Independent Skill Development Mission

Independent Skill Development Mission NXT
EMPOWERING FUTURES, SHAPING TOMORROW

ISDM (INDEPENDENT SKILL DEVELOPMENT MISSION

BUSINESS TAXATION & AUDITING (WEEKS 11-12)

STUDY MATERIAL: CORPORATE TAX, ADVANCE TAX & FILING

CHAPTER 1: UNDERSTANDING CORPORATE TAX

1.1 What is Corporate Tax?

Corporate Tax is a **direct tax** levied on the net income or profit of companies and corporations in India. It is imposed by the **Income Tax Department** and varies based on the company's **type and turnover**.

1.2 Types of Companies Liable to Pay Corporate Tax

📌 **1. Domestic Companies** – Companies registered in India, including **private limited companies (Pvt Ltd), public limited companies (Ltd), and LLPs**.
📌 **2. Foreign Companies** – Companies registered outside India but earning income from **business operations within India**.

1.3 Corporate Tax Rates in India (FY 2024-25)

Type of Company	Turnover	Tax Rate	Surcharge (if applicable)
Domestic Company	Turnover ≤ ₹400 Cr	25%	7% if income > ₹1 Cr
Domestic Company	Turnover > ₹400 Cr	30%	7% if income > ₹1 Cr
Foreign Company	Any turnover	40%	7% if income > ₹1 Cr
Companies opting for new tax regime (Sec 115BAA)	Any turnover	22%	Nil

📌 **Example:** A **private limited company** earning ₹5 Cr annually under the **old tax regime** pays **30% tax + surcharge + cess**, whereas the same company under **Section 115BAA** pays only **22% tax without exemptions**.

📌 **Exercise:** Research and list **five tax exemptions** that companies can claim under the old tax regime.

CHAPTER 2: UNDERSTANDING ADVANCE TAX

2.1 What is Advance Tax?

Advance Tax is the **prepayment of income tax** by businesses and individuals **before the end of the financial year**. It is applicable if the **total tax liability exceeds ₹10,000 per year** and is paid in installments.

2.2 Advance Tax Payment Schedule

Due Date	Advance Tax Payable

15th June	15% of total tax liability
15th September	45% of total tax liability (cumulative)
15th December	75% of total tax liability (cumulative)
15th March	100% of total tax liability

2.3 Who Needs to Pay Advance Tax?

✅ **Companies** earning taxable income.

✅ **Freelancers, Professionals, and Businesses** with tax liability over ₹10,000.

✅ **Salaried Individuals** with other income (interest, rental income, etc.).

📌 **Example:** A company estimates **total tax payable of ₹10,00,000** for the year. By 15th June, it must pay **₹1,50,000 (15%)**, by 15th September **₹4,50,000 (45%)**, and so on until **100% is paid by 15th March**.

📌 **Exercise:** Calculate the **advance tax payable** for a business with an estimated tax liability of **₹20,00,000** for the year.

Chapter 3: Corporate Tax Filing Process

3.1 Steps to File Corporate Tax Returns (ITR-6)

Companies must file ITR-6 before 31st October each year for tax compliance.

🔹 **Step 1: Collect Required Documents**

✅ **PAN & TAN of Company**

✅ **Financial Statements (Profit & Loss, Balance Sheet)**

✅ **Tax Computation Sheet**

✅ **Form 26AS (TDS Details)**

- **Step 2: Calculate Taxable Income**
  - Compute **Gross Revenue, Expenses, Deductions, and Net Profit**.
  - Apply **tax slab rates** and calculate **tax payable**.
- **Step 3: Pay Advance Tax (if applicable)**
  - If **advance tax was underpaid**, pay the remaining tax with **interest under Section 234B & 234C**.
- **Step 4: File ITR-6 Online**
  - Visit the **Income Tax e-Filing Portal** (https://www.incometax.gov.in/iec/foportal/).
  - Login with company **PAN** and password.
  - Select **"File Income Tax Return" > ITR-6**.
  - Upload **financial statements and tax details**.
- **Step 5: Verify & Submit Return**
  - Use **Digital Signature Certificate (DSC)** to verify.
  - Submit and download the **acknowledgment (ITR-V)**.

📌 **Example:** A domestic company with **₹5 Cr taxable income** prepares its financials and files ITR-6 before **31st October**, paying the final tax installment.

📌 **Exercise:** Visit the **Income Tax e-Filing website** and explore how **ITR-6 is filed for companies**.

CHAPTER 4: TAX DEDUCTIONS & EXEMPTIONS FOR COMPANIES

4.1 Key Deductions Under Corporate Tax

✅ **Depreciation on Assets (Section 32)** – Companies can claim **depreciation on machinery, furniture, and buildings**.

✅ **Business Expenses (Section 37)** – Allows deductions for **rent, salaries, travel, and operational costs**.

✅ **R&D Expenditure (Section 35)** – Additional deduction for **research & development** expenses.

✅ **Startup Tax Benefits (Section 80-IAC)** – **3-year tax holiday** for eligible startups.

✅ **Investment Deductions (Section 80JJAA)** – Additional deduction for **hiring new employees**.

📌 **Example:** A startup investing **₹10,00,000 in R&D** claims **150% tax deduction** under **Section 35**.

📌 **Exercise:** List five business expenses that qualify for tax deductions and explain how they reduce corporate tax liability.

Chapter 5: Late Filing & Penalties

5.1 Late Filing Penalties

❌ **Late filing of ITR (after 31st October) → Penalty of ₹5,000 to ₹10,000** under **Section 234F**.

❌ **Underpayment of Advance Tax → Interest @ 1% per month under Sections 234B & 234C**.

❌ **Failure to File Returns → Penalty up to 200% of tax due under Section 270A**.

📌 **Example:** A company that fails to file ITR before **31st October** must **pay ₹10,000 penalty + interest on pending tax payments**.

📌 **Exercise:** Research **penalties under Sections 234B, 234C, and 270A** and list scenarios where they apply.

Conclusion

Understanding **Corporate Tax, Advance Tax, and Tax Filing** is essential for businesses to **avoid penalties, maximize tax savings, and ensure compliance** with Indian tax laws.

📌 **Final Exercise:**

1. Calculate **Corporate Tax for a company with ₹8 Cr annual turnover** under both **new and old tax regimes**.
2. Compute **Advance Tax liability** for a business expecting **₹12,00,000 total tax for the year**.
3. Explore how to **file ITR-6 online** and list the required documents.

Study Material: Internal & Statutory Audits, Audit Trail

Chapter 1: Understanding Audits in Accounting

1.1 What is an Audit?

An **audit** is a systematic examination of financial records to ensure accuracy, transparency, and compliance with legal requirements. Auditing helps organizations detect fraud, errors, and misstatements while improving financial management.

There are two main types of audits:
1. **Internal Audit** – Conducted by an organization's internal team to ensure compliance with internal policies.
2. **Statutory Audit** – Conducted by external auditors to verify compliance with laws and regulations.

Why Are Audits Important?
✅ Ensure financial accuracy and transparency.
✅ Detect fraud, errors, and mismanagement.
✅ Improve financial reporting and internal controls.
✅ Comply with legal and regulatory requirements.

📌 **Example:** A company with **₹10 crores in revenue** undergoes an **internal audit** to check for accounting errors and a **statutory audit** to verify tax compliance.

📌 **Exercise:** List three key differences between internal and statutory audits.

CHAPTER 2: INTERNAL AUDIT

2.1 What is an Internal Audit?

An **Internal Audit** is an independent evaluation of an organization's **financial records, operations, and policies** conducted by an internal team. It helps in risk management, fraud detection, and ensuring compliance with company policies.

Key Features of Internal Audits:

✅ Conducted by the company's own audit team.
✅ Focuses on **internal controls and risk management**.
✅ Helps improve operational efficiency.
✅ Not legally required but highly recommended.

2.2 Steps in an Internal Audit

🔹 **Step 1: Define Objectives & Scope**

- Identify areas to be audited (finance, operations, compliance).

🔹 **Step 2: Review Policies & Procedures**

- Check company policies and financial records.

🔹 **Step 3: Conduct Risk Assessment**

- Identify risks such as **fraud, inefficiencies, or compliance issues**.

🔹 **Step 4: Test Internal Controls**

- Examine approval processes, financial transactions, and data accuracy.

🔹 **Step 5: Report Findings & Recommendations**

- Highlight discrepancies and suggest improvements.

📌 **Example:** A retail chain conducts an **internal audit** and finds that several cash transactions were not recorded properly, leading to financial discrepancies.

📌 **Exercise:** Assume you are an internal auditor. List five areas you would audit in a manufacturing company.

Chapter 3: Statutory Audit

3.1 What is a Statutory Audit?

A **Statutory Audit** is a legally required audit conducted by **external auditors** to ensure financial statements comply with **government regulations and accounting standards**.

Who Needs a Statutory Audit?

- **Companies with turnover above ₹1 crore** (as per the Companies Act, 2013).
- **Limited Liability Partnerships (LLPs) with revenue above ₹40 lakhs**.
- **Businesses with taxable income exceeding ₹50 lakhs**.

3.2 Key Features of Statutory Audit

✅ Conducted by **external chartered accountants**.
✅ Mandated by **Companies Act, Income Tax Act, or GST laws**.
✅ Ensures compliance with **Indian Accounting Standards (Ind AS)**.
✅ Results in an **Audit Report** submitted to regulatory authorities.

3.3 Steps in a Statutory Audit

🔹 **Step 1: Planning the Audit**

- Review financial statements and past audit reports.

🔹 **Step 2: Checking Compliance with Laws**

- Ensure compliance with **GST, Income Tax, and Companies Act regulations**.

🔹 **Step 3: Verifying Financial Transactions**

- Check invoices, bank statements, payroll records, and tax filings.

🔹 **Step 4: Identifying Fraud & Errors**

- Conduct tests to detect financial misstatements or fraud.

🔹 **Step 5: Issuing the Audit Report**

- Provide a signed report stating whether financial statements present a **true and fair view**.

📌 **Example:** A private limited company undergoes a **statutory audit** and the auditor finds that inventory records do not match sales reports, leading to an investigation.

📌 **Exercise:** Research the statutory audit requirements for companies in India and list three legal provisions governing them.

Chapter 4: Audit Trail

4.1 What is an Audit Trail?

An **Audit Trail** is a **step-by-step record** of financial transactions that helps track the source, movement, and verification of data. It ensures that transactions can be traced back to their origin.

4.2 Importance of Audit Trail

✅ Ensures **accuracy and transparency** in financial records.
✅ Helps detect **fraud, errors, and unauthorized access**.
✅ Provides a **historical record** for future reference.
✅ Aids in **regulatory compliance and legal proceedings**.

4.3 Components of an Audit Trail

Component	Description
Transaction Date	The date when the transaction occurred.
User Information	Who made the transaction (employee, vendor, system user).
Transaction Details	Amount, description, invoice/reference number.
Approval & Authorization	Any approvals required for the transaction.
Change Log	Any modifications made after the original transaction.

📌 **Example:** A **company's payroll system** records each salary transaction along with timestamps, employee details, and bank confirmation receipts. If an error occurs, the **audit trail** helps trace the issue.

📌 **Exercise:** Identify three software systems where audit trails are important and explain why.

CHAPTER 5: IMPLEMENTING AUDIT TRAIL IN TALLY

5.1 Enabling Audit Trail in Tally

Tally provides an **Audit Trail feature** to track modifications in financial records.

🔹 **Step 1: Open Tally Prime**

- Go to **Gateway of Tally > F11 (Features) > Accounting Features**.
- Enable **"Use Audit Trail Feature"**.

🔹 **Step 2: Set User Access Controls**

- Assign **user roles and permissions** to restrict unauthorized changes.

🔹 **Step 3: Generate Audit Logs**

- Navigate to **Gateway of Tally > Display > Audit Logs**.
- View transaction modifications, deletions, and approvals.

📌 **Example:** A business enables **Audit Trail in Tally**, preventing unauthorized edits in financial transactions. If an accountant tries to modify an invoice, Tally logs the change with a timestamp.

📌 **Exercise:** Enable **Audit Trail in Tally** for a sample company and check the **log reports for transaction changes**.

Chapter 6: Differences Between Internal & Statutory Audit

Feature	Internal Audit	Statutory Audit
Conducted By	Internal auditors (company employees)	External auditors (CA firm)
Objective	Improve internal processes	Ensure legal compliance
Legally Required?	No, but recommended	Yes, for companies meeting criteria

Focus Areas	Operations, risk management, fraud detection	Financial statements, tax compliance

📌 **Example:** A multinational corporation conducts **monthly internal audits** to improve financial efficiency but undergoes a **statutory audit annually** for regulatory compliance.

📌 **Exercise:** Explain which type of audit (Internal or Statutory) would be **more effective in detecting employee fraud** and why.

Conclusion

Understanding **Internal & Statutory Audits and Audit Trails** is essential for businesses to maintain **financial accuracy, compliance, and security**. Proper auditing ensures businesses **detect fraud, prevent financial misstatements, and adhere to legal regulations**.

📌 **Final Exercise:**

1. Conduct an **internal audit checklist** for a small business with 10 employees.
2. Generate an **audit log report** in Tally for transaction modifications.
3. List five benefits of maintaining a **digital audit trail**.

Assignment: Prepare a Dummy Tax Audit Report

SOLUTION GUIDE: PREPARING A DUMMY TAX AUDIT REPORT

This guide provides a **step-by-step approach** to preparing a **Dummy Tax Audit Report** as per the **Income Tax Act, 1961 (Section 44AB)**.

📝 PART 1: UNDERSTANDING TAX AUDIT REPORT

1.1 What is a Tax Audit?

A **Tax Audit** is an examination of a business's financial records to ensure **tax compliance** and accuracy in financial reporting. It is conducted under **Section 44AB of the Income Tax Act, 1961**, and is mandatory for businesses and professionals exceeding specified turnover limits.

1.2 Who Requires a Tax Audit?

📌 **A. Businesses** – If turnover exceeds **₹1 crore** (₹10 crore if 95% transactions are digital).
📌 **B. Professionals** – If gross receipts exceed **₹50 lakhs**.
📌 **C. Presumptive Taxation (Section 44AD & 44ADA)** – If declared income is lower than the prescribed percentage.

📌 **Example:** A trading firm with **₹5 crore turnover** must undergo a **tax audit** and submit **Form 3CA & 3CD**.

📌 **Exercise:** Identify three types of businesses that must undergo a **tax audit** and explain why.

📝 PART 2: PREPARING A DUMMY TAX AUDIT REPORT

2.1 Structure of a Tax Audit Report

A **Tax Audit Report** is submitted in **Form 3CA/3CB & Form 3CD**.

- **Form 3CA** – For companies & firms requiring statutory audits.
- **Form 3CB** – For entities not requiring a statutory audit.
- **Form 3CD** – Provides details of tax-related financial information.

📌 Dummy Tax Audit Report (Form 3CB & 3CD Format)

FORM 3CB

- **Part 1: Auditor's Report**
  - We have examined the **books of accounts** of **XYZ Enterprises**, having principal place of business at **Mumbai**, for the financial year **2024-25**.
  - The **Balance Sheet & Profit & Loss Account** were prepared as per **Indian Accounting Standards (Ind AS)**.
  - **Audit Findings:**
    ✅ Financial transactions comply with **Income Tax Laws**.
    ✅ No major **accounting irregularities** were found.
- **Part 2: Audit Opinion**
  - **In our opinion**, the financial statements present a **true and fair view** of the entity's financial condition.
  - **Tax Liability: ₹5,00,000** after considering all deductions.
- **Signatures**
  - **Auditor Name:** ABC Chartered Accountants
  - **Firm Registration Number:** FRN123456
  - **Date of Report:** 15th July 2025

FORM 3CD (Detailed Audit Report)

🔹 **Clause 1-5: General Information**
✅ **Name of Assessee:** XYZ Enterprises
✅ **PAN:** ABCD1234F
✅ **Business Nature:** Wholesale Trading
✅ **Turnover:** ₹5,00,00,000
✅ **Books of Account Maintained: Tally ERP 9, Bank Statements, Ledger Books**

🔹 **Clause 6-15: Compliance & Tax Details**
✅ **Method of Accounting:** Accrual Basis
✅ **GST Registration Number:** 27XXXXXXXX1Z5
✅ **TDS Deductions:** ₹2,00,000 deposited with the government
✅ **Capital Gains Transactions:** None

🔹 **Clause 16-31: Profitability & Deductions**
✅ **Gross Profit Ratio: 22%**
✅ **Net Profit Before Tax:** ₹50,00,000
✅ **Total Taxable Income After Deductions:** ₹30,00,000
✅ **Deductions Claimed Under Section 80C & 80D:** ₹5,00,000

🔹 **Clause 32-44: Financial Adjustments & Compliance**
✅ **Loan Transactions Above ₹1 Crore? No**
✅ **Cash Transactions Above ₹2 Lakhs? No**
✅ **TDS Default or Penalty? No**

📌 **Final Conclusion:** No **major non-compliance** was found, and the entity has **fulfilled all tax obligations**.

📌 **Exercise:** Create a **dummy tax audit report** for a business with a **turnover of ₹3 crores** and **profit of ₹25 lakhs**.

📝 PART 3: SUBMITTING A TAX AUDIT REPORT IN TALLY

3.1 Steps to Generate a Tax Audit Report in Tally

🔹 **Step 1: Enable Audit Features**

- Open **Tally Prime** and navigate to **Gateway of Tally > Audit & Compliance**.

🔹 **Step 2: Select Tax Audit Report**

- Go to **Audit Reports > Tax Audit (Form 3CD)**.
- Enter **financial year and company details**.

🔹 **Step 3: Verify Transactions & Generate Report**

- Tally will highlight **TDS defaults, cash transactions, and GST mismatches**.
- Once verified, click **Generate Tax Audit Report**.

🔹 **Step 4: Export Report for Filing**

- Click **Alt + E** to export **Form 3CD** in **PDF/Excel format**.
- Submit the report through the **Income Tax e-Filing portal**.

📌 **Example:** A business with **₹8 crore turnover** uses **Tally Prime** to generate its **Tax Audit Report**, highlighting **TDS deductions, GST compliance, and profit margins**.

📌 **Exercise:** Explore **Audit & Compliance Reports** in Tally and generate a **dummy Form 3CD**.

🔍 Conclusion

By following these **step-by-step** guides, businesses can efficiently:

✅ **Prepare a tax audit report as per Form 3CB & 3CD**.

✅ **Verify compliance with GST, TDS, and Income Tax regulations**.

✅ **Generate & submit a tax audit report using Tally**.

📌 **Final Exercise:**

1. Prepare a **Tax Audit Report** for a business earning ₹7 crores annually.
2. Use **Tally Prime** to generate **Audit Reports & verify transactions**.
3. List three benefits of **conducting a Tax Audit** for businesses.
