor to undertake the mechanical, electrical and civil works on washery for improving its capacity utilization. Contractor will be responsible for four years operation and maintenance of equipment supplied after construction and handling handing over, under the clause of defect liability.

Accounting Issue:

C&AG has raised an observation that amount incurred as above should have been capitalised under Capital work-in-progress (CWIP) instead of charged in profit & Loss and the basis for determining useful life.

Points considered by the Committee:

EAC is of the view that the expenditure incurred should be considered from the perspective of aggregate expenditure on washery as a whole and not in the context of expenditure incurred on individual component/parts of the washery. However, querist has mentioned that the expenditure incurred on individual component/part is insignificant as compared to the overall cost of new washery.

As per Ind AS 1 information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decision of primary users of financial statements. If the same is immaterial, then the same will be recognised in profit and loss. If considered material, then as per Ind AS 16, PPE are tangible items that are held for use in production and are expected to be used for more than one period.

EAC has noted that the cost of repair work meets the definition of PPE since washery is expected to be used in continuous production for more than one period. Cost of repair work also aims at enhancing the washery's operation and that even if said repair improves capacity by 10%, then actual expenses are expected to be recovered in a period to six to nine months post repairs. Thus, repair work will lead to future economic benefits in terms of improvement in operation and capacity.

EAC Opinion

Based on the analysis provided above EAC has opined that the company should capitalize such expenditure as cost of washery.

With regard to determination of useful life, EAC had opined that contractor's four-year maintenance agreement suggests a minimum four-year lifespan. The company should estimate assets useful life considering technical reports, past experiences, defect liability period and review this regularly. Reference may also be made to the requirements of Schedule II to the Companies Act, 2013 in this regard.

Query 2 | Accounting treatment of export incentives

Background:

A Company is engaged in business of export of rolling stock and locomotives and is getting incentives under foreign trade policy (FTP) of Government of India. Company receives two types of export incentives viz. incentives by way of duty credit scrips, that is due on realization of export proceeds and duty drawback incentives, that is due at time of export of goods.

Accounting Issue:

The Company is recognizing both the above export incentives as 'other operating income' since export incentive is directly linked with the revenue from operations of the Company.

The C&AG raised the observation that neither the significant accounting policy on export incentives nor the disclosure made by the Company disclosed the method of presentation adopted in the financial statements. Hence, the disclosure made is deficient to that extent. Additionally, presentation made under other operating income is in contravention of requirements of Ind AS 20, which requires it to be shown under 'Other Income'.

Points considered by the Committee:

The committee observes that as per Ind AS 20, government grants are defined as assistance provided by the government to an entity, typically in the form of resource transfers, in exchange for the entity meeting specific conditions related to its operational activities.

In the current scenario, the committee notes that benefits such as incentives either in the form of scrips or cash received in return for compliance with certain conditions, for example, export of goods. Therefore, these benefits are considered government grants and should be accounted for according to the provisions of Ind AS 20.

Additionally, the committee points out that Ind AS 20 provides the option to either deduct the grant from related expenses or present it separately, typically under a general heading like 'Other income' in the financial statements.

It was further noted, that as per the requirements of the Guidance Note on Division- II - Ind AS Schedule- III to the Companies Act, 2013, “other operating revenue” would include revenue arising from operating activities, but which is not revenue arising from sale of products or rendering of services and whether a particular income constitutes “other operating revenue” is to be decided based on the facts of each case and detailed understanding of the company’s activities.

EAC Opinion

EAC has opined that the incentives that the Company earns can be considered arising from its main business operations. Thus, the presentation from income from government grant in the extant case as other operating revenue is not inappropriate.

Further, with regard to disclosures, EAC has opined that the disclosure requirements, as per Ind AS 20, should be complied with by the Company regarding incentives in the extant case.

Query 3 | Accounting for CSR Expenditure under Accounting Standard Framework.

Accounting Issue:

A Corporation which is a statutory body established under the Warehousing Corporations Act, 1962, is not governed by the Companies Act, 2013. CSR expenses were allocated through the Profit & Loss Appropriation Account, instead of the Profit & Loss Account.

EAC Opinion

EAC is of the view that since the corporation is required to follow the requirements of the Companies Act regarding CSR activities, the accounting prescribed by the FAQ and Technical Guide are also applicable to the corporation. Accordingly, as per the requirements of the Companies Act, 2013, expenditure incurred by the corporation towards CSR should be recognised as expense in the Profit & Loss as an expense and not as an appropriation of profit in the Profit & Loss Appropriation Account.

Nangia's Take

The EAC opinions serve as invaluable resources for professionals in the accounting and auditing domains. They offer comprehensive guidance and advice on the practical application and implementation of accounting and auditing principles. EAC opinions help professionals navigate complex issues and ensure adherence to established standards and best practices in the field.

Revised Standard on Auditing SA 800/805/810

Coverage

- Revised SA 800- Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Framework
- Revised SA 805-Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement
- Revised SA 810-Engagements to Report on Summary Financial Statements

SA 800 (Revised)

Special Considerations-Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

This standard addresses the unique aspects of auditing financial statements prepared using special purpose frameworks. The revision includes enhanced guidance on the auditor's report and more detailed requirements to ensure that the special purpose nature of the financial statements is clearly communicated. The following are some of the major changes done in the revised standard:

a) The scope of the SA has expanded, with its objective now restated as "Forming an opinion and reporting on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."

b) New section inserted - "Application of SA 700(Revised) When Reporting on Special Purpose Financial Statements" has been introduced.SA 700(Revised) outlines the application of reporting standards when forming an opinion on special purpose financial statements. The auditor must adhere to SA 700(Revised) and other relevant reporting requirements, with additional guidance provided in paragraphs A15-A19.

c) Previously auditors were required to inform users in the auditor's report that the financial statements were prepared according to a special purpose framework and may not be suitable for other purposes. However, there was no specific requirement regarding the placement of this alert within the auditor's report. Now as per revised standard, in accordance with SA 706(Revised), mandates that auditors include an Emphasis of Matter paragraph within a separate section of the auditor's report, with an appropriate heading containing the term "Emphasis of Matter."

d) Paragraph on Material Modifications vis-a-vis ISA 800(Revised), Deletion from ISA 800 states the mandatory accounting standards should also be applied in respect of financial statements audited under section 44AB of the Income Tax Act, 1961, an example, "A tax basis of accounting for a set of financial statements that accompany an entity's tax return" instead now the reference said section is removed but example is retained.

SA 805 (Revised)

Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

The revised standard provides updated procedures for audits of individual financial statements or specific elements. It emphasizes clearer reporting requirements and documentation standards to improve the transparency and reliability of the audit outcomes. The following are some of the major changes done in the revised standard:

a) The scope of SA has expanded, with its objective now restated as "Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."

b) New section inserted - Application of SA 700(Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement. This insertion mandates the auditor to apply the requirements of SA 700(Revised) when forming an opinion and reporting on a single financial statement or specific element, adapting them as necessary. SA 700(Revised) requires communication of key audit matters for audits of complete sets of general purpose financial statements of listed entities.

c) New section inserted- Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of a Financial Statement. This insertion requires auditors to consider the implications of matters mentioned in the auditor's report on the complete set of financial statements for the audit of a single financial statement or specific element, requiring professional judgment. Factors for consideration include the nature and pervasiveness of the matter, differences in financial reporting frameworks, time periods covered, and elapsed time since the auditor's report.

SA 810 (Revised)

Engagements to Report on Summary Financial Statements

This standard pertains to the auditor’s responsibilities when engaged to report on summary financial statements derived from complete fin ancial statements. The revisions include more explicit guidelines on the auditor’s procedures and the form of the auditor's report, ensuring that summary financial statements accurately reflect the audited information.

The following are some of the major changes done in the revised standard:

a) New section inserted with respect to Information in Documents Containing Summary Financial Statements . The auditor must review both the summary financial statements and the accompanying auditor's report, checking for any significant discrepancies. If a material inconsistency is found, the auditor should discuss the issue with management to determine if revisions are needed. If management refuses to make necessary revisions, the auditor must take appropriate action, considering how this impacts the auditor's report on the summary financial statements.

b) New Insertions are made: SA 720(Revised) outlines the auditor's duties regarding "other information" in financial statement audits, referring to financial or non-financial data apart from financial statements and the auditor's report. It includes details on annual reports. Conversely, it pertain to information found alongside summary financial statements and the auditor's report, which may replicate annual report data or contain additional material. If misleading, the auditor must act in accordance with ethical obligations to avoid association with false or deceptive information

Nangia’s Take

These revisions are designed to enhance the clarity, consistency, and effectiveness of audits conducted under these specific circumstances, thereby improving the overall quality of financial reporting. The changes will apply to audits and engagements for financial years starting on or after April 1, 2024, with the previous standards remaining applicable for the financial year 2023-24

Meet our Experts

Vikas Gupta
Partner - Audit & Assurance
vikas.gupta@nangia.com

Prateek Agarwal
Partner - Audit & Assurance
prateek.agarwal@nangia.com

Vikram Singh Pratap
Partner - Audit & Assurance
vikram.pratap@nangia.com

Jaspreet Singh Bedi
Partner - Audit & Assurance
jaspreet.bedi@nangia.com

Vijaya Uppiretla
Partner - Audit & Assurance
vijaya.uppiretla@nangia.com

With inputs from:

Avneet Singh
Director - Audit & Assurance
avneet.singh@nangia.com

Shalu Kedia
Director - Audit & Assurance
shalu.kedia@nangia.com

Karan Aggarwal
Associate Director - Audit & Assurance
karan.aggarwal@nangia.com

Sudipti Palgotra
Manager - Audit & Assurance
sudipti.palgotra@nangia.com

Gagan Jaggi
Senior Associate - Audit & Assurance
gagan.jaggi@nangia.com

Deepika Mittal
Associate - Audit & Assurance
deepika.mittal@nangia.com

Our Offices

NOIDA
(Delhi NCR - Corporate Office) A-109, Sector - 136, Noida - 201304, India
T: +91 120 2598000

DELHI
(Registered Office) B-27, Soami Nagar, New Delhi - 110017, India T: +91 120 2598000

GURUGRAM
001-005, Emaar Digital Greens Tower-A
10th Floor, Golf Course Extension Road, Sector 61, Gurgaon-122102
T: +91 0124 430 1551

MUMBAI
4th Floor, Iconic Tower, URMI Estate, Ganpat Rao Kadam Marg, Lower Parel, Mumbai - 400013, India
T : +91 22 4474 3400

CHENNAI
Prestige Palladium Bayan,
Level 5, 129-140, Greams Road,
Thousand Lights, Chennai - 600006 T: +91 44 46549201

BENGALURU
Prestige Obelisk, Level 4, No 3
Kasturba Road, Bengaluru - 560 001,
Karnataka, India
T: +91 80 2248 4555

PUNE
3rd Floor, Park Plaza, CTS 1085, Ganeshkhind Road, Next to Pune Central Mall, Shivajinagar, Pune - 411005, India

DEHRADUN
1st Floor, "IDA" 46 E.C. Road, Dehradun - 248001, Uttarakhand, India T: +91 135 271 6300

www.nangia.com | query@nangia.com