

Assurance Gazette

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Foreword ↗

“Welcome to the Assurance Gazette for September 2025

The ICAI Guidance Note on Tax Audit (Revised 2025) incorporates updates from recent Finance Acts and CBDT notifications. It introduces key revisions in Form 3CD reporting, MSME compliance, and concessional regimes, along with updated thresholds and clarified key terms to enhance compliance and reporting accuracy.

This edition also highlights supply chain finance growing its importance and India’s new Ind AS disclosure rules aim to replace opacity with clarity reshaping how companies, investors, and stakeholders view financial health and resilience.”

Key Updates in ICAI's Tax Audit Guidance Note:

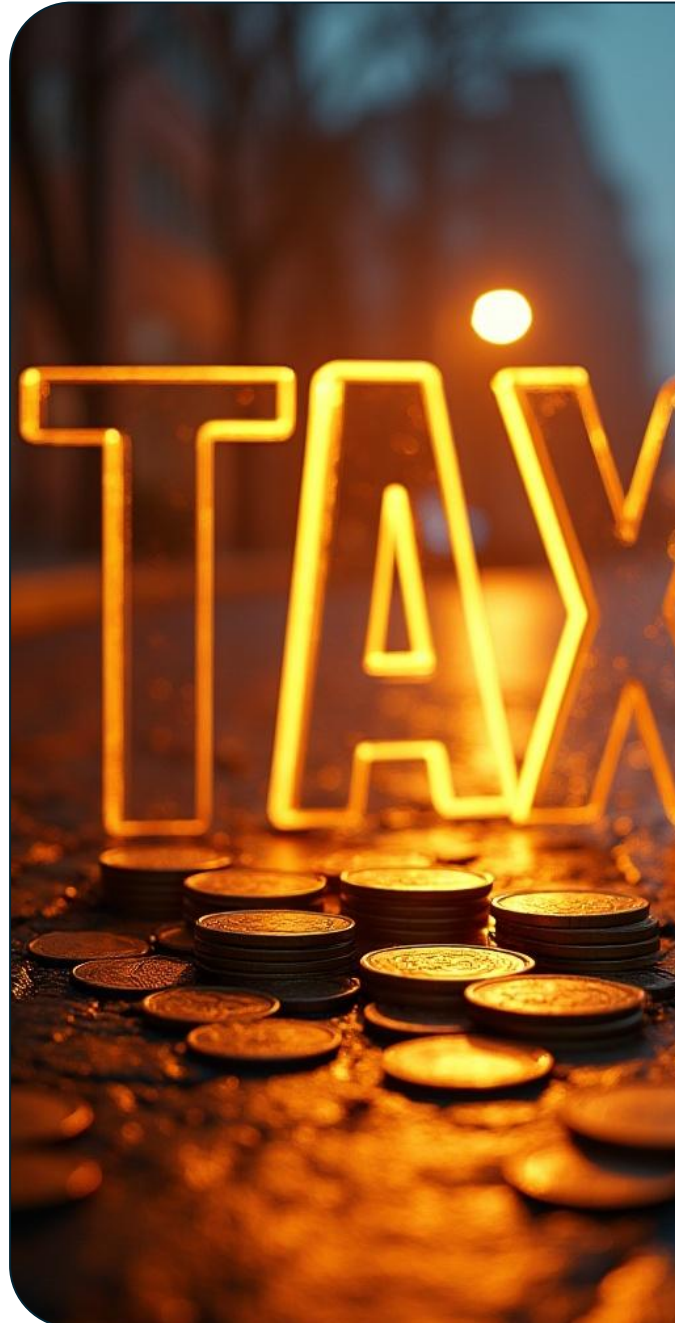
2025 Edition vs. 2023 Edition – A Concise Comparison

Summary :-

The ICAI Guidance Note on Tax Audit (Revised 2025) introduces key changes based on recent Finance Acts and CBDT notifications. It highlights new tax law amendments, revised Form 3CD reporting, and practical clarifications, with a focus on threshold limits, timelines, and compliance procedures.

Legislative Updates from Finance Acts 2024/2025 :-

- **Section 115BAE (New Manufacturing Co-operatives):**
Introduces a 15% concessional tax rate for co-operatives, with opt-in/out reporting via Form 10-IFA in Clause 8A (effective AY 2024-25).
- **Buyback of Shares (Section 2(22)(f)):**
Treats buyback proceeds as dividends, reported under new Clause 36B with details on amount, date, and cost (effective AY 2025-26), shifting from capital gains treatment.
- **Presumptive Taxation Extensions:**
Adds Section 44BBC (cruise ships, AY 2025-26) and Section 44BBD (electronics manufacturing, AY 2026-27) to Clause 12.



- **Rental Income Reclassification (Section 28):** Classifies residential rentals under "House Property" head, not business, updated in Section 28 (Finance Act, 2025; effective AY 2025-26).
- **Section 94B Exclusions:** Extends exclusions for interest deductions ($> ₹1$ crore) to IFSC finance companies, reported in Clause 30B (effective AY 2025-26). Thus, IFSC finance companies can now claim full deduction of such interest.
- **Partner Remuneration Limits (Section 40(b)):** Increases to ₹3,00,000 or 90% on first ₹6,00,000 of book profit (from ₹1,50,000/₹3,00,000), updated in limits laid down under Section 40 (b) (effective AY 2025-26).
- **MSME Payments (Section 43B(h)):** Enforces permanent disallowance for payments delayed beyond MSMED Act timelines (15/45 days), with enhanced reporting in Clause 22 (effective AY 2024-25).
- **Default Tax Regime (Section 115BAC(1A)):** Sets new tax regime as default for non-corporate entities, with opt-out via Form 10-IEA.
- **Non-Deductible Expenditures (Section 37(1)):** Adds settlements under notified laws (e.g., SEBI Act) in Clause 21(a) per Notification No. 38/2025 (effective AY 2025-26).
- **Omitted Provisions:** Removes higher TDS/TCS (Sections 206AB/206CCA) and TCS on goods sales (Section 206C(1H)) from Clauses 34(a) (effective 1.4.2025).



Changes in Form 3CD Reporting

Requirements :-

Clause 8A:

Expands reporting for special tax regimes (e.g., 115BAE), requiring verification of Forms 10-IB/10-IC.

Clause 26:

Replaces "allowed" with "allowable"; introduces Clause 26 (A) for pre-existing Section 43B(h) liabilities.

Explanation - Clause 26 uses "allowable" for conditional deductibility under Section 43B, while new Clause 26(A) addresses prior-year MSME dues under Section 43B(h).

Clause 22: Bifurcated into sub-clauses (i) - (iii) for MSME interest disallowances, linking to Clause 26(A) -

- i. Amount of Interest Inadmissible
- ii. Amount required to be paid to Micro/Small
- iii. Of above, amount paid and not paid up to time and inadmissible for previous year.

Clauses 30A/30B/30C: Enhances reporting for transfer pricing (92CE), interest limits (94B), and impermissible avoidance arrangements (96).

Clause 31:

Introduces dropdown codes for loan modes and disclosures for specified sums under Section 269SS.

Clause 36B: - New Clause 36B added to report buyback of shares proceeds as dividends under Section 2(22)(f), per Finance Act, 2025.

Omitted Clauses : Removes Clauses 28 and 29 for simplification.

Clarifications on Key Terms and

Concepts :-

- **Turnover/Sales/Gross Receipts:** Aligns with GST definitions, excluding fixed assets/rentals; updates MSME thresholds (micro: ≤ ₹10 crore; small: ≤ ₹100 crore).
- **Profession:** Expands to include company secretaries and film artists (Rule 6F), with a ₹50 lakh audit threshold.
- **Actual Cost/Paid/Plant/Block of Assets/WDV:** Clarifies calculations under Sections 2(11) and 43(1-6) for depreciation.
- **Appointed Day/Acceptance:** MSMED timelines for Clause 22 (e.g., Appointed Day: 15 days postacceptance).
- **Closing Stock Valuation:** Provides ICDS/GST-aligned methods with examples for consistency.



Threshold Limits and Timelines :-

Presumptive Taxation:

- **Section 44AD:** Turnover \leq ₹3 crore (from ₹2 crore) if cash receipts \leq 5% (effective AY 2024-25).
- **Section 44ADA:** Gross receipts \leq ₹75 lakhs (from ₹50 lakhs) if cash receipts \leq 5% (effective AY 2024-25).

Special Regimes:

Forms 10-IEA (by non-corporate entities for opting out of the default new tax regime)/10-IC (by domestic companies for opting reduced tax rate under Section 115BAA – 22%) must be filed before the ITR filing due date, i.e., October 31, 2024 for taxpayers under tax audit (Sec. 44AB) without international transactions, and November 30, 2024 for those with international transactions (Sec. 92E).

MSME Thresholds (Notification S.O. 1364(E), 21.03.2025),

effective from 1.4.2025-

- **Micro:** Investment \leq ₹2.5 crore, turnover \leq ₹10 crore.
- **Small:** Investment \leq ₹25 crore, turnover \leq ₹100 crore.
- **Medium:** Investment \leq ₹125 crore, turnover \leq ₹500 crore



New Appendices and Procedural Enhancements:-

Appendices:

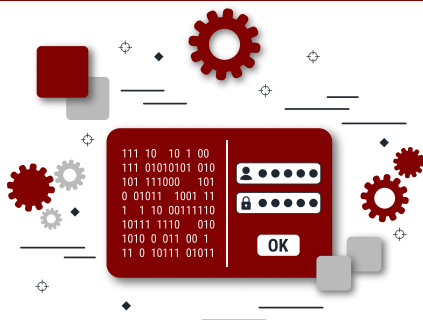
Adds VIIIA (audit limits), IXA (representation letter), XVI (business codes), XVII (MSME notification), XI (entity classification), and XII (Accounting Standards).

Integrated Content:

Provides guidance on partnerships, multiple businesses, cross-border reporting, Chapter VI-A deductions and Judicial Pronouncements.

n nangia's Take

The 2025 Guidance Note reflects a proactive approach to compliance, aligning with digitalization, judicial interpretations, and enhanced reporting requirements. Key focus areas include MSME compliance, presumptive taxation expansions, and precise Form 3CD disclosures. For detailed insights, refer to the official ICAI publication.



Enhancing Transparency in Supply Chain Finance: The Impact of New Ind AS 7 Disclosure Requirements

Key Points

- **Recent Amendments Notified:** On August 13, 2025, the Ministry of Corporate Affairs (MCA) introduced the Companies (Indian Accounting Standards) Second Amendment Rules, 2025, which bring significant changes to Ind AS 7 (Statement of Cash Flows) and Ind AS 107 (Financial Instruments: Disclosures). These updates, effective for annual reporting periods starting on or after April 1, 2025, focus on supplier finance arrangements (often called reverse factoring) to promote greater transparency in financial reporting.
- **Core Objectives:** The amendments aim to help stakeholders better understand how these arrangements affect a company's liabilities, cash flows, and liquidity risks, without altering the classification of cash flows themselves. This aligns Indian standards more closely with international practices under IFRS.
- **Disclosure Highlights:** Companies must now reveal terms like payment extensions, security provisions, and carrying amounts of related liabilities, including those already settled by financiers. This could shift how working capital is perceived, potentially reclassifying some trade payables as financial liabilities.
- **Broader Implications:** While these changes enhance investor confidence and corporate resilience, they may pose challenges for CFOs in data collection and compliance, especially for firms with complex supply chains. Evidence

suggests this could lead to more accurate assessments of financial health, though it might highlight deferred obligations that were previously less visible.

- **Why These Changes Matter**

In today's fast-paced global economy, supply chain finance (SCF) has evolved from a niche tool into a cornerstone for managing cash flows and supplier relationships. These arrangements allow buyers to extend payment terms while suppliers get paid early through third-party financiers, optimizing working capital for all parties involved. However, without proper disclosure, they can obscure a company's true financial position—making it look like operations are funding themselves when, in reality, external financing is at play. The new rules address this by mandating clearer reporting, helping investors gauge the sustainability of these efficiencies.



- **What Companies Need to Do**

Entities using SCF must now aggregate similar arrangements for disclosure but highlight differences where they exist. Key requirements include balance sheet breakdowns, payment due date ranges compared to standard trade payables, and explanations for any non-cash impacts like currency fluctuations. This not only affects Ind AS 7 but also ties into Ind AS 107 for liquidity risk assessments, creating a more integrated view of financial risks.

- **Potential Challenges and Benefits**

Adopting these standards might require overhauling internal processes, particularly for gathering supplier-specific data. For companies eyeing IPOs or funding rounds, compliance starts immediately for post-April 2025 periods. On the positive side, this transparency could build stronger trust with stakeholders, positioning Indian firms as reliable global players.

In the dynamic landscape of global business, where supply chains stretch across continents and economic pressures demand clever financial strategies, supply chain finance (SCF) arrangements—commonly known as reverse factoring—have emerged as indispensable mechanisms. These setups enable companies to stretch their payment terms with suppliers while ensuring those suppliers receive prompt payments through intermediary financiers, thereby bolstering working capital management and fostering stronger vendor partnerships. Yet, as these practices have proliferated, so too have concerns about their opacity in financial statements.

To address this, the Ministry of Corporate Affairs (MCA) rolled out the Companies (Indian Accounting Standards) Second Amendment Rules, 2025, on August 13, 2025. These amendments, which come into effect for annual reporting periods commencing on or after April 1, 2025, specifically enhance Ind AS 7, the Statement of Cash Flows, by incorporating disclosure mandates that mirror recent evolutions in International Financial Reporting Standards (IFRS). This piece delves into the nuances of these updates, examining how they compel companies to lay bare the inner workings of SCF programs, ultimately fostering a financial reporting environment that prioritizes economic reality over superficial metrics.

At the heart of these revisions are the freshly introduced paragraphs 44F to 44H in Ind AS 7, which zero in on supplier finance arrangements. These are defined as scenarios where a third-party finance provider steps in to settle amounts a company owes to its suppliers, with the company then repaying the provider either on the original due date or later. This definition, outlined in the new paragraph 44G, excludes simpler credit enhancements like guarantees or direct settlement tools such as credit cards, focusing instead on arrangements that genuinely alter payment dynamics—offering buyers extended terms and suppliers accelerated cash inflows compared to standard invoice deadlines.

The disclosure obligations are comprehensive: companies are required to outline the key terms and conditions of these programs, including payment timelines, any collateral or guarantees involved, and other stipulations that could influence financial outcomes. For efficiency, similar arrangements can be reported in aggregate, but those with unique features must be detailed separately to avoid masking material differences.


A standout feature is the insistence on transparent balance sheet presentation. Entities must disclose the carrying amounts of liabilities tied to SCF, pinpointing the exact line items where they appear—often distinguishing them from regular trade payables. Crucially, they need to specify the portions of these liabilities for which suppliers have already been compensated by the financiers, shedding light on obligations that might otherwise seem like straightforward operational debts. To provide context, companies must also reveal a range of payment due dates for these SCF-linked liabilities and compare them to those of non-SCF trade payables, complete with explanations for any notable discrepancies. This comparative aspect is vital, as wide variances could signal reliance on financing that inflates short-term liquidity perceptions.

Furthermore, the amendments mandate reporting on non-cash movements in these liabilities, such as those arising from foreign exchange variations, business acquisitions, or other non-monetary transactions. This ensures that the statement of cash flows accurately captures the economic essence of cash outflows, preventing distortions that could mislead users about a company's cash generation capabilities. Complementing these are tweaks to Ind AS 107 via the addition of paragraph 44JJ and revisions to Appendix B, which weave SCF

disclosures into broader liquidity risk evaluations. This holistic approach allows for a more nuanced understanding of how these arrangements interplay with overall financial risks, such as potential disruptions if financiers pull back during economic downturns.

The ramifications of these changes extend far beyond the accounting ledger. For chief financial officers (CFOs) and audit teams, there's a pressing need to reevaluate how SCF liabilities are categorized—potentially reclassifying them from trade payables to more scrutinized financial instruments, which could reshape key ratios like current ratios or debt covenants. This shift might alter investor perceptions of liquidity, prompting questions about whether apparent operational efficiencies are genuine or merely postponed payments. Companies gearing up for initial public offerings (IPOs) or seeking fresh capital will find themselves under immediate pressure, as any stub-period financials after April 2025 must incorporate these disclosures, even in interim reports.

Data management emerges as a significant hurdle. Sourcing precise details on supplier payments, especially in sprawling multinational operations, could strain existing systems. Early adopters in fiscal year 2026 might grapple with incomplete records, but the transitional leniencies offer some breathing room: comparative figures aren't mandatory in the debut year, and opening balance disclosures remain optional for interim periods. Over time, though, this will necessitate investments in advanced tracking tools and internal controls to ensure compliance without operational disruptions.



On the brighter side, these mandates are poised to elevate stakeholder trust. By demystifying SCF, they empower investors, creditors, and analysts to make informed judgments about a company's financial robustness and risk profile. In volatile markets, where supply chain disruptions can cascade into broader economic woes, this transparency could prove invaluable, helping firms demonstrate resilience and strategic foresight.

n nangia's Take

From Nangia's perspective, these Ind AS 7 enhancements represent more than a regulatory checkbox—they're a catalyst for genuine financial narrative-building. By peeling back the layers on supplier finance intricacies, they invite a deeper dialogue on whether working capital optimizations are built on solid ground or precarious deferrals. Harmonizing with IFRS not only bolsters India's standing in international accounting but also fortifies businesses against supply chain uncertainties. As organizations navigate this transition, the emphasis on openness will cultivate lasting credibility, transforming potential compliance burdens into opportunities for showcasing ethical and forward-thinking governance on the world stage.

To illustrate the new disclosure requirements, consider the following table summarizing key elements under Ind AS 7:

Disclosure Category	Description	Purpose
Terms and Conditions	Details on payment extensions, security, guarantees, and any dissimilar arrangements.	Enables assessment of arrangement specifics and risks.
Carrying Amounts at Period Start/End	Balance sheet line items for SCF liabilities, including those paid by financiers to suppliers.	Highlights the scale and classification of financed obligations.
Payment Due Date Ranges	Comparison of due dates for SCF liabilities vs. non-SCF trade payables, with explanations for variances.	Reveals impacts on liquidity and potential deferral effects.
Non-Cash Changes	Effects from forex, acquisitions, or other non-monetary events on SCF liabilities.	Ensures cash flow statements reflect true economic activities.
Liquidity Risk Integration (via Ind AS 107)	Incorporation into overall risk disclosures.	Provides a comprehensive view of exposure to financing disruptions.

This table encapsulates the structured approach mandated, drawing from the amendments' focus on comparability and clarity. In practice, for a manufacturing firm reliant on imported raw materials, these disclosures might reveal how SCF mitigates currency risks but introduces dependency on financier stability—insights previously buried in aggregated payables.

Overall, while the initial adaptation may test resources, the long-term payoff in terms of market confidence and strategic agility makes this a worthwhile evolution in Indian corporate reporting.



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