An Overview of Income Computation & Disclosure Standards (ICDS) and its Impact

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Origination of IFRS

- International Accounting Standards Committee (IASC) was set up in **1973** to formulate International Accounting Standards (IAS). IASC was supported by Standing Interpretation Committee (SIC).
- International Accounting Standards Board (IASB) was formed in **2001** and consequently, IASC was superseded. However, IAS and SIC Interpretations previously issued by IASC and SIC were endorsed by the IASB.
- IFRS Interpretations Committee (IFRIC) is interpretative body of the IASB.
- As on January 01, 2018, 26 IAS,15 IFRS,7 SIC and 15 IFRIC are effective. In January, 2019, 25 IAS,16 IFRS, 5 SIC and 14 IFRIC will be effective. (Numbers include both IFRS 9 and IAS 39, as an entity has an option to apply any one of the two)
- IASB headquarter is at London

LIST OF IND AS, IFRS AND AS

At a Glance…

Ind AS	IFRS	AS	ICDS
Ind AS 1 Presentation of Financial Statements	IAS 1 Presentation of Financial Statements	AS 1 Disclosure of Accounting Policies	ICDS – I (Accounting Policies)
Ind AS 2 Inventories	IAS 2 Inventories	AS 2 Valuation of Inventories	ICDS – II (Valuation of Inventories)
Ind AS 7 Statement of Cash Flows	IAS 7 Statement of Cash Flows	AS 3 Cash Flow Statements	No ICDS
Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	AS 5 Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies	ICDS – I (Accounting Policies)
Ind AS 10 Events after the Reporting Period Ind AS 10 Appendix A	IAS 10 Events after the Reporting Period IFRIC 17 Distribution of Non-cash Assets to Owners	AS 4 Contingencies and Events Occurring After Balance Sheet Date	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 12 Income Taxes Ind AS 12 Appendix A	IAS 12 Income Taxes SIC 25 Income Taxes – Changes in the Tax Status of an Entity or its Shareholders [IFRIC 23 Uncertainty over Income Tax Treatments yet to be effective from 01.01.2019]	AS 22 Accounting for Taxes on Income	No ICDS
Ind AS 16 Property, Plant and Equipment Ind AS 16 Appendix A Ind AS 16 Appendix B	IAS 16 Property, Plant and Equipment IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	AS 10 Property, Plant and Equipment	ICDS – V (Tangible Fixed Assets)

Ind AS	IFRS	AS	ICDS
Ind AS 17 Leases Ind AS 17 Appendix A Ind AS 17 Appendix B Ind AS 17 Appendix C	IAS 17 Leases SIC 15 Operating Leases – Incentives, SIC 27 Evaluating the Substance of Transaction involving the Legal Form of a Lease, IFRIC 4 Determining Whether an Arrangement contains a Lease [IAS 17 will be superseded by IFRS 16 w.e.f 01.01.2019]	AS 19 Leases	No ICDS
Ind AS 19 Employee Benefits Ind AS 19 Appendix A	IAS 19 Employee Benefits IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	AS 15 Employee Benefits	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 20 Accounting For Government Grants and Disclosure of Government Assistance Ind AS 20 Appendix A	IAS 20 Accounting For Government Grants and Disclosure of Government Assistance SIC 10 Government Assistance – No Specific Relation in Operating Activities	AS 12 Accounting for Government Grants	ICDS – VII (Government Grants)
Ind AS 21 The Effects of Changes in Foreign Exchange Rates Ind AS 21 Appendix B	IAS 21 The Effects of Changes in Foreign Exchange Rates IFRIC 22 Foreign Currency Transactions and Advance Consideration	AS 11 The Effects of Changes in Foreign Exchange Rates	ICDS – VI (The effects of changes in foreign exchange rates)
Ind AS 23 Borrowing Costs	IAS 23 Borrowing Costs	AS 16 Borrowing Costs	ICDS – IX (Borrowing Costs)
Ind AS 24 Related Party Disclosure	IAS 24 Related Party Disclosure	AS 18 Related Party Disclosures	No ICDS

Ind AS	IFRS	AS	ICDS
No Standard	IAS 26 Accounting and Reporting by Retirement Benefits Plans	No standard	No ICDS
Ind AS 27 Separate Financial Statements	IAS 27 Separate Financial Statements	Certain guidance given in AS 21 Consolidated Financial Statements and AS 27 Financial Reporting of Interests in Joint Ventures	No ICDS
Ind AS 28 Investment in Associates and Joint Ventures	IAS 28 Investment in Associates and Joint Ventures	AS 23 Accounting for Investments in Associates in Consolidated Financial Statements	No ICDS
Ind AS 29 Financial Reporting in Hyperinflationary Economies Ind AS 29 Appendix A	IAS 29 Financial Reporting in Hyperinflationary Economies IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	No standard	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 32 Financial Instruments: Presentation	IAS 32 Financial Instruments: Presentation	No standard (AS 31 Financial Instruments : Presentation earlier issued by ICAI was withdrawn vide 360th meeting of the Council of ICAI held on November 7-9-2016)	No ICDS
Ind AS 33 Earnings Per Share	IAS 33 Earnings Per Share	AS 20 Earnings per Share	No ICDS
Ind AS 34 Interim Financial Reporting Ind AS 34 Appendix A	IAS 34 Interim Financial Reporting IFRIC 10 Interim Financial Reporting and Impairment.	AS 25 Interim Financial Reporting	No ICDS
Ind AS 36 Impairment Of Assets	IAS 36 Impairment Of Assets	AS 28 Impairment of Assets	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets Ind AS 37 Appendix A Ind AS 37 Appendix B Ind AS 37 Appendix C	IAS 37 Provisions, Contingent Liabilities and Contingent Assets IFRIC 5 Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds IFRIC 6 Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment IFRIC 21 Levies	AS 29 Provisions, Contingent Liabilities and Contingent Assets	ICDS – X (Provisions, Contingent liabilities and Contingent assets)
Ind AS 38 Intangible Assets Ind As 38 Appendix A	IAS 38 Intangible Assets SIC 32 Intangible Assets – Website Costs	AS 26 Intangible Assets	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 40 Investment Property	IAS 40 Investment Property	AS 13 Accounting for Investments	ICDS – VIII (Securities)
Ind AS 41 Agriculture	IAS 41 Agriculture	No standard	No ICDS
Ind AS 101 First-Time Adoption of Indian Accounting Standards	IFRS 1 First-time Adoption of International Financial Reporting Standards	No standard	No ICDS
Ind AS 102 Share-based Payment	IFRS 2 Share-based Payment	No standard	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 103 Business Combination	IFRS 3 Business Combination	AS 14 Accounting for Amalgamations	No ICDS
Ind AS 104 Insurance Contracts	IFRS 4 Insurance Contracts [Will be superseded by IFRS 17 Insurance Contracts w.e.f 01.01.2021]	No standard	No ICDS
Ind AS 105 Non-Current Assets Held for Sale and Discontinued operations	IFRS 5 Non-Current Assets Held for Sale and Discontinued operations	AS 24 Discontinuing Operations	No ICDS
Ind AS 106 Exploration for and Evaluation of Mineral Resources	IFRS 6 Exploration for and Evaluation of Mineral Resources	No standard	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 107 Financial Instruments : Disclosures	IFRS 7 Financial Instruments : Disclosures	No standard (AS 32 Financial Instruments : Disclosures earlier issued by ICAI was withdrawn vide 360th meeting of the Council of ICAI held on November 7-9-2016)	No ICDS
Ind AS 108 Operating Segments	IFRS 8 Operating Segments	AS 17 Segment Reporting	No ICDS
Ind AS 109 Financial Instruments Ind As 109 Appendix C Ind AS 109 Appendix D	IFRS 9 Financial Instruments IFRIC 16 Hedges of a Net Investment in Foreign Operation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	No comprehensive standard but limited guidance in AS 13 Accounting for Investments (AS 30 Financial Instruments : Recognition and Measurement, earlier issued by ICAI was withdrawn vide 360th meeting of the Council of ICAI held on November 7-9-2016)	ICDS – VIII (Securities)

Ind AS	**IFRS**	**AS**	**ICDS**
Ind AS 110 Consolidated Financial Statements	IFRS 10 Consolidated Financial Statements	AS 21 Consolidated Financial Statements	No ICDS
Ind AS 111 Joint Arrangements	IFRS 11 Joint Arrangements	AS 27 Financial Reporting of Interests in Joint Ventures	No ICDS
Ind AS 112 Disclosure of Interests in other entities	IFRS 12 Disclosure of Interests in other entities	No standard	No ICDS
Ind AS 113 Fair Value Measurement	IFRS 13 Fair Value Measurement	No standard	No ICDS
Ind AS 114 Regulatory Deferral Accounts	IFRS 14 Regulatory Deferral Accounts	No standard	No ICDS

Ind AS	IFRS	AS	ICDS
Ind AS 115 Revenue from Contracts with Customers Appendix D-Service Concession Arrangements Appendix E-Service Concession Arrangements: Disclosures	IFRS 15 Revenue from Contracts with Customers IFRIC 12 Service Concession Arrangements SIC 29 Service Concession Arrangements: Disclosures	AS 9 Revenue Recognition AS 7 Construction Contracts	ICDS – IV (Revenue Recognition) ICDS – III (Construction Contracts)
Not covered in Ind AS	IFRIC 2 Members' Share in Co-operative Entities and Similar Instruments	No standard	No ICDS
Not covered in Ind AS	SIC 7 Introduction of Euro	No standard	No ICDS

Reasons for Non – Requirement of ICDS in Respective AS

AS	Title of AS	Reasons for non-requirement of ICDS
3	Cash Flow Statement	AS-3 is only a disclosure standard and does not have any impact on the computation of income under the act as it provides the information about the historical changes in cash and cash equivalents of an enterprise to assess the ability and need of the enterprise to generate and utilize the cash flows.
14	Accounting for Amalgamations	This standard deals with accounting for amalgamations in the hands of the amalgamated company. The Act contains specific provisions relating to amalgamations due to which the Committee recommends that no Tax Accounting Standard for Accounting for Amalgamations needs to be notify under the act.

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AS	Title of AS	Reasons for non-requirement of ICDS
15	Employee Benefits	This standard deals with specific provisions relating to employee benefits in the nature of short term benefits, termination benefits and post retirement benefits, and **the Act contains specific provisions related to employee benefits as such the Committee recommends that no Tax Accounting Standard for employee benefits needs to be notify under the Act.**
17	Segment Reporting	**AS-17 is only a disclosure standard** and the objective of this standard is to establish principles for reporting financial information about different types of products and services an enterprise produces and the different geographical areas in which it operates and does not have any impact on the computation of income under the Act. Thus, the Committee recommends that no Tax Accounting Standard for Accounting for Segment Reporting needs to be notify under the Act.

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AS	Title of AS	Reasons for non-requirement of ICDS
18	Related Party Disclosures	**The objective of this standard is to make specific disclosures in respect of the transactions with the related parties.** The Committee recommends that no Tax Accounting Standard for Related Party Disclosures needs to be notify under the act as the provisions of the Act such as section 44AB and section 92E already deal with disclosure of related party transactions.
24	Discontinuing Operations	**AS-24 specifically states that the standard does not deal with recognition or measurement. It is only a disclosure standard** and does not have any impact on the computation of income under the Act. The Committee recommends that no Tax Accounting Standard for Accounting for Discontinuing Operations needs to be notify under the act.

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AS	Title of AS	Reasons for non-requirement of ICDS
27	Financial Reporting of Interests in Joint Ventures	AS-27 classifies joint ventures into 3 categories: In case of **Jointly Controlled Entities**, this standard is applicable only in preparation of Consolidated Financial Statements (CFS). **Since CFS are not relevant under the Act, therefore provisions of this standard, in respect of Jointly Controlled Entities are not required for computation of income.** In case of **Jointly Controlled Assets**, the standard deals with assets and liabilities in the books of joint ventures. **The accrual of revenues or expenses are dealt with by other relevant accounting standards and therefore not dealt with by this standard.** In case of **Jointly Controlled Operations**, the standard deals with assets, income and expense by the joint ventures. **The accrual of revenues or expenses are dealt with by other relevant accounting standards and therefore not dealt with by this standard.** The Committee recommends that no Tax Accounting Standard for Interests in Joint Ventures needs to be notify under the act.

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AS	Title of AS	Reasons for non-requirement of ICDS
30, 31 & 32	Financial Instruments (Recognition and Measurement, Presentation and Disclosure)	**These standards deal with recognition and measurement, presentation and disclosure relating to financial instruments. These standards have currently been made non-mandatory by the ICAI and notifies under the Companies Act, 1956.** A substantial majority of companies currently do not follow these standards in their financial statements as they are voluntary and having limited applicability due to the conflicts with the notified standards. The Committee noted that companies which have voluntarily supplied these standards have seen an impact generally in the area of derivatives and hedge accounting through mark-to-market adjustments. The issue of mark-to-market losses has been dealt with in the Tax Accounting Standards on Accounting Policies, which provides that a mark-to-market loss or an expected loss shall not be recognized. Hence, recommended that no Tax Accounting Standard for Accounting for Financial Instruments needs to be notify under the Act.

Standards not yet issued by CBDT

Tax Accounting Standards Committee had recommended four more standards to be notified on the following subjects:

- Events occurring after the Balance Sheet Date
- Prior Period Items
- Leases
- Intangible Assets

The revised drafts issued in January 2015 were only for 12 ICDSs (including Leases & Intangible Assets) . **CBDT has not yet notified the standards on Leases & Intangible Assets. However, The CBDT issued Draft Income Computation and Disclosure Standards on Real Estate Transactions by press release on 11th May, 2017 and asking for comments from stakeholders.**

ICDS has not yet adequately addressed certain areas such as financial instruments, share-based payments, etc which are quite prevalent in today's business environment.

Compilation Chart of ICDS

ICDS No.	Title of ICDS	Computing Paragraphs	Transitional Provisions	Disclosure Paragraphs
I	Accounting Policies	1 to 5	10	6 to 9
II	Valuation of Inventories	1 to 24	25	26
III	Construction Contracts	1 to 21	22	23 to 24
IV	Revenue Recognition	1 to 10	11 to 12	13
V	Tangible Fixed Assets	1 to 15, 17	16	19
VI	Effects of change in foreign exchange rates	1 to 8	9	-
VII	Government Grants	1 to 12	13	14
VIII	Securities	1 to 13 + 1 to 3	-	-
IX	Borrowing Costs	1 to 9	10	11
X	Provisions, Contingent liabilities and Contingent Assets	1 to 19	20	21

AS I & AS II→ TAS→ ICDS

1995
Section 145(2)

1996
AS-I & AS-II

2010
- Committee formulated

2012
- Tax Accounting Standards [TAS]

2014
- TAS to ICDS

Jan 2015
- Draft of 12 ICDS

March, 2015 Notified 10 ICDS by CBDT

September 29, 2016 CBDT Notified 10 Revised ICDS & withdraw previous ICDS issued in 2015

March 23, 2017
CBDT issued 25 FAQs as clarification on Revised ICDS vide circular No. 10/2017

Notification dt 29-09-2016 struck down & held ultra vires (*Chamber of Tax Consultants vs Union of India- Delhi HC [2018] 400 ITR 178)* *Consequent amendment in Finance Act 2018.*

- It is beyond doubt that these Standards will change the way Income will be computed and will materially impact the assessee. The need for ICDS is to resolve the disputes and gaps between the provisions of the Act and the Accounting Standards so as to compute and disclose income in accordance with some specific guidelines to avoid litigations and provide an ease in doing business.

- **In the case of conflict between the provisions of the Act and the ICDS, the provisions of the Act shall prevail to that extent.**

However, for the situations of conflict between ICDS & the Income-tax Rules and ICDS & judicial pronouncements, there is no explicit provision yet. The Board seems to be of view that ICDS shall prevail over the contrary judicial pronouncements but, the ICDS should be subordinate to the Income-tax Rules.

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- These ICDS are applicable to **all the assessees** **(other than an individual or a Hindu undivided family who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB of the said Act)*** following Mercantile System of accounting for computation of income chargeable under the head "Profits and Gains of Business or Profession" or "Income from Other Sources", and not for the purpose of maintenance of books of accounts complying with ICDS, w.e.f. 01/04/2016 i.e. for the Financial Year 2016-17 or Assessment Year 2017-18 onwards.

*Added vide Notification No. 87/2016, Previously ICDS were applicable to all assessees irrespective of any exemption and threshold.

Impact of ICDS on ITR Forms

ITR Form AY 2017-18	ITR Form AY 2018-19	Requirement under ICDS
Form No.: ITR-1 SAHAJ For Individuals having Income from Salaries, one house property, other sources (Interest etc.) and having total income upto Rs.50 lakh	**Form No.: ITR-1 SAHAJ** For individuals being a resident other than not ordinarily resident having Income from Salaries, one house property, other sources (Interest etc.) and having total income upto Rs.50 lakhs	**No ICDS schedule**, as not required to get account audited u/s 44AB of the Act. Hence, not covered under ICDS.
Form No.: ITR-2 For Individuals and HUFs not carrying out business or profession under any proprietorship	**Form No.: ITR-2** For Individuals and HUFs not having income from profits and gains of business or profession	**No ICDS schedule**, as individual and HUFs not having Business Income. Hence, not covered under ICDS.

Impact of ICDS on ITR Forms

ITR Form AY 2017-18	ITR Form AY 2018-19	Requirement under ICDS
Form No.: ITR-3 For individuals and HUFs having income from a proprietary business or profession	**Form No.: ITR-3** For individuals and HUFs having income from profits and gains of business or profession	**ICDS schedule incorporated** as individual and HUFs having Business Income. Hence, covered under ICDS. The Form for AY 2018-19 require separate reporting of profit and loss instead of net basis as required in AY 2017-18 in Schedule OI & ICDS. Further adjustment is to be separately reported in Schedule BP

Impact of ICDS on ITR Forms

ITR Form AY 2017-18	ITR Form AY 2018-19	Requirement under ICDS
Form No.: ITR-4 SUGAM For Presumptive Income from Business & Profession (i.e. individual, HUF & partnership firms covered under presumptive scheme of taxation like 44AD, 44AE, AAADA of the Act)		**No ICDS schedule** * **However, clarifications issued by CBDT vide circular 10/2017 (Q-3) that relevant provision of ICDS shall also apply to the persons computing income under the relevant presumptive taxation scheme**. For example, for computing presumptive income of a partnership firm u/s 44AD, the provisions of ICDS on Construction Contract or Revenue recognition shall apply for determining the receipts or turnover, as the case may be.

Note:- Though, ICDS is applicable on such taxpayers to compute presumptive income, however, there is no such requirement to disclose the effect of the same in ITR form.

Impact of ICDS on ITR Forms

ITR Form AY 2017-18	ITR Form AY 2018-19	Requirement under ICDS
Form No.: ITR-5 For persons other than,- (i) individual, (ii) HUF, (iii) company and (iv) person filing Form ITR-7 *(i.e. A person being a firm, LLPs, AOP, BOI, artificial judicial person, person referred to in section 160(1)(iii)or (iv) i.e. representative assessee, cooperative society, registered societies and local authority)*		**ICDS schedule incorporated** as persons required to file ITR Form – 5 are specifically covered under ICDS.* The Form for AY 2018-19 require separate reporting of profit and loss instead of net basis as required in AY 2017-18 in Schedule OI & ICDS. Further adjustment is to be separately reported in Schedule BP

* ICDS would apply only to those sources of income, where mercantile system of accounting is followed and would not apply to those sources of income, where cash method of accounting is followed.

Impact of ICDS on ITR Forms

ITR Form AY 2017-18	ITR Form AY 2018-19	Requirement under ICDS
Form No.: ITR-6 For Companies other than companies claiming exemption under section 11		**ICDS schedule incorporated** as persons required to file ITR Form – 6 are specifically covered under ICDS.* The Form for AY 2018-19 require separate reporting of profit and loss instead of net basis as required in AY 2017-18 in Schedule OI & ICDS. Further adjustment is to be separately reported in Schedule BP

* ICDS would apply only to those sources of income, where mercantile system of accounting is followed and would not apply to those sources of income, where cash method of accounting is followed.

Impact of ICDS on ITR Forms

ITR Form AY 2017-18	ITR Form AY 2018-19	Requirement under ICDS
Form No.: ITR-7 For persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F)		**No ICDS schedule** Note:- **ICDS would also not apply for the purposes of computing exemption under sections 11 to 13,** where, as clarified by the CBDT vide its Circular no. 5-P (LXX-6) dated 19th June 1968, the computation of exemption is based on the commercial concept of income. However, where such income loses exemption, the computation would be under the various heads of income, and to the extent of such income falling under the heads "Income from Business or Profession" and "Income from Other Sources", the provisions of ICDS would apply if the books of account are maintained on mercantile system.

Note:- ICDS is applicable as there is no specific exclusion for such taxpayers , but there is no such requirement to disclose the effect of the same in ITR form.The absence of such a clarification may lead to litigation.

Disclosures required under ICDS

- Vide Amendment by Finance Act (No.2), 2014 in Section 145, the Assessing Officer is empowered to make Best Judgement assessment u/s 144 where the assessee has not computed income in accordance with notified ICDS.

- New ITR Form No. 3, 5 & 6 for A.Y. 2018-19 incorporates the ICDS as under:
  - Information under Part A-OI [Other Information] for 'Effect on profit on account of deviation, if any, as per ICDS, not mandatory to be filled by assessee not liable for audit u/s 44AB.

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Reporting in Part A- OI (A.Y. 2018-19)

Part A- OI	Other Information *(optional in a case not liable for audit under section 44AB)*		
1	Method of accounting employed in the previous year *(Tick)* ☑ ☐ mercantile ☐ cash		
2	Is there any change in method of accounting *(Tick)* ☑ ☐ Yes ☐ No		
3a	Increase in the profit or decrease in loss because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2) [column 11a(iii) of Schedule ICDS]	3a	
3b	Decrease in the profit or increase in loss because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2) [column 11b(iii) of Schedule ICDS]	3b	
4	Method of valuation of closing stock employed in the previous year		
a	Raw Material (if at cost or market rates whichever is less write 1, if at cost write 2, if at market rate write 3)		☐
b	Finished goods (if at cost or market rates whichever is less write 1, if at cost write 2, if at market rate write 3)		☐
c	Is there any change in stock valuation method *(Tick)* ☑ ☐ Yes ☐ No		
d	Increase in the profit or decrease in loss because of deviation, if any, from the method of valuation specified under section 145A	4d	
e	Decrease in the profit or increase in loss because of deviation, if any, from the method of valuation specified under section 145A	4e	

❖ Reporting in Schedule- BP (A.Y. 2018-19)

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Schedule BP	Computation of income from business or profession		
A	From business or profession other than speculative business and specified business		
25	Increase in profit or decrease in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3a + 4d of Part A - OI)	25	
33	Decrease in profit or increase in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3b + 4e of Part A- OI)	33	

❖ Separate Schedule- ICDS (A.Y. 2018-19)

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Schedule ICDS	Effect of Income Computation Disclosure Standards on profit	
Sl. No.	ICDS	Amount (+) or (-)
(i)	(ii)	(iii)
I	Accounting Policies	
II	Valuation of Inventories *(other than the effect of change in method of valuation u/s 145A, if the same is separately reported at col. 4d or 4e of Part A-OI)*	
III	Construction Contracts	
IV	Revenue Recognition	
V	Tangible Fixed Assets	
VI	Changes in Foreign Exchange Rates	
VII	Government Grants	
VIII	Securities *(other than the effect of change in method of valuation u/s 145A, if the same is separately reported at col. 4d or 4e of Part A-OI)*	
IX	Borrowing Costs	
X	Provisions, Contingent Liabilities and Contingent Assets	
11a.	**Total effect of ICDS adjustments on profit (I+II+III+IV+V+VI+VII+VIII+IX+X)** *(if positive)*	
11b.	**Total effect of ICDS adjustments on profit (I+II+III+IV+V+VI+VII+VIII+IX+X)** *(if negative)*	

Note:- There is no place in the returns of income for the various disclosures required to be made under each ICDS

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❖ The tax audit report in Form 3CD for A.Y. 2018-19, incorporates the disclosure as required by ICDS **in clause 13** , as under:

(d) Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)
(e) if answer to (d) above is in the affirmative, give details of such adjustments:

		Increase in profit (Rs.)	Decrease in profit (Rs.)	Net Effect (Rs.)
ICDS I	Accounting Policies			
ICDS II	Valuation of Inventories			
ICDS III	Construction Contracts			
ICDS IV	Revenue Recognition			
ICDS V	Tangible Fixed Assets			
ICDS VI	Changes in Foreign Exchange Rates			
ICDS VII	Governments Grants			
ICDS VIII	Securities			
ICDS IX	Borrowing Costs			
ICDS X	Provisions, Contingent Liabilities and Contingent Assets			
	Total			

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(f) Disclosure as per ICDS :

(i) ICDS I	–	*Accounting Policies*
(ii) ICDS II	–	*Valuation of Inventories*
(iii) ICDS III	–	*Construction Contracts*
(iv) ICDS IV	–	*Revenue Recognition*
(v) ICDS V	–	*Tangible Fixed Assets*
(vi) ICDS VII	–	*Governments Grants*
(vii) ICDS IX	–	*Borrowing Costs*
(viii) ICDS X	–	*Provisions, Contingent Liabilities and Contingent Assets.*

Note:- The disclosures as required by the various ICDS will have to be made under this sub-clause.

Brief Discussion on Landmark Judgment of

Chamber of Tax Consultants vs Union of India- Delhi HC [2018] 400 ITR 178)

Issues into consideration……..

(i) Whether the amendments to Section 145 are an instance of delegation by the Parliament of essential legislative powers to the Central Government?

(ii) Are the ICDS an instance of excessive delegation of legislative powers? Whether the impugned ICDS are contrary to the settled law as explained in various judicial precedents and are, therefore, liable to be struck down?

(iii) Whether the impugned amendments to Section 145 of the Act and the consequential ICDS and Circular violate Articles 14, 19 (1) (g), 141, 144 and 265 of the Constitution?

Summary of findings

1) Section 145 (2), as amended, has to be read down to restrict power of the Central Government to notify ICDS that do not seek to override binding judicial precedents or provisions of the Act. The power to enact a validation law is an essential legislative power that can be exercised, in the context of the Act, only by the Parliament and not by the executive. If Section 145 (2) of the Act as amended is not so read down it would be ultra vires the Act and Article 141 read with Article 144 and 265 of the Constitution.

2) The ICDS is not meant to overrule the provisions of the Act, the Rules thereunder and the judicial precedents applicable thereto as they stand.

3) The decision in ***J.K. Industries Ltd. v. Union of India (2008) 297 ITR 176 (SC)*** is distinguishable in its application to the case on hand.

4) **ICDS I** which does away with the concept of 'prudence' is contrary to the Act and binding judicial precedents and is therefore unsustainable in law. ***(Consequently, Section 36(1)(xviii) and section 40A is amended by FA, 2018 w.r.e.f. 01/04/2017 that MTM loss or other expected loss as computed in accordance with ICDS shall now be allowed as deduction in computing the income referred to in section 28)***

Summary of findings Contd.....

5) **ICDS II** pertaining to valuation of inventories and eliminates the distinction between a continuing partnership business after dissolution from one which is discontinued upon dissolution is contrary to the decision of the Supreme Court in ***Shakti Trading Co. (2001) 250 ITR 871 (SC)***. It fails to acknowledge that the valuation of inventory at market value upon settlement of accounts of the outgoing partner is distinct from valuation of the inventory in the books of the business which is continuing. ICDS II is held to be *ultra vires* the Act and struck down as such.

Consequently, Section **145A** is amended w.r.e.f. 01/04/2017 to provide that, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession,—

a) the valuation of inventory shall be made at lower of actual cost or net realizable value computed in the manner provided in ICDS notified under section 145(2). *[clause (i)]*

b) the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation. *[clause (ii)]*

Summary of findings Contd.....

6) The treatment to retention money under Paragraph 10 (a) in ICDS-III will have to be determined on a case to case basis by applying settled principles of accrual of income. By deploying ICDS-III in a manner that seeks to bring to tax the retention money, the receipt of which is uncertain/conditional, at the earliest possible stage, irrespective of the facts, the Respondents would be acting contrary to the settled position in law as explained in the decisions referred to in para 68 and to that extent para 10 (a) of ICDS III would be rendered *ultra vires.*

7) **Para 12 of ICDS III read with para 5 of ICDS IX**, dealing with borrowing costs, makes it clear that no incidental income can be reduced from borrowing cost. This is contrary to the decision of the Supreme Court in *CIT v. Bokaro Steel Limited (2001) 250 ITR 871 (SC)* and is therefore struck down.

Consequently, Section **43CB (Computation of income from construction and service contracts)** is newly inserted by FA, 2018, w.r.e.f. 01/04/2017 that the profits and gains arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the ICDS and that the contract revenue shall include retention money; and the contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains.”.

Summary of findings Contd.....

8) **Para 5 of ICDS-IV** requires an Assessee to recognize income from export incentive in the year of making of the claim if there is 'reasonable certainty' of its ultimate collection. This is contrary to the decision of the Supreme Court in *Excel Industries (2015) 358 ITR 295 (SC)*, and is, therefore, *ultra vires* the Act and struck down as such.

9) **Para 8 (1) of ICDS IV** is not been shown to be contrary to any judicial precedent. There is also no challenge to Section 36(1) (vii) of the Act. Accordingly, para 8 (1) of ICDS-IV is held to be not *ultra vires* the Act. Its validity is upheld.

*Consequently, **Section 145B (Taxability of certain income)** is newly inserted by FA, 2018, w.r.e.f. 01/04/2017 that interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received. The claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.*

Summary of findings

Contd.....

10) As far as **para 6 of ICDS IV is concerned**, the proportionate completion method as well as the contract completion method have been recognized as valid method of accounting under the mercantile system of accounting by the Supreme Court in *CIT v. Bilhari Investment Pvt. Ltd. (2008) 299 ITR 1 (SC)* and this Court in *CIT v. Manish Buildwell Pvt. Ltd (2011) 245 CTR 397 (Del)* and *Paras Buildtech India Pvt. Ltd. v. CIT (2011) 245 CTR 397 (Del)*. Therefore, to the extent that para 6 of ICDS-IV permits only one of the methods, i.e., proportionate completion method, it is contrary to the above decisions, held to be *ultra vires* the Act and struck down as such.

However, As discussed earlier, Section **43CB (Computation of income from construction and service contracts)** is newly inserted by FA, 2018, w.r.e.f. 01/04/2017

Summary of findings Contd.....

11) **ICDS – VI** which states that marked to market loss/gain in case of foreign currency derivatives held for trading or speculation purposes are not to be allowed, is not in consonance with the ratio laid down by the Supreme Court in ***Sutlej Cotton Mills Limited v. CIT (2015) 358 ITR 295 (SC)*** , insofar as it relates to marked to market loss arising out of forward exchange contracts held for trading or speculation purposes. It is, therefore, held to be *ultra vires* the Act and struck down as such.

Consequently, Section **43AA (Taxation of foreign exchange fluctuation)** is newly inserted by FA, 2018, w.r.e.f. 01/04/2017 that Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be, and such gain or loss shall be computed in accordance with the ICDS shall be in respect of all foreign currency transactions, including those relating to—

monetary items and non-monetary items; translation of financial statements of foreign operations; forward exchange contracts; foreign currency translation reserves."

Summary of findings Contd.....

12) **ICDS VII** which provides that recognition of government grants cannot be postponed beyond the date of accrual receipt, is in conflict with the accrual system of accounting. To that extent it is held to be *ultra vires* the Act and struck down as such.

Consequently, **Section 145B (Taxability of certain income)** is newly inserted by FA, 2018, w.r.e.f. 01/04/2017 that income of the nature of Subsidy, Grant, cash incentive or Duty Drawback, etc referred to in sub-clause (xviii) of clause (24) of section 2 shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year. (clause 3)

Summary of findings Contd.....

13) **ICDS VIII** pertains to valuation of securities. For those entities not governed by the RBI to whom Part A of ICDS VIII is applicable, the accounting prescribed by the AS has to be followed which is different from the ICDS. In effect, such entities will be required to maintain separate records for income tax purposes for every year since the closing value of the securities would be valued separately for income tax purposes and for accounting purposes. To this extent Part A of ICDS VIII is held to be *ultra vires* the Act and is struck down as such.

Consequently, Section **145A** is amended w.r.e.f. 01/04/2017 to provide that, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession,—

a) inventory being securities not listed on a recognized stock exchange, or listed but not quoted, shall be valued at actual cost initially recognized in the manner provided in ICDS notified under section 145(2). *[clause (iii)]*

b) inventory being listed securities, shall be valued at lower of actual cost or net realizable value in the manner provided in ICDS notified under section 145(2) and for this purpose the comparison of actual cost and net realizable value shall be done category-wise. *[clause (iv)]*

ICDS vis -a- vis AS

ICDS I Accounting Policies	AS-1 Disclosure of Accounting Policies

AS-1: Disclosure of Accounting Policies

- This Standard deals with the disclosure of significant accounting policies **followed in preparing and presenting Financial Statements (FS)** so as to represent a true and fair view of the enterprise.
- Accounting policies are **specified accounting principles and the methods of applying those principles** for the preparation of the FS of an enterprise.
- Aspects to be kept in mind while selecting accounting policies:

1. **Prudence**: Account for all expected losses/expenses but never account for expected gains/incomes.
2. **Substance Over Form**: Whenever there is a dispute, facts should prevail over law.
3. **Materiality**: Only 'material' information be presented whose knowledge might influence the decision of the users of FS.

Contd.......

- Examples of the areas where different accounting policies may be adopted by different enterprises are: Methods of depreciation, depletion & amortization, valuation of inventories, treatment of goodwill, etc.

- Certain fundamental accounting assumptions are assumed to be used in the preparation and presentation of financial statements. These are:
  1. Going concern
  2. Consistency
  3. Accrual

- **<u>Read with AS 5</u>- An Accounting policy should be changed if:**
  - Required by any statute, OR
  - Required for compliance with another Accounting Standard, OR
  - It will result in more appropriate presentation of Financial Statements.

DISCLOSURE REQUIREMENT UNDER AS - 1:

- All significant policies adopted in preparation of Financial Statements should be disclosed.
- Any change in accounting policies which has a material effect should be disclosed in the previous year in which the change is adopted. The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable.

  If a change has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted and also in the previous year in which such change has material effect for the first time.
- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.
- If a fundamental accounting assumption is not followed, the fact should be disclosed.

Comparison b/w ICDS I & AS 1

- Elimination of Concept of **Prudence**. According to AS-1, **the concept of prudence** is followed in accounting practices wherein **provision for 'expected losses' is created** **but;**

  As per ICDS such 'expected loss' or 'Mark to Market losses' shall not be recognized unless it is in accordance with the provisions of any other ICDS. **[Presently not required by any other ICDS]**

- **Section 36(1)(xviii) inserted with retrospective effect from 1st day of April,2017 by Finance Act, 2018**

  "marked to market loss or other expected loss as computed in accordance with the income computation and disclosure standards notified under section 145(2) shall be allowed".

  This is retrospectively applicable from the assessment year 2017-18 onwards.

Brief Impact:-

- Marked to market loss or other expected loss as computed in accordance with the income computation and disclosure standards notified under section 145(2) shall now be allowed as deduction in computing the income referred to in section 28.The same is in accordance with the provision of ICDS-1.
- MTM losses to be allowed on actual basis as per ICDS i.e. In the year of occurrence and not the year of provision.
- However , there is complete silence with respect to MTM Profits. However, the Board has clarified that same principles as contained in ICDS-I relating to MTM losses or expected losses shall apply mutatis mutandis to MTM gains or an expected profit. **(FAQ No. 8, Circular – 10/2017 dated 23/03/2017).**

<u>Section 40A(13) inserted with retrospective effect from 1st day of April,2017 by Finance Act, 2018</u>

"No deduction or allowance shall be allowed in respect of any marked to market loss or other expected loss, except as allowable under clause (xviii) of sub-section (1) of section 36."

<u>Brief Impact:</u>

- No deduction or allowance shall be allowed in respect of any market to market loss or other expected loss, except as computed in accordance with the income computation and disclosure standards notified under section 145(2) as allowable u/s 36(1)(xviii).
- The amount of MTM losses to be added in the year of provision in books of account.

Comparison b/w ICDS I & AS 1

- Unlike AS 1, under ICDS an accounting policy shall not be changed without **reasonable cause**.

- Where the changes made has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the ICDS I requires additional disclosure in the previous year in which such change has material effect for the first time apart from the previous year in which the change is adopted.

Judicial pronouncements on concept of 'Prudence'

- **Dy. CIT (IT) v. Bank of Bahrain & Kuwait [2010] 41 SOT 290 (ITAT-Mum.)**

  When outflow of economic resources in settlement of present obligation can be anticipated with reasonable accuracy, then it is to be recognized as crystallised liability. This is in consonance with the principle of prudence as considered by the ***Supreme Court*** in the case of *CIT v. Woodward Governor of India (P.) Ltd. [2009] 312 ITR 254*

- **Western Maharashtra Development Corpn. Ltd. v. Dy CIT [2008] 22 SOT 13 (ITAT- Pune)**

  The concept of 'prudence' as one of the basic considerations in deciding accounting policies is not of a recent origin. It is one of the fundamental principles of accounting that, as a measure of prudence and following the principle of conservatism, the incomes are not taken into account till the point of time that there is a reasonable degree of certainty of its realization, while all anticipated losses are taken into account as soon as there is a possibility, howsoever uncertain, of such losses being incurred

- *Also refer: Kerala State Industrial Products Trading Corpn. Ltd. v. Asst. CIT [2012] 22 taxmann.com 78 (ITAT- Coch.), Western Coalfields Ltd. v. ACIT 124 TTJ 659 (Nagpur), H M Constructions v. JCIT 84 ITD 429 (Bangalore), & Western Maharashtra Development Corpn. Ltd. v. DCIT [2008] 22 SOT 13 (Pune)*

Change in 'Accounting policy' as per judicial pronouncements..

- **Snow White Food Products Co. Ltd. v. CIT[1983] 141 ITR 847 (CAL.)**

  Change in accounting policy followed by the aseessee is not acceptable if there is nothing on record to indicate that the change is intended to be followed regularly in future by the assessee.

- **CIT v. Mopeds (India) [1988] 38 Taxman 123 (AP)**

  Change adopted by the assessee was for bona fide purpose and was not actuated by consideration to reduce income for the income-tax purpose, the revenue had no right to interfere with the change in the method of valuation of the closing stock.

- Also see: **CIT *v.* Dalmia Cement (Bharat) Ltd. [1995] 82 Taxman 255 (Delhi)**

Observations…

- **<u>Reasonable Cause:</u>** ICDS prohibits any change in an accounting policy without reasonable cause, it is not clear as to what would constitute 'reasonable cause' and the Board has clarified that "Reasonable Cause" is an existing concept under the Act and has evolved over a period of time conferring desired flexibility to the tax payer in deserving cases. **(FAQ No. 9, Circular – 10/2017 dated 23/03/2017).**

- The scope of the ICDS is limited to significant accounting policies applied while computing income under the head "Profits and gains of business or profession" or "Income from other sources", but the term 'significant' has not been defined in the ICDS.

Reasonable cause as per judicial pronouncements..

- **Woodward Governors India (P.) Ltd. v.CIT[2001] 118 Taxman 433 (Delhi)**

  Reasonable cause: an honest belief founded upon reasonable grounds, of the existence of a state of circumstances, which, assuming them to be true, would reasonably lead any ordinary prudent and cautious man, placed in the position of the person concerned, to come to the conclusion that the same was the right thing to do.

- **Fuji Bank Ltd. V. Asst. Cit [2002] 121 Taxman 25 (ITAT-Delhi)(Mag.) & Azadi Bachao Andolan v. Union of India [2001] 116 Taxman 249 (Delhi)**

  What would constitute reasonable cause cannot be laid down with precision. It would depend upon factual background and scope for interference in a reference application. The reasonable cause can be reasonably said to be a cause which prevents a man of average intelligence and ordinary prudence, acting under normal circumstances, without negligence or inaction or want of bona fides.

Observations…

- ❖ Any provision for expected loss outstanding as on year end shall be added back in the P&L account being disallowable as per ICDS. The loss will be allowed in the year of its occurrence.

  However, any loss occurred during FY 2017-18, whose provision was allowed in preceding years would not be allowed in the year of occurrence according to ICDS.

  - ❖ **Current year** :As per ICDS, income will increase in current year.
  - ❖ **Next Year** : As per ICDS, Income will decrease in the subsequent year when loss has occurred.

- ❖ The point of 'Provision for expected loss' also considered in ICDS III, ICDS IV and ICDS X which will be treated in the same manner and will be discussed in detail with the relevant AS.

Disclosure requirements under ICDS I

- All significant policies adopted in preparation of Financial Statements should be disclosed.
- Any change in accounting policies which has a material effect should be disclosed in the previous year in which the change is adopted. The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable.

If a change has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted and also in the previous year in which such change has material effect for the first time.

- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.
- If a fundamental accounting assumption is not followed, the fact should be disclosed.

Comparison b/w ICDS I & AS 1

	ICDS 1	AS 1
Scope	Scope of the ICDS is limited to significant accounting policies applied **while computing income under the head "Profits and gains of business or profession" or "Income from other sources"**	Disclosure of significant accounting policies followed in preparing and presenting True & Fair view of financial statements
Change in Accounting Policies	shall not be changed without **reasonable cause*** *Board has clarified that "Reasonable Cause" is an existing concept under the Act and has evolved over a period of time conferring desired flexibility to the tax payer in deserving cases. (FAQ No. 9, Circular – 10/2017 dated 23/03/2017).	Change in Accounting Policies can be made, only if; a) Required by statute b) For Compliance with an Accounting Standard c) Change would result in a more appropriate presentation of the financial statements of the enterprise

Contd…….

	ICDS 1	AS 1
Materiality	**Materiality concept is not there**	**Materiality is one of the key consideration** for selection and adoption of accounting policies
Prudence	Marked to market loss/gains or **expected losses not to be recognized** unless specifically mentioned in any other ICDS*	All **expected losses are to be recognized** and expected profits to be recognized on actual realization
Disclosure Requirements	**same as in AS-1.** *However, The disclosures required under ICDS shall be made in the tax audit report in Form 3CD. However, there shall not be any separate disclosure requirements for persons who are not liable to tax audit*	**As provided above on Slide No. 52**

* **Sec. 36(1)(xviii) & Sec. 40A(13) inserted w.r.e.f. 01/4/2017 by FA, 2018**

That MTM loss or other expected loss as computed in accordance with the ICDS shall now be allowed as deduction in computing the income referred to in section 28

Comparison b/w ICDS I & AS 5

	ICDS 1	AS 5
Prior Period Items	ICDS 'does not' consider prior period items inclusion in determination of net profit or loss of the period in which the error pertaining to a prior period is discovered.	Prior period items are included in determination of net profit or loss of the period in which the error pertaining to a prior period is discovered and are separately disclosed in the statement of profit and loss in a manner that the impact on current profit or loss can be perceived.

ICDS II	AS-2
Valuation of Inventories	Valuation of Inventories

AS-2 Valuation of Inventories

- This Standard deals with the **determination of the value** at which inventories are carried in the Financial Statements, including the ascertainment of cost of inventories and any write-down thereof to net realisable value.

- This Standard **does not deal** with:
  a) WIP arising under construction contracts.
  b) WIP arising in the ordinary course of business of service providers
  c) Shares, debentures and other financial instruments held as stock-in-trade.
  d) Producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases.
  e) Machinery spares which can be used only in connection with an item of fixed asset & whose use is expected to be irregular (such machinery spares are accounted for in accordance with AS-10, Accounting for Fixed Assets)

- **Inventories** are assets:
  a) held for sale in the ordinary course of business;
  b) used in the process of production for such sale; or
  c) used in the form of materials or supplies to be consumed in the production process or in the rendering of services
- **Inventories** Includes-
  a) goods purchased & held for resale, computer software held for resale, or land and other property held for resale.
  b) finished goods produced, or WIP being produced, by the enterprise and include materials, maintenance supplies, consumables and loose tools awaiting use in the production process.
- Value **Inventories** at the **'lower' of Cost OR Net Realisable Value.**
- **Cost of Inventories includes**:
  a) Cost of Purchase,
  b) Cost of conversion, and
  c) Other costs incurred in bringing the inventories to their present location & condition.

- **Cost Formulas:**
  - first-in, first-out (FIFO), or
  - weighted average

- While calculating the cost of Inventories, **exclude** certain costs and recognise them as **expenses** in the period in which they are incurred. Examples of such costs are:
  a) abnormal amounts of wasted materials, labour, or other production costs;
  b) storage costs, unless those costs are necessary in the production process prior to a further production stage;
  c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and
  d) selling and distribution costs.

- **Techniques used for measurement of cost of inventories are:**
  - a) **Standard Cost method** = Cost of material (+) Cost of labour (+) Overheads; or
  - b) **Retail method**= Sale value of inventory (-) % of gross profit.

Note:

These techniques need regular review and, where necessary, revision in the light of related conditions.

- **<u>DISCLOSURE REQUIREMENTS UNDER AS - 2:</u>**
  - ➢ All accounting policies adopted in measuring inventories.
  - ➢ Cost formula used in measuring inventories.
  - ➢ Total carrying amount of inventories and its classification.

Comparison b/w ICDS II & AS 2

	ICDS II	AS 2
Scope	Not applicable for: a) Construction contracts **b) WIP dealt in other ICDS** c) Financial instruments held as stock-in-trade d) Producer's Inventories **e) Machinery spares held as stock in trade**	Not applicable for: a. Construction contracts **b. WIP arising during ordinary course of business of service providers** c. Financial instruments held as stock-in trade d. Producer's Inventories
Cost of Services	Inclusion of **cost of services** in cost of inventories to bring inventories to their present location and condition*	**Cost of Services were not included** in cost of inventories as per AS 2

* Sec. 145A is substituted and clause (i) is newly inserted w.r.e.f. from 01/04/2017 by FA, 2018 **that for the purpose of computing the income from PGBP, the valuation of inventory will be** made at lower of actual cost or NRV computed in the manner provided in ICDS ***(This amendment seems*** to give the statutory backing to the treatment prescribed by ICDS-2 and accordingly, New ITR forms are amended for A.Y. 2018-19 to specifically report the same.

	ICDS II	AS 2
Cost of Purchase	The costs of purchase shall consist of purchase price **including duties and taxes***, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase. * on the lines of adjustment of **Section 145A** of Income Tax Act, 1961	The costs of purchase consist of the purchase price **including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities),** freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.

Contd.......

	ICDS II	AS 2
Value of Opening Inventory	The value of the inventory as on the beginning of the previous year shall be: • Value of inventory on the day of commencement in case of new business and • Value of the inventory as on the close of the preceding PY, in case of existing business.	**Value of opening inventory is not discussed in AS 2**

	ICDS II	AS 2
Techniques for measurement of cost	1. Retail method 2. Standard Cost	1. Retail method 2. Standard Cost
Cost Formula / Method of Valuation	1. Specific Identification Method 2. FIFO 3. Weight Average Cost	1. Specific Identification Method 2. FIFO 3. Weight Average Cost
Interest Cost	Excluded unless they meet the criteria as specified in the ICDS on borrowing costs.	Usually excluded.
Change in the method	Not permitted without a **"reasonable cause"**	Change in method will amount to change in Accounting Policy

	ICDS II	AS 2
Valuation of inventory in case of dissolutions	In the case of dissolution of a partnership firm or association of persons or body of individuals **irrespective of whether the business continues or not**, the inventories on the date of dissolution shall be valued **at net realizable value.**	AS-2 does not specifically mention the valuation of inventory in the case of dissolution.
Disclosure Requirements	**same as in AS-2.** *However, The disclosures required under ICDS shall be made in the tax audit report in Form 3CD. However, there shall not be any separate disclosure requirements for persons who are not liable to tax audit*	**As provided above on Slide No. 70**

Effect of Tax on Valuation of inventories

- Section 145A, of the Income Tax Act, inter alia, provides that the valuation of purchase and sale of goods and inventory for the purposes of determining the income chargeable under the head "Profits and gains of business or profession" shall be adjusted to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods to the place of its location and condition as on the date of valuation.
- The Accounting Standard 2 (Revised) on “Valuation of Inventories” issued by ICAI does not permit the recording of inventory valuation inclusive of taxes for the purpose of accounting.
- Hence, an adjustment in this regard is required for

Effect of Tax on Valuation of inventories

- However, the net effect of such an adjustment, made for the purpose of taxation, on the profit as shown in the accounts is NIL.
- The statutory adjustments required under section 145A can be better understood with the use of the following example:

Particulars	Qty	Rate excluding GST	Rate of GST
Opening Stock	10	100	Rs.5(i.e. 5%)
Raw material purchased	90	100	Rs.5(i.e. 5%)
Other manufacturing cost	80	100	-
Finished goods manufactured	80	-	-
Sales of finished goods	60	250	Rs.30(i.e. 12%)
Closing stock of raw material	20	100	Rs.5(i.e. 5%)
Closing stock of finished goods	20	200	Rs.30(i.e. 12%)

- Input output ratio of raw material to finished goods is 1:1

Contd...

Effect of Tax on Valuation of inventories

Exclusive Method: The Profit and Loss Account taking valuations net of tax will be:

Item	Particulars	Unit	Rate	Amount	Amount	Item	Particulars	Unit	Rate	Amount
a.	Opening Stock	10	100	1000		h.	Sales	60	250	15000
b.	Purchase of raw material	90	100	9000		i.	Closing stock of finished goods	20	200	4000
	Total	100	100	10000						
c.	Less closing stock of raw material	20	100	2000						
d.	Raw material consumed	80	100		8000					
e.	Manufacturing cost	80	100		8000					
f.	GST on finished goods				0					
g.	Gross profit				3000					
	TOTAL				**19000**		**TOTAL**			**19000**

Contd...

Effect of Tax on Valuation of inventories

Inclusive Method: The Profit and Loss Account taking valuations inclusive of tax will be:

Item	Particulars	Unit	Rate	Amount	Amount	Item	Particulars	Unit	Rate	Amount
j.	Opening Stock	10	105	1050		s.	Sales	60	280	16800
k.	Purchase of raw material	90	105	9450		t.	Closing stock of finished goods	20	230	4600
	Total	100	105	10500						
l.	Less closing stock of raw material	20	105	2100						
m.	Less GST credit	80	5	400						
n.	Raw material consumed	80	100		8000					
o.	Manufacturing cost	80	100		8000					
p.	GST on finished goods	60	30		1800					
q.	GST on closing stock of finished goods	20	30		600					
r.	Gross profit				3000					
	TOTAL				**21400**		**TOTAL**			**21400**

Contd...

Effect of Tax on Valuation of inventories

- From the above example, it is clearly seen that the profit remained **unchanged** on account of valuation of inventory **taken inclusive or exclusive of tax**.
- Following **other observations** can be made in this regard:
  - The profit and loss account showing valuations inclusive of tax consists of a debit for the amount of tax that has to be ultimately paid to the government, since it showed the sales and closing stock valuations inclusive of tax on the credit side this debit was necessary to give a clear picture of the **income** of the entity.
  - The GST credit availed on the raw materials have been recorded by deducting the same from the valuation of raw material consumed giving the correct picture of the **expense**.

Contd...

Effect of Tax on Valuation of inventories

The adjustments to be made in accordance with Section 145A in the above example are clearly illustrated as under:

Sl. No.	Particulars	Increase in profit (Rupees)	Decrease in profit (Rupees)
1	Increase in cost of opening stock on inclusion of GST on which input credit is available/ availed (j-a)	-	50
2	Increase in purchase cost of raw material on inclusion of GST on which input credit is available/ availed (k-b)	-	450
3	Increase in sale of finished goods on inclusion of GST (s-h)	1800	-
4	GST paid on sale of finished goods as a result of its inclusion in sales (p-f)	-	1800
5	Increase in closing stock of raw material on inclusion of GST (l-c)	100	-
6	Increase in closing stock of finished goods on inclusion of GST (t-i)	600	-
7	Increase in GST on closing stock of finished goods as a result of its inclusion in closing stock of finished goods (q)	-	600
8	Accounting of GST credit availed and utilised on raw materials consumed in payment of GST on finished goods accounted on the basis of raw material consumed (m)	400	-
	TOTAL	**2900**	**2900**

Contd...

Judicial Pronouncement on value of Inventory In Case of Dissolution of Firm/ AOP/ BOI…..

- Once the position was accepted that the business continued, the ratio enunciated by **A.L.A. Firm's** case (supra) and reiterated by **Sakthi Trading Co. v. CIT [2001] 250 ITR 871 (SC)** would apply with full force and the closing stock had to be valued at the **<u>cost or market price, whichever was lower</u>**, on the basis of established principles of commerce and accountancy.
- Where, a Partnership firm was dissolved, individual of the erstwhile firm continued to make a living out of a business, which by sheer coincidence happened to be again jewellery business, in which, distributed capital was introduced in the form of stock. The stock on introduction in the business, stood converted into stock-in-trade and value **<u>would have to be the market value on the date of introduction</u>**. [**Madhu Rani Mehra v. CIT[2011] 10 taxmann.com 126 (Delhi)]**

- Where dissolution of firm is accompanied by discontinuance of business and not otherwise, Market Price should be adopted [**Kwality Steel Suppliers v. CIT [2004] 141 Taxman 177 (GUJ.)]**
- If business of the firm didn't cease to continue as one unit on dissolution, the closing stock could not be valued at Market price (irrespective of value shown) [**Asst. CIT v. Kuldip Chand & Sons [2005] 93 ITD 253 (Amritsar)]**

Observations…

1) Due to specific provision for Dissolution of Partnership firm, the assets and liabilities are now to be valued on NRV i.e. to be written off to the value of its realisation, which will **decrease** profit of current year.
2) ICDS provides that method once adopted shall not be changed without a reasonable cause thereby providing a check over change of accounting policies.

Points needs Clarification:

- **VALUE OF OPENING INVENTORY:**
  - ICDS only provides to take the value of closing inventory of preceding year as opening value of inventory. But it does not clarify that which value should be taken i.e. value as per books of accounts OR value as per Income Tax Act.

- **REASONABLE CAUSE:**
  - ICDS prohibits change in a method of valuation of inventory without a reasonable cause. It is not clarified as to what would constitute 'reasonable cause'. The absence of such a clarification may lead to litigation.

Amendment by Finance Act, 2018 - Section 145A substituted with effect from the 1st day of April, 2017

'145A. For the purpose of determining the income chargeable under the head "Profits and gains of business or profession",—

(i) the valuation of inventory shall be made at lower of actual cost or net realisable value computed in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145;

(ii) the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation;

(iii) ……

(iv) ……..

Brief Impact:

Section 145A is substituted (w.r.e.f. 01/04/2017) to provide that, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession,—

(i) the valuation of inventory shall be made at lower of actual cost or net realizable value computed in the manner provided in ICDS notified under section 145(2). [Valuation of Inventory as per ICDS -2]

(ii) the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation. [same as old proviso of section 145A].

(iii)………

(iv)………

ICDS III
Construction Contracts

AS-7
Construction Contracts

AS-7 Construction Contracts

- The Standard prescribes the **accounting treatment of revenue and costs associated with construction contracts.**

- **Construction Contracts includes**:
  a) Contracts for the rendering of services which are directly related to the construction of the asset
  b) Contracts for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

- **Contract revenue comprises**:
  a) the **initial amount** of revenue agreed in the contract &
  b) variations in contract work, **claims** and **incentive** payments:
    i. to the extent that it is probable that they will result in revenue;
    ii. they are capable of being reliably measured.

- <u>Contract costs comprise</u> :

a) costs that relate directly to the specific contract;

b) costs that are attributable to contract activity in general and can be allocated to the contract; &

c) other costs that are specifically chargeable to the customer under the terms of the contract.

  - **Any incidental income needs to be reduced from the cost such as sale of extra material, sale of plant & machinery at the end of contract, etc.**

- **<u>Recognition of contract Revenue & Expense:</u>**

1. <u>When outcome of a contract can be estimated reliably</u> :
   a) revenue & expense be recognized with reference to the **stage of completion** of the contract activity at the reporting date.
2. <u>When the outcome of a contract cannot be estimated reliably:</u>
   a) Revenue be recognised **only to the extent** of contract costs incurred of which recovery is probable; and
   b) contract costs should be recognised as an expense in the period in which they are incurred.

Contd.......

- An **expected loss** on the construction contract **should be recognized** as an expense immediately.

- **DISCLOSURE REQUIREMENTS under AS - 7:**
  - the amount of contract revenue recognised as revenue in the period;
  - the methods used to determine the contract revenue recognised in the period; and
  - the methods used to determine the stage of completion of contracts in progress.
  - For contracts in progress at the reporting date:
    i. the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
    ii. the amount of advances received; and
    iii. the amount of retentions.

Comparison b/w ICDS III & AS 7

Sec 43CB newly inserted w.r.e.f 01/04/2017 (Finance Act 2018) specifically makes retention money as part of contract revenue in computing taxable income. Under ICDS regime, retention money is specifically included as part of contract revenue.

Contract Revenue and contract costs are to be recognized on POCM basis. During the early stages of a contract, where the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of costs incurred. This requirement is contained both in AS 7 and ICDS III. However, in case of ICDS III the early stage of a contract shall not extend beyond 25 % of the stage of completion.

AS 7 requires a provision to be made for the expected losses on onerous construction contract immediately on signing the contract. Under ICDS, losses incurred on a contract shall be allowed only in proportion to the stage of completion. Future or anticipated losses shall not be allowed, unless such losses are actually incurred.

Comparison b/w ICDS III & AS 7

	ICDS III	AS 7
Recognition of Contract Revenue	Revenue is recognized based on POCM. However, when the POCM is deemed in appropriate (e.g. when the outcome of the contract cannot be estimated reliably, referred as "early stage of a contract"), revenue is recognized to the extent that costs have been incurred.	Similar to ICDS
Early stage of contract	Early stage of a contract should not extend beyond 25 percent of the stage of completion.	Unlike ICDS, there is no bright line to conclude that the contract is no longer at an early stage

Contd..

	ICDS III	AS 7
Retention Money	Contract Revenue comprise of initial amount of revenue agreed. **Retentions are included as part of contract revenue and revenue to be recognized as per POCM** *(Section 43CB is also inserted by FA, 2018)*	**Retentions are not specifically mentioned** in Contract Revenue as per AS 7
Borrowing costs	ICDS III specifically **consider borrowing cost as a part of contract cost**	AS 7 **does not specifically mention borrowing costs as a part of contract cost. But AS 7 considers borrowing cost as a part of cost that are allocated to contract activity in general and can be allocated to the contract cost.**

Contd..

	ICDS III	AS 7
Interest, dividend and capital gain	Preconstruction income in the nature of **interest, dividend and capital gain** shall not be reduced from the cost of construction. **They shall be treated and taxed as income.**	**AS 7 states that incidental income that is not included in contract revenue shall be reduced from contract costs, but it does not specifically mention about interest, dividend and capital gain.**
Reversal of revenue	Provides for write-off in line with the provisions of Sec. 36 (1)(vii) Sec. 36(1)(vii) - bad debts written off.	Provides for reversal of revenue on account of uncertainty arising on realizability of contract revenue which was already recognized as income.

Contd..

	ICDS III	AS 7
Anticipated loss	Does not permit recognition of anticipated losses.	**All expected losses shall be recognized fully and not in proportion to percentage of completion.**
Incentives and claims	ICDS III does not mention about the specific performance standards to be met in case of incentives and claims.	Incentive payments are included in contract revenue only when the specific performance standards are met and amount of incentive payment can be measured reliably.
Attributing contract cost	The condition for attributing contract cost that such expenses should be capable of being measured reliably is removed.	For attributing contract costs to a construction contract, one condition is that such expenses should be capable of being measured reliably.

Contd..

Disclosure requirements under ICDS - III

- the amount of contract revenue recognised as revenue in the period;
- the methods used to determine the stage of completion of contracts in progress.
- For contracts in progress at the reporting date:
  1. the aggregate amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
  2. the amount of advances received; and
  3. the amount of retentions.

Observations…

- Contract revenue is to be recognized when there is reasonable certainty of its ultimate collection.

  Where the ultimate collection is not reasonably certain at the time of raising any claim for escalation of price & export incentives, revenue recognition in respect of such claim **shall be postponed** to the extent of uncertainty involved.

  The Board has also clarified this **FAQ No. 11, Circular 10/2017 dated 23/03/2017:**

  Question 11: Whether the recognition of retention money, receipt of which is contingent on the satisfaction of certain performance criterion is to be recognized as revenue on billing?

  Answer: Retention money, being part of overall contract revenue, shall be recognised as revenue subject to reasonable certainty of its ultimate collection condition contained in para 9 of Construction contracts.

Observations…

- **Inclusion of retention money will increases the profit during current year**. The profit will not be recognised in the year in which conditions to receive retention money (as per AS-7) will complete. The revenue will be recognized on POCM basis.

- Incidental Income in the nature of interest, dividend and capital gains is specifically not allowed to be reduced from the cost of construction.

- When stage of completion of contract exceeds 25%, revenue should be recognized in the P&L account irrespective of whether the same can be reliably estimated or not - **which will increase profit of current year.**

Observations…

- The provision for expected losses for the current year be added back and such losses will be allowed in the year of their occurrence. The losses are allowed to be recognized only in proportion to the stage of completion while the entire loss is considered in books of accounts. Therefore, increase current year's profit. (Insert section 36 (1)(xviii) w.r.e.f. 01/04/2017)

- Mandatory computation of income on the Percentage of Completion Method (POCM) basis even for the partnerships, LLP, proprietors, etc. Even the service providers such as architects, project managers, etc. rendering services directly attributable to construction contracts needs to follow POCM basis overriding earlier judicial pronouncements.

Deduction of anticipatory losses as per Judicial Pronouncements

- Deduction for foreseeable losses is allowed by Hon'ble Delhi High Court in **CIT v. Triveni Engg. & Industries Ltd. [2010] 8 taxmann.com 146**

- Losses provided by assessee in its books of account according to AS-7, had to be allowed. **[Asst. CIT v. ITD Cementation India Ltd. [2013] 36 taxmann.com 74 (Mumbai - Trib.)]**

- Where construction project has long gestation period and POCM is adopted for income-tax purpose, losses only proportionate to work completed during year can be allowed and not entire anticipated losses. **[Shivshahi Punarvasan Prakalp Ltd. v. ITO [2011] 15 taxmann.com 352 (Mum.)]**

ICDS III overruling the Judicial Pronouncement ……

CIT *v.* Simplex Concrete Piles India (P.) Ltd, [1989] 45 TAXMAN 370 (CAL.)

Assessee was carrying on construction business on mercantile system of accounting. Assessee was entitled to get 90% of payment in first instance when work was done and remaining 10 or 5%, as case may be, was to be paid later on after submitting certificates from architects/engineers, removal of defects, etc.

Assessee was crediting 100 % of job value in past years but from A.Y. 1965-66, it had started practice of crediting only 90% value for work done after deducting retention money.

It was held that on date of submission of bills assessee had no right to receive entire amount on completion of work and retention money did not accrue to it on such date but on later date in accordance with terms of contracts and ITO would be unjustified in making any addition by treating entire contract amount as accrued on submission of bills on completion of work.

But Under ICDS regime, retention money is specifically included as part of contract revenue.

Contd…….

ICDS III overruling the Judicial Pronouncement ……

CIT v. Associated Cables Ltd [2006] 286 ITR 596 (BOM.)

- Assessee entered into a contract with certain parties. As per contract, certain amount was to be retained by buyers and same was to be paid to assessee on satisfactory completion of contract.

  It was held that retention money did not accrue to assessee and could not be considered to be income of assessee in year in which amount was retained.

- **Also see: CIT v. P & C Constructions (P.) Ltd. [2009] 318 ITR 113 (Mad.) Asst. CIT v. B.G.R. Energy Systems Ltd. [2014] 47 taxmann.com 266 (Hyderabad - Trib.), DIT (IT) v. Ballast Nedam International [2013] 33 taxmann.com 139 (Gujarat), Amarship Constructions (P.) Ltd. v. Dy. CIT [2014] 367 ITR 659.**

ICDS III overruling the Judicial Pronouncement ……

Contd….

CIT v. Ignifluid Boilers (I) Ltd [2006] 283 ITR 295 (MAD.)

Assessee who was maintaining mercantile system of accounting entered into a contract with 'S' for erection of boilers wherein there was a specific clause that 10% contract price would be retained by principal contractor and it would be paid after 1 month subject to satisfactory performance of boiler.

The AO brought into account 10% of contract amount and levied tax on accrual basis – CIT(A) as well as ITAT deleted inclusion made by the AO.

It was held that since assessee was entitled to receive amount in question only after successful completion of work, it could not be said that 10% retention money retained by principal contractor accrued to assessee during relevant assessment year. Therefore, Tribunal rightly set aside order of AO.

Section 43CB inserted with retrospective effect from 1st day of April,2017 by Finance Act, 2018

"43CB. (1) The profits and gains arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145:

Provided that *profits and gains arising from a contract for providing services,—*

(i) with duration of not more than ninety days shall be determined on the basis of project completion method;

(ii) involving indeterminate number of acts over a specific period of time shall be determined on the basis of straight line method.

(2) For the purposes of percentage of completion method, project completion method or straight line method referred to in sub-section (1)—

(i) the contract revenue ***shall include*** *retention money;*

(ii) the contract costs ***shall not be reduced by*** *any incidental income in the nature of interest, dividends or capital gains."*

Brief Impact

- The profits and gains arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method (Except certain contract for providing services - project completion method; for duration of not more than ninety days and straight line method for indeterminate number of acts over a specific period of time) in accordance with the ICDS notified u/s 145(2) and
- the contract revenue shall include retention money; and the contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains.".
- ***This is in accordance with ICDS-3, Construction contracts, which was struck down by Hon'ble Delhi High Court.***

ICDS IV Revenue Recognition	AS-9 Revenue Recognition

AS-9: Revenue Recognition

This Standard deals with the bases for recognition of revenue in the statement of profit and loss of an enterprise. Revenue recognition is mainly concerned with the timing of recognition of revenue.

Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of an enterprise from

a) the sale of goods,

b) the rendering of services, and

c) other resources yielding interest, royalties and dividends.

- **Revenue from sale of goods** be recognised when significant risks and rewards of ownership related to goods are transferred to the buyer and no significant uncertainty exists regarding the amount of the consideration that will be derived.

- **<u>Revenue from service transactions:</u>** is usually recognised as the service is performed, either by using the :
    a) proportionate completion method or
    b) completed service contract method.

- **<u>The 'other resources' of enterprise used by others gives rise to</u>**:

a) **<u>Interest</u>**—charges for the use of cash resources or amounts due to the enterprise;

- Interest accrued is recognised on the time proportion basis taking into account the amount outstanding & the rate applicable.

- Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

b) **Royalties**—charges for the use of such assets as know-how, patents, trade marks and copyrights;

Royalties are recognised on an accrual basis in accordance with the terms of the relevant agreement.

c) **Dividends**—rewards from the holding of investments in shares.

Dividends are recognised in accordance with the provisions of the Act. Thus, dividends from investments in shares are recognised in the statement of profit and loss when the right to receive payment is established. Dividend will also include deemed dividend u/s 2(22)(e).

DISCLOSURE REQUIREMENTS:

- Disclosure required by AS-1, 'Disclosure of Accounting Policies',
- The circumstances in which revenue recognition has been postponed till the resolution of significant uncertainties.

Comparison at a Glance

	ICDS IV	AS 9
Recognition of Revenue	The ICDS provides that the amount that could not be recognized due to lack of reasonable certainty of its ultimate collection should be disclosed with the nature of uncertainty. *ICDS does not provide for specific exclusion for revenue recognition in case of Leases. Till the notification of separate ICDS on Leases, the already available provisions under this ICDS will have to apply.* **The gross turnover/ receipts u/s 44AB or 44AD of the Act needs to be calculated in accordance to the provisions of this ICDS.**	Revenue recognition to be postponed if significant uncertainty exists on measurability and collect ability of revenue from sale of goods, rendering of services, interest, royalties and dividends

Contd.......

	ICDS IV	AS 9
Rendering of Services	revenue from service transactions shall be recognized **on percentage completion method (PCM).** However, when services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period. Revenue from service contracts with duration not more than 90 days may be recognized by completed service method (i.e when rendering of services is complete or substantially complete) ***Section 43CB inserted by Finance Act, 2018 w.r.e.f. 01-04-17***	AS 9 **recognizes both completed service contract method and proportionate completion method for recognition of revenue from service transactions.**

Contd…….

	ICDS IV	AS 9
Recognition of Dividend	Dividend shall be recognised in accordance with the provisions of the Income Tax Act 1961.As per **Sec 8 of** Income Tax Act 1961, any dividend declared by a company or distributed or paid by it within the meaning of clause (22) of section 2 shall be deemed to be the income of the previous year in which it is so declared, distributed or paid, as the case may be	Dividend are recognised in the year when the **right to receive payment is established.**
Interest on refund of any tax, duty or cess	ICDS notifies that it shall be deemed to be the income of the previous year in which such interest is received	AS-9 is silent on the **Interest on refund of any tax, duty or cess**

Contd…….

	ICDS IV	AS 9
Disclosure Requirements	ICDS states that the amounts not recognized as revenue due to lack of reasonable certainty of its ultimate collection along with nature of uncertainty, should be disclosed. As provided above on Slide No. 109 *However, The disclosures required under ICDS shall be made in the tax audit report in Form 3CD. However, there shall not be any separate disclosure requirements for persons who are not liable to tax audit*	As per AS, circumstances have to be disclosed in which revenue recognition has been postponed till the resolution of significant uncertainties. As provided above on Slide No. 114

Disclosure requirement under ICDS

- In a transaction involving sale of goods, total amount of claim raised for escalation of price and export incentives but not recognized as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty.
- The amount of revenue from service transactions recognized as revenue during the previous year ; and
- The methods used to determine the stage of completion of service transactions in progress.
- For service transactions in progress at the end of previous year:
  - (i) amount of costs incurred and recognized profits (less recognized losses) upto end of previous year;
  - (ii) the amount of advances received; and
  - (iii) the amount of retentions.

145B. Taxability of certain income.
[New section inserted w.r.e.f. 01/04/2017

(1) Notwithstanding anything to the contrary contained in section 145, the interest received by an assessee on any compensation or on enhanced compensation, as the case may be, shall be deemed to be the income of the previous year in which it is received.

(2) Any claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.

(3) The income referred to in sub-clause (xviii) of clause (24) of section 2 shall be deemed to be the income of the previous year in which it is received, if not charged to income-tax in any earlier previous year.'

Brief Impact:

- New section 145B was newly inserted w.r.e.f. 01//04/2017 through the Finance Act, 2018 to provide that-
  a) interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received.
  b) the claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.
  c) income of the nature of Subsidy, Grant, cash incentive or Duty Drawback, etc referred to in sub-clause (xviii) of clause (24) of section 2 shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year.

This amendment was made to standardize the accounting practices to plug the possible leakage of tax revenue.

ICDS V Tangible Fixed Assets	AS-10 Property, Plant & Equipment

AS-10 : Property, Plant & Equipment

- FS disclose certain information relating to fixed assets such as land, buildings, plant and machinery, vehicles, furniture and fittings, goodwill, patents, trade marks and designs.
- This Standard **does not deal** with accounting for the following items to which **special considerations apply**:
  a) biological assets (living animal or plant) related to agricultural activity other than bearer plants. This Standard applies to bearer plants but it does not apply to the produce on bearer plants; and
  b) wasting assets including mineral rights, expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non-regenerative resources
- Items such as spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory.

Contd....

- The cost of fixed asset comprises:
  - Purchase price, **including** import duties and other non-refundable taxes or levies and
  - **Any directly attributable cost** of bringing the asset to its working condition for its intended use.
  - the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located

- **Examples of directly attributable costs are:**

(i) site preparation; (ii) initial delivery and handling costs; (iii) installation cost, such as special foundations for plant; and (iv) professional fees, (v) costs of employee benefits, arising directly from the construction or acquisition of PPE.

- Administration and other general overheads are usually excluded from the cost of fixed assets. Inauguration costs, costs of advertising and promotional activities and costs of staff training, etc. are also not included in value of asset.

- **Cost of assets acquired in exchange:**

  The cost of such an item of property, plant and equipment is measured at fair value unless

(a) the exchange transaction lacks commercial substance or

(b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable.

If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

- **Cost of Self Generated Fixed Assets:**

  Costs that relate directly or are attributable to the construction activity of specific asset in general and can be allocated to the specific asset.

Contd….

- **Measurement of value of PPE after Recognition:**

  An enterprise should choose either the cost model or the revaluation model as its accounting policy and should apply that policy to an entire class of PPE.

  - **Cost Model -** cost less any accumulated depreciation and any accumulated impairment losses.
  - **Revaluation Model -** fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses**.** If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs should be revalued

- **Improvements or Repairs:**
  - Repair expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance must be **capitalized**.
  - Other expenditures must be charged to P&L account.

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- **Depreciation:**
  - Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately
  - The depreciation charge for each period should be recognised in the statement of profit and loss unless it is included in the carrying amount of another asset.
  - The depreciable amount of an asset should be allocated on a systematic basis over its useful life.
  - The useful life of an asset is defined in terms of its expected utility to the enterprise.
  - The depreciation method used should reflect the pattern in which the future economic benefits of the asset are expected to be consumed by the enterprise.

- **Retirements and Disposal of Assets:**
  - Items of fixed assets that have been retired from active use and are held for disposal are stated at the **lower of their carrying amount OR Net Realizable Value.** Any write-down in this regard should be recognised immediately in the statement of profit and loss.

- **Derecognition:**
  - The carrying amount of an item of PPE should be derecognised :

  (a) on disposal; or

  (b) when no future economic benefits are expected from its use or disposal.

And the gain or loss arising from the derecognition should be included in the statement of profit and loss when the item is derecognized.

- **DISCLOSURE REQUIREMENTS:**

  - The financial statements should disclose, for each class of property, plant and equipment:

    a) the measurement bases (i.e., cost model or revaluation model) used for determining the gross carrying amount;

    b) the depreciation methods used;

    c) the useful lives or the depreciation rates used. In case the useful lives or the depreciation rates used are different from those specified in the statute governing the enterprise, it should make a specific mention of that fact;

    d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and

    e) a reconciliation of the carrying amount at the beginning and end of the period showing:

  - In respect of Depreciation, it is necessary to disclose:

    (a) depreciation, whether recognised in the statement of profit and loss or as a part of the cost of other assets, during a period; and

    (b) accumulated depreciation at the end of the period

Contd…….

- **DISCLOSURE REQUIREMENTS:**

❖ The financial statements should also disclose:

(a) the existence and amounts of restrictions on title, and property, plant and equipment pledged as security for liabilities;

(b) the amount of expenditure recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;

(c) the amount of contractual commitments for the acquisition of property, plant and equipment;

(d) if it is not disclosed separately on the face of the statement of profit and loss, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in the statement of profit and loss; and

(e) the amount of assets retired from active use and held for disposal.

❖ In accordance with AS 5, an enterprise discloses the nature and effect of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in subsequent periods.

- **DISCLOSURE REQUIREMENTS under AS - 10:**

  - If items of **property, plant and equipment are stated at revalued amounts**, the following should be disclosed:

    (a) the effective date of the revaluation;

    (b) whether an independent valuer was involved;

    (c) the methods and significant assumptions applied in estimating fair values of the items;

    (d) the extent to which fair values of the items were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques; and

    (e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.

Comparison at a Glance

	ICDS V	AS 10
Scope	Deals with the **treatment of tangible fixed assets** i.e. land, building, machinery, plant or furniture. ICDS does not provide any particular definition for plants	Applied in **accounting for property, plant and equipment** i.e. tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than a period of twelve months, but do not cover Bio-logical assets or Wasting assets. Bearer Plants are also covered under the scope of this AS.
Exchange of a tangible asset for another asset	Fair Value of the tangible fixed asset so acquired is to be its Actual cost	**Same** **However, if** fair value of acquired assets is not measurable then carrying amount of asset given is to be recognized

Contd.......

	ICDS V	AS 10
Revaluation of Fixed Assets	There is no concept of revaluation of asset in the ICDS. The same is in conformity with the provision of the Act wherein also the concept of revaluation of assets is not recognized.	As-10 provides treatment of accounting in case of revaluation of fixed assets.
Machinery Spares	Spares used tangible fixed asset irregularly, should be capitalised	Items should be capitalized only if they meet the definition of PPE
Exchange of a tangible asset for Shares or securities	Fair Value of the tangible fixed asset so acquired is to be its Actual cost	Fair value of acquired assets or securities issued whichever is more clearly evident.

	ICDS V	AS 10
Retirement and Disposal of Fixed Asset	**Silent**	lower of carrying amount or NRV and separately show them in FS
Derecognition of fixed asset	**Silent**	Derecognition of fixed asset on disposal and gain/loss arising from such assets should be included in statement of P&L
Purchase for consolidated price	Fair Value should be ascertained and apportioned to the various assets	**Same** If Fair Value is not ascertainable then should be ascertained by the competent valuer
Jointly owned fixed assets	Should be proportioned according to own share	**Silent**

Contd.......

	ICDS V	AS 10
Depreciation	**As per Income Tax Act, 1961**	**As per Schedule II of Companies Act, 2013** (i.e. Useful Life of Assets)
Expenditure incurred till the plant has begun commercial production	Those should be treated as capital expenditure.	Those expenses should be Write off.
Cost of Self Generated Fixed Assets	Costs that relate directly or are attributable to the construction activity of specific asset	**Same**
Improvements or repairs	Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost	**Same**

Disclosure requirement under ICDS
[different from AS-10]

- Description of asset/block of assets.
- Rate of depreciation.
- Actual cost or written down value, as the case may be.
- Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of:
  - Central Value Added Tax credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,
  - change in rate of exchange of currency, and
  - subsidy or grant or reimbursement, by whatever name called.
- Depreciation Allowable
- Written down value at the end of year

The disclosure requirements are same as in Tax Audit Report in respect of 'Depreciation'

Observations…

- Non inclusion of Intangible assets under ICDS will not impact the profit of current year because Income Tax Act separately allows depreciation for Intangible assets and disallows any amortisation of Intangible asset taken as per AS 26.
- Revaluation will **not affect** the P&L account, because it is also not allowed under the Act.
- ICDS does not provide for the disposal of tangible fixed assets, so it should be treated as per the AS or Act, therefore, will not impact the P&L account.
- Deferred taxes may arise w.r.t. machinery spares in case they are capitalized as per AS and charged to revenue as and when consumed as per the ICDS. Thus it would decrease profits as compared to the Act.

Observations…

- ICDS does not clarify the treatment of expenses, whether to be capitalized or considered as expense, incurred between the completion of asset and its utilization for commercial production. ICDS is also silent on the treatment of expenses incurred during the period post completion of test runs and pending commencement of commercial production. **However, the Board has clarified in this matter vide FAQ No. 15, Circular 10/2017** that:

As per Para 8 of ICDS-V, ***the expenditure incurred till the plant has begun commercial production****, that is, production intended for sale or captive consumption,* ***shall be treated as capital expenditure.***

ICDS VI	AS-11
The effects of changes in foreign exchange rates	The effects of changes in foreign exchange rates

AS-11: The Effects Of Changes in Foreign Exchange Rates

- An enterprise may carry on activities involving foreign exchange in following **ways: (a)It may have transactions in foreign currencies or; (b) it may have foreign operations or (c) forward exchange contracts.** Thus to incorporate such foreign transactions, they must be expressed in the Financial Statements at the enterprise's reporting currency.

- **A foreign currency transaction** is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when an enterprise either:
  a) buys or sells goods or services; or
  b) borrows or lends funds; or
  c) becomes a party to an unperformed forward exchange contract; or
  d) otherwise acquires or disposes of assets, or incurs or settles liabilities.

- **Some Definitions:**
  - Monetary items are money held and assets and liabilities to be received or paid in fixed or determinable amounts of money. (like Trade Receivables/ Payable, Cash & Bank Balance, etc.
  - Non-monetary items are assets and liabilities other than monetary items. (like Inventory, Fixed Assets, Investment in Equity shares, etc.)
  - Integral foreign operation is a foreign operation, the activities of which are an integral part of those of the reporting enterprise.
  - Non-integral foreign operation is a foreign operation that is not an integral foreign operation.
  - Forward exchange contract means an agreement to exchange different currencies at a forward rate.
  - Forward rate is the specified exchange rate for exchange of two currencies at a specified future date.

<u>Indications that a foreign operation is a non-integral foreign operation</u>:—

a. while the reporting enterprise may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from the activities of the person;

b. transactions with the reporting enterprise are not a high proportion of the foreign operation's activities;

c. the activities of the foreign operation are financed mainly from its own operations or local borrowings rather than from the reporting enterprise;;

d. costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency rather than in the reporting currency;

e. the foreign operation's sales are mainly in currencies other than reporting currency;

f. cash flows of the reporting enterprise are insulated from the day-to-day activities of the foreign operation rather than being directly affected by the activities of the foreign operation;

g. sales prices for the foreign operation's products are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation;

h. there is an active local sales market for the foreign operation's products, although there also might be significant amounts of exports.

- **Recognition of Foreign Currency Transaction:**
  - **Initial Recognition:**
    - A foreign currency transaction should be recorded, on initial recognition in the reporting currency, **at the date of the transaction at the prevailing rate on that date.**
  - **Subsequent Recognition at each Balance Sheet date:**
    - foreign currency **monetary items** should be reported using the closing rate.
    - foreign currency **non-monetary items** which are carried:
      - in terms of **historical cost** should be reported using the exchange rate at the date of the transaction.
      - at **fair value** or other similar valuation should be reported using the exchange rates on the date of determination of value.

- **Exchange differences** arising on **monetary items** should be-
  - recognised as **income or expense** in the period in which they were recognised
  - **accumulated** in a **Foreign Currency Translation Reserve** for net investment in a **Non-Integral Foreign Operation** until the disposal of the net investment.

- **Forward Exchange Contracts:**
  - Forward exchange contract means an agreement to exchange different currencies at a forward rate.
  - An enterprise may enter into forward contract to establish the amount of the reporting currency required or available on the date of settlement.
  - Premium or discount at the inception of contract should be amortised as income or expense over the life of contract.
  - Exchange difference should be recognised in the period in which they occurred.
  - Any profit or loss on cancellation or renewal of such contract should be recognised as income or expense.
  - The value of forward exchange contract for trading or speculation purposes should be marked to market value at each balance sheet date and the exchange difference on the contract is recognised in P&L account.

- As per **Para 46A** of AS-11, an enterprise on or after 1st April 2011 may opt for capitalisation of amount of exchange difference on **Long term Foreign Currency Monetary Items**:
  - In case of **depreciable asset** amount could be added or reduced from the cost of asset and shall be depreciated over the life of asset.
  - In **other cases** amount could be accumulated in "Foreign Currency Monetary Item Translation Difference Account" and amortised over the balance period of life of the asset or liability.

- **DISCLOSURE REQUIREMENTS UNDER AS - 11:**
  - Amount of exchange difference.
  - Accumulated amount in Foreign currency translation reserve account.
  - Change in the classification of significant operations.

Comparison at a Glance

	ICDS VI	AS 11
Scope	The ICDS deals with: • treatment of transactions in foreign currencies; • translating the financial statements of foreign operations; • treatment of foreign currency transactions in the nature of forward exchange contracts. *ICDS contains no scope exception for exchange differences arising from foreign currency borrowings which may be regarded as an adjustment to interest cost.*	**Same as in ICDS** *Whereas AS -11, contains an exception specifically for exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs.*

Under ICDS, Forward exchange contract includes foreign currency option contract or another financial instrument of a similar nature whereas the same are not included in AS.

	ICDS VI	AS 11
Forward Exchange Contract for trading or speculation purpose, or held for firm commitment, highly probable forecast)	Premium, discounts or exchange difference on contracts be recognised at the time of settlement only.	Marked to market at each balance sheet date - profit or loss arising there off recognised in P&L a/c. No Amortisation of premium or discount.
forward contracts not intended for trading or speculation purposes	Any premium or discount arising at the inception of a forward exchange contract is amortised as expense or income over the life of the contract. Exchange differences are recognised as expense or income in the reporting period in which the exchange rates change.	Similar to ICDS
Disclosure Requirements	Unlike As, there is no such Disclosure Requirements	As provided in Slide No. 141

	ICDS VI	AS 11
Revenue monetary items (trade receivables/ payables/bank balance, etc.)	Converted to reporting currency by using closing rate. Exchange difference recognized as income or expense subject to provisions of Rule115.	Reported using closing rate. Exchange difference recognized in P&L a/c.
Revenue non monetary item (like inventory)	If items are carried at historical cost – use exchange rate on the date of transaction. If items are carried at fair value - exchange rate that existed when the value was determined i.e. closing rate.	If items are carried at historical cost – use exchange rate on the date of transaction. If items are carried at NRV -use exchange rate on the date of transaction.

	ICDS VI	AS 11
Capital monetary items	Requires recognition of income and expenses in P&L subject to provisions of sec 43A. No distinction recognized between capital and revenue items. No such option available as paras 46 and 46A of AS – 11 are not existed in ICDS.	Requires recognition in P&L. **Option of capitalization available** - exchange differences arising out of long term foreign currency monetary items (LTFCMI) shall be either adjusted to capital asset or accumulated in FCMITDA (foreign currency monetary items translation difference account). [Para 46 & 46A]
Foreign Operations	Unlike AS, **"Foreign operations of a person" under ICDS only covers branch** and does not include Subsidiary, Associate or Joint Venture of the enterprise.	**Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise**, the activities of which ae based or conducted in a country other than the country of the reporting enterprise.

	ICDS VI	AS 11
Integral foreign operation	Unlike AS-11, ICDS has not classified foreign operations into 'integral foreign operation' & 'non integral foreign operations'.	Financial statements are translated as if the transactions of the foreign operation had been those of the entity itself i.e. same principles as for own assets and liabilities – Exchange differences are recognized in P&L A/c
Non-Integral foreign operation	Translation and recognition of exchange difference is subject to section 43A & 43AA of the Act or Rule 115, as the case may be.	Financial statements are translated as follows: • assets and liabilities, both monetary and non-monetary, at the closing rate; • income and expenses are translated at actual rate or appropriate rate approximating the actual rate. • Exchange differences are accumulated in FCTR A/c and to be taken to P&L a/c on disposal of non-integral foreign operations

	ICDS VI	AS 11
Monetary Items		
Integral foreign operation	Exchange difference is recognized as income or expense on last day of previous year or settlement date	Same as ICDS
Non- Integral foreign operation		Difference is recorded in FCTR and recognized at disposal*
Non-Monetary Items		
Integral foreign operation	Exchange difference **"not"** recognized on last day of previous year but recognized only on the settlement date	Exchange difference is recognized as income or expense
Non- Integral foreign operation		exchange difference is accumulated in FCTR

**FCTR balance as on 1 April 2016 pertaining to exchange differences on monetary items for non-integral operations, shall be recognised in the previous year relevant for assessment year 2017-18 to the extent not recognised in the income computation in the past. (Clarified by Board vide Circular 10/2007, FAQ No. 16)*

Section 43A- Special provisions consequential to changes in rate of exchange of currency

Where assessee has acquired any asset in any previous year from country outside India for the purposes of business or profession & due to change in rate of exchange during any previous year after such acquisition, there is increase or reduction in assessee's liability **at the time of making payment** towards such asset or towards the money borrowed in foreign currency,

the amount of such increase or decrease in the liability during such previous year shall be added to, or, as the case may be, deducted from—

(*i*) the actual cost of the asset or

(*ii*) the amount of expenditure of a capital nature u/s 35(1)(*iv*) or

(*iii*) the amount of expenditure of a capital nature u/s 35A; or

(*iv*) the amount of expenditure of a capital nature u/s 36(1)(ix) or

(*v*) the cost of acquisition of a capital asset (not being a capital asset u/s 50) for the purposes of section 48,

and the amount arrived at after such addition or deduction shall be taken to be the actual cost of the asset or the amount of expenditure of a capital nature or, as the case may be, the cost of acquisition of the capital asset as aforesaid.

Contd.......

- Where addition to or deduction under this section, as it stood immediately before its substitution by Finance Act, 2002, on account of an increase or reduction in the liability as aforesaid, the amount to be added to, or, deducted from, at the time of making payment, shall be so adjusted that the total amount added to, or, deducted from, is equal to the increase or reduction in aforesaid liability taken into account at the time of making payment.
- Where the liability aforesaid or any part thereof is met by any other person or authority, the liability so met shall not be taken into account for the purposes of this section.
- Where the assessee has entered into forward exchange contract for the purpose of meeting the whole or any part of the liability as aforesaid,

  the amount to be added or deducted under this section, in respect of the amount under forward exchange contract, be computed with reference to the rate of exchange specified in the contract.

After section 43A, Section 43AA inserted with retrospective effect from 1st day of April, 2017

(1) Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be, and such gain or loss shall be computed in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145.

(2) For the purposes of sub-section (1), gain or loss arising on account of the effects of change in foreign exchange rates shall be in respect of all foreign currency transactions, including those relating to—

i. monetary items and non-monetary items;
ii. translation of financial statements of foreign operations;
iii. forward exchange contracts;
iv. foreign currency translation reserves.".

- **Brief Impact**

The Finance Act, 2018 inserted section 43AA **where it gives weightage to ICDS –VI** by stating that any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss. This is also retrospectively applicable from the assessment year 2017-18 onwards.

It does not upset section 43A and hence the borrowers for depreciable assets will not be impacted by the amendment proposed.

ICDS VII

Government Grants

AS-12

Government Grants

AS-12: Government Grants

- This Standard deals with accounting for government grants.
- Government grants are to be **recognised in the FS**:
  a) where there is reasonable assurance that the enterprise will comply with the conditions attached to them; and
  b) where such benefits have been earned by the enterprise and it is reasonably certain that the ultimate collection will be made.
- **Two broad approaches** may be followed for the accounting treatment of government grants: the **'capital approach'**, under which a grant is treated as part of shareholders' funds, and the **'income approach'**, under which a grant is taken as income over one or more periods.
- Mere **receipt of a grant is not** necessarily a **conclusive evidence** that **conditions attaching** to the grant have been or will be **fulfilled**.

Contd.......

- Government grants may take the form of **non-monetary assets**, such as land or other resources,
  - given at concessional rates, be accounted for on the basis of their acquisition cost
  - Given free of cost, be recorded at a nominal value.
- **Grant for Fixed Assets:**
  - Grant may be recognised in two ways:
    - Deduct the amount of grant from cost of asset & charge depreciation on reduced balance.
    - Grant may be treated as deferred income which is recognised in the P&L account on a systematic and rational basis over the useful life of the asset.
- **Grant related to Revenue:**
  - be credited to P&L account.
- **Grant in the nature of Promoters' contribution:**
  - given with reference to the total investment be credited in capital reserve.

Contd…….

- **Refund of Government Grant:**

  Government grants sometimes become refundable because certain conditions attached to it are not fulfilled.

  Recognition of refund of Government Grant:

Grant Related to Revenue	:	First deducted from unamortized deferred credit remaining in respect of the Govt. grant and balance to P&L A/c.
Grant related to Fixed Asset	:	Increase value of Fixed asset OR Reduce Capital Reserve, as the case may be.
Grant in the nature of Promoters' Contribution	:	Reduce Capital Reserve.

- **DISCLOSURE REQUIREMENTS UNDER AS – 12:**
  - The accounting policy adopted for government grants.
  - The nature and extent of government grants recognised.

Comparison at a Glance

	ICDS VII	AS 12
Scope	This Standard deals with the treatment of Government grants (subsidies, cash, incentives, duty drawbacks, waiver, concessions, reimbursements). It does not deal with any other Government assistance and Government participation in the ownership	**Same** It does not deal with the special problems reflecting the effects of changing prices or in supplementary information of a similar nature any other government assistance and government participation in the ownership.

Contd..

	ICDS VII	AS 12
Treatment of government grants in relation to depreciable assets	Grant shall be deducted from the actual cost of assets or from the written down value of block of assets to which concerned assets belong.	Recognises two alternatives for treatment. One method is same as ICDS VII. In the second alternative, grants related to depreciable assets are treated as deferred income which is recognised in the profit and loss statement on a systematic basis over the life of the asset.
Treatment of grants related to non depreciable assets	To be considered as income on an upfront basis, if there are no conditions attached to grant OR To be recognised as income over the same period over which cost of meeting such obligation is charged to income.	Recognises two methods. One method is same as in ICDS. In the second alternative, grants related to non depreciable assets are credited to capital reserve.

Contd..

	ICDS VII	AS 12
Recognition of Government grants	Government grants should be recognised only if there is reasonable assurance that the person shall comply with the conditions laid down and the grants shall be received. However, recognition of Government grant shall **not be postponed beyond the date of actual receipt.** **Section 145B(3) (inserted by Finance Act, 2018) provides for taxability of income u/s 2(24)(xviii) on receipt basis.**	Recognition shall not be made until there is a reasonable assurance that person will comply with the conditions. **Mere receipt of a grant is not necessarily a conclusive evidence that conditions attaching to the grant have been or will be fulfilled.**
Promoters Contribution	Government grants in the nature of promoters Contribution are not dealt in ICDS VII	Government grants in the nature of promoters Contribution are treated as capital reserve as per AS 12

	ICDS VII	AS 12
Government grants in the form of non-monetary assets, given free of cost	Recognised at acquisition cost.	Recognised at nominal value.
Refund of government grants	Refund of government grants related to depreciable assets is recorded by increasing the actual cost or written down value of the block of assets by the refundable amount. Depreciation on the revised actual cost or written down value is provided prospectively at the prescribed rate.	Refund of government grants related to depreciable assets is recorded either by increasing the actual cost or decreasing capital reserve or deferred income as appropriate by the refundable amount.

Contd..

	ICDS VII	AS 12
Revenue Grant	Grant to be treated as income over period over which cost of meeting conditions is incurred.	Revenue grant to be credited as income or reduced from related expense
Disclosure Requirement	Requires disclosure of nature and extent of recognized as well as unrecognized grants. It also requires disclosure of reasons for non-recognition. As provided at Slide No. 155	Accounting policy adopted for grants including the method of presentation, extent of recognition in the financial statements, accounting of non-monetary assets given at concession/ free of cost As provided at Slide No. 160

Disclosure requirement under ICDS VII

- Nature and extent of Government grants recognized during the previous year by way of deduction from the actual cost of the assets or from the WDV of block of assets during the previous year.
- Nature and extent of Government grants recognized during the previous year as income.
- Nature and extent of Government grants not recognized during the previous year by way of deduction from the actual cost of the asset or assets or from the WDV of block of assets and its reasons.
- Nature and extent of Government grants not recognized during the previous year as income and reasons thereof.

CBDT provide clarification for transitional provisions of ICDS VIII by circular 10/2017

Question 17: For subsidy received prior to 1st day of April 2016 but not recognised **in the books pending satisfaction of related conditions and achieving reasonable certainty of receipt, how shall the same he recognised under ICDS on or after 1st day of April 2016?**

- **Answer:** Para 4 of ICDS-VII read with Para 5 to Para 9 of ICDS-VII provides for timing of recognition of government grant. The transitional provision in Para 13 of ICDS-VII provides that a government grant which meets the recognition criteria on or after 1st day of April 2016 shall he recognised in accordance with ICDS-VII. All government grants actually received prior to 1st day of April 2016 shall he deemed to have been recognised on its receipt in accordance with Para 4(2) of ICDS-VII and accordingly will be outside the transitional provision and **therefore the government grants received on or after 1st day of April 2016 and for which recognition criteria provided in Para 5 to Para 9 of ICDS-VII is also satisfied thereafter, the same shall be recognised as per the provisions of ICDS-VII. The grants received prior to 1st day of April 2016 shall continue to be recognised as per the law prevailing prior to that date.**

Contd…

For example, if out of total subsidy entitlement of 10 Crore an amount of 6 Crore is recognised in the books of accounts till 31st day of March 2016 and recognition of balance 4 Crore is deferred pending satisfaction of related conditions and/or achieving reasonable certainty of The balance amount of 4 Crore will be taxed in the year in which related conditions are met and reasonable certainty is achieved. If these conditions are met over two years, the amount of 4 Crore shall be taxed over the period of two years. The amount of 6 Crore for which recognition criteria were met prior to 1st day of April 2016 shall not be taxable post 1st day of April 2016.

But if the subsidy is already received prior to 1st day of April 2016, Para 13 of ICDS-VII shall not apply even if some of the related conditions are met on or after 1 April 2016. This is in view of Para 4(2) of ICDS-VII which provides that Government grant shall not be postponed beyond the date of actual receipt. Such grants shall continue to be governed by the provisions of law applicable prior to 1st day of April 2016.

ICDS VIII Securities	**AS-13** Accounting for Investments

AS-13 Accounting For Investments

- This Standard deals with accounting for investments in the FS of enterprises and related disclosure requirements.

- Investments are assets held by an enterprise for earning income by way of dividends, interest, and rentals, for capital appreciation, or for other benefits to the investing enterprise. **Assets held as stock-in-trade are not 'investments'**

- **However, this standard provides a note that** the manner in which shares, debentures and other securities (securities) held as stock-in-trade are accounted for and disclosed in the FS is quite similar to that applicable in respect of current investments. Accordingly, the provisions of this Standard, to the extent they relate to current investments, are also applicable to securities held as stock-in-trade, with suitable modifications.

- In respect of securities held as stock-in-trade, the cost of stocks disposed of is determined by applying an appropriate cost formula (e.g. FIFO, average cost, etc.) as specified in AS 2, in respect of Valuation of Inventories.

Classification of Investments

Contd.......

Investments are classified as long term investments (LTI) and current Investments (CI). Current investments are in the nature of current assets, (Shares, debentures and other securities held for sale in the ordinary course of business are disclosed under the head 'current assets'). Investments other than current investments are classified as long term investments.

S. No	Types of Investment	Carrying Amount
1.	Current Investments	The carrying amount for current investments is the **lower of cost and fair value**. Any reduction to fair value and any reversals of such reductions are included in the profit and loss statement.
2.	Long Term Investments	Long-term investments are usually carried **at cost**. reduction in the carrying amount is charged to the profit and loss statement. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

- cost of an investment includes purchase price plus acquisition charges such as brokerage, fees and duties.
- **Exchange of Investment:**

  If an investment is acquired in exchange for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up or the fair value of the investment acquired whichever is more clearly evident.
- **Investment Properties:**

  An investment property is accounted in accordance with cost model as prescribed in AS 10, *Property, Plant and Equipment*.

  The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.

Contd…….

- **Disposal of Investment:**

  On disposal of an investment, the difference between the carrying amount and the disposal proceeds (net of expenses) is recognised in the profit and loss statement.

- **Reclassification of Investment:**

S. No.	Reclassification from	Transfers are made at the date of transfer
1	long term investments (LTI) to current Investments (CI)	At the **lower of cost and carrying amount**
2	Current Investments (CI) to long term investments (LTI)	At the **lower of cost and fair value**

Contd.......

- **DISCLOSURE REQUIREMENTS UNDER AS - 13:**

The following disclosures in financial statements in relation to investments are :—

a) the accounting policies for the determination of carrying amount of investments;

b) the amounts included in profit and loss statement for:

   i. interest, dividends (showing separately dividends from subsidiary companies), and rentals on investments showing separately such income from long term and current investments. Gross income should be stated, the amount of income tax deducted at source being included under Advance Taxes Paid;

   ii. profits and losses on disposal of current investments and changes in carrying amount of such investments;

   iii. profits and losses on disposal of long-term investments and changes in the carrying amount of such investments;

Contd.......

c) significant restrictions on the right of ownership, realisability of investments or the remittance of income and proceeds of disposal;

d) the aggregate amount of quoted and unquoted investments, giving the aggregate market value of quoted investments;

e) other disclosures as specifically required by the relevant statute governing the enterprise.

Comparison b/w ICDS VIII & AS 13

- **ICDS VIII is divided into 2 parts:**

Part	Scope	Exclusion
Part A	This part of Income Computation and Disclosure Standard deals with **securities held as stock-in-trade.**	This part of ICDS does not deal with: (a) the bases for recognition of interest and dividends on securities which are covered by the ICDS on revenue recognition; (b) securities held by a person engaged in the business of insurance; (c) securities held by mutual funds, venture capital funds, banks and public financial institutions.
Part B*	This part of ICDS deals with **securities held by a scheduled bank or public financial institutions.**	-

* Added in New ICDS, earlier ICDS VIII was applicable to securities held as stock-in-trade only.

Comparison at a Glance

	ICDS VIII (Part–A)	AS 13
Applicability	ICDS applicable to securities held as stock-in-trade and not for securities held as investment. **"Securities"** shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contracts (Regulation) Act, 1956 **and shall include share of a company in which public are not substantially interested but shall not include** derivatives referred to in sub-clause (ia) of that clause (h).	AS applicable to accounting for investments. Unlike ICDS, under AS – 13, securities held as stock-in-trade are outside the scope, however provisions of AS -13 relating to current investments are applicable to securities held as stock in trade

Contd..

	ICDS VIII (Part–A)	AS 13
Valuation of security	**Securities should be valued at cost initially recognised or net realisable value whichever is lower.** Here the comparison of net realisable value shall be done category wise and not for each individual security. For this purpose securities shall be classified into shares, debt securities, convertible securities and any other securities not covered above.	The carrying amount for current investments is the lower of cost and fair value. Does not specifically mention that comparison should be done category wise and not individual wise. Valuation of investments on overall basis is not considered appropriate.

Contd..

CBDT issued clarification for measurement of value of securities held as stock-in-trade

Question 19: Para 9 of ICDS-VIII on securities requires securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value (NRV) at the end of that previous year, whichever is lower. Para 10 of Part-A of ICDS-VIII requires the said exercise to be carried out category wise. How the same shall be computed?

- **Answer:** For subsequent measurement of securities held as stock-in-trade, the securities are first aggregated category wise. The aggregate cost and NRV of each category of security are compared and the lower of the two is to be taken as carrying value as per ICDS-VIII. This is illustrated as follows:

Contd.......

Security	Category	Cost	NRV	Lower of Cost or NRV	ICDS Value
A	Share	100	75	75	
B	Share	120	150	120	
C	Share	140	120	120	
D	Share	200	190	190	
	Total	560	535	505	535
E	Debt Security	150	160	150	
F	Debt Security	105	90	90	
G	Debt Security	125	135	125	
H	Debt Security	220	230	220	
	Total	600	615	585	600
Security Total		1160		1090	1135

Comparison at a Glance

	ICDS VIII (Part-A)	AS 13
Opening value of securities	Value of opening inventory of securities shall be the same as the value of securities at the end of the immediately preceding financial year. In case of commencement of business, Cost of security on the day of commencement of business will be opening value	No specific provision
Ascertainment of cost	Cost which cannot be ascertained by specific identification shall be determined on the basis of FIFO method or weighted average formula.	Cost formulae are the same as those specified in AS 2 (e.g. FIFO; average cost, etc.)

Contd..

	ICDS VIII (Part-A)	AS 13
Cost of security acquired in exchange for other securities	Fair value of security acquired shall be its actual cost	Fair value of securities issued shall be its actual cost
Cost of security acquired in exchange for other asset	Fair value of security acquired shall be its actual cost	Fair value of asset given up shall be its actual cost **or the fair value of the investment acquired if it is more clearly evident.**
Valuation of securities for which no active market exists	Securities not listed on a RSE [Recognised Stock Exchange]; or listed but not quoted on a RSE with regularity from time to time, shall be valued at	No specific provision

Contd..

	ICDS VIII (Part–A)	AS 13
Treatment of Right shares	The **ICDS does not** prescribe treatment of **'Right shares'**	Under AS-13, the treatment of Right share is as under: • Offer is subscribed for - the cost of the right shares is added to the carrying amount of the original holding. • If Rights not subscribed for but are sold in the market – the sale proceeds are taken to the P&L statement. • However, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value.
Disclosure Requirements	Unlike As, there is no such Disclosure Requirements	As provided in Slide No. 169-170

Contd..

Amendment by Finance Act, 2018 - Section 145A substituted with effect from the 1st day of April, 2017

'145A. For the purpose of determining the income chargeable under the head "Profits and gains of business or profession",—

(i) ……….;

(ii) ……….;

(iii) the inventory being securities not listed on a recognised stock exchange, or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at actual cost initially recognised in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145;

(iv) the inventory being securities other than those referred to in clause (iii), shall be valued at lower of actual cost or net realisable value in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145:

Provided that the comparison of actual cost and net realisable value of securities shall be made category-wise.

Contd…….

Brief Impact:

Section 145A is substituted (w.r.e.f. 01/04/2017) to provide that, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession,—

(i)………

(ii) ………

(iii) **inventory being securities not listed on a recognized stock exchange, or listed but not quoted, shall be valued at actual cost initially recognized in the manner provided in ICDS notified under section 145(2). [Para 12 of ICDS-8, Securities]**

(iv) inventory being listed securities, shall be valued at lower of actual cost or net realizable value in the manner provided in ICDS notified under section 145(2) and for this purpose the comparison of actual cost and net realizable value shall be done category-wise. [Para 9, 10, 11 of ICDS-8, Securities]

Anticipated or the MTM losses is allowed as deduction.......

Judicial Decisions overruled by ICDS VIII

Edelweiss Capital Ltd. *v.* ITO [2010] 8 TAXMANN.COM 157 (MUM)

- If the derivatives have been treated as stock-in-trade then there is nothing unusual in the assessee's valuing each derivative by applying the rule cost or market, whichever is lower, and, therefore, the provision for the anticipated loss arising on account of valuation of the closing stock (derivatives) has to be allowed.

[*Also Refer* ***United Commercial Bank v. CIT[1999] 106 TAXMAN 601 (SC), Urudavan Investment & Trading (P.) Ltd. V. ACIT [2013] 29 taxmann.com 312 (Mumbai - Trib.)]***

Issue-Broken Period Interest- To be deducted from the actual cost of security on receipt on interest

American Express International Banking Corpn. V. CIT [2002] 125 TAXMAN 488 (BOM.)

Where adopting either of assessee's method of accounting or that of department's same amount was brought to tax and, further, department could not show as to how assessee's method ought to be rejected, assessee's method of treating income was to be accepted - Held, yes - Assessee-bank, like several other banks, was consistently following practice of valuing securities/interest held by it at end of each year and offer for taxation appreciation in their value by way of profit/interest earned due to efflux of time - Assessee used to pay interest for broken period to seller on purchase of dated Government securities while used to receive interest for broken period from purchaser on sale of such securities - Bank claimed difference of amount paid and amount received as revenue expenditure - Whether once an income falls under section 18, it cannot come under section 28, but if income from securities is treated as trading assets, it can come under section 28 - Held, yes - Whether having assessed assessee's income from securities under section 28, department ought to have taxed interest from broken period interest received and allow deduction for broken period interest paid.

- *[Also refer Indian Bank [2014] 213 Taxman 339 (Madras]*

Part-B of ICDS VIII

- A new sub-chapter has been introduced by **New ICDS** that deals with **securities held by a scheduled bank or public financial institutions (Part B).**

Part B

Scope

1. This part of Income Computation and Disclosure Standard deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013).

Definitions

2(1) The following terms are used in this part of Income Computation and Disclosure Standard with the meanings specified:

a) ***"Scheduled Bank"*** *shall have the meaning assigned to it in clause (ii) of the Explanation to clause (viia) of sub-section (1) of section 36 of the Act.*

b) ***"Securities"*** *shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956 (42 of 1956) and shall include share of a company in which public are not substantially interested;*

Contd…….

2(2) Words and expressions used and not defined in this part of Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Classification, Recognition and Measurement of Securities

*3. Securities shall be classified, recognised and measured in accordance with the extant guidelines issued by the Reserve Bank of India (*i.e. may refer, Master Circular – Prudential Norms for Classification, Valuation and Operation of Investment Portfolio by Banks, RBI/2015-16/97, dated 01/07/2015) in this regard and any claim for deduction in excess of the said guidelines shall not be tak… Co… in f… sha…*

Comparison b/w ICDS VIII (Part B)& AS 13

AS-13 does not deals with securities held by banks or public financial institutions whereas Part B of ICDS VIII has covered on securities held by a scheduled bank or public financial institutions.

ICDS IX Borrowing Costs	AS-16 Accounting for Borrowing Cost

AS- 16: Borrowing Costs

- **Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as part of the cost of that asset.**

Examples of Borrowing costs include:

a) interest on all bank borrowings;
b) amortisation of discounts or premiums relating to borrowings;
c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
d) finance charges in respect of assets acquired under finance leases;
e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs, etc.

- A **Qualifying asset** is an asset that necessarily takes a **substantial period** of time to get ready for its intended use or sale.

  Substantial period of time primarily depends upon facts and circumstances. However, normally a period of 12 months is considered as substantial period of time.

- **Borrowing Costs eligible for Capitalisation:**
  - Funds specifically borrowed for obtaining qualifying asset: actual borrowing costs incurred on that borrowing should be capitalised **less** income from temporary investment.
  - Funds generally borrowed and used for obtaining qualifying asset:

    amount to be capitalised should be determined by applying a capitalisation rate to the expenditure on that asset.

    [Capitalisation rate = weighted average of the borrowing costs applicable to the general borrowings outstanding during the period] (doubt as written a*b/c and explanations)

Contd…….

- **Commencement of Capitalisation:**

  Capitalisation should commence when **all** the following conditions are satisfied:

  - Expenditure for acquisition, construction or production of qualifying asset is being incurred,
  - Borrowing costs are being incurred, and
  - Activities necessary to prepare the asset for its intended use or sale are in progress.

- **Other borrowing costs** should be **recognised as an expense** in the period in which they are incurred.

- Capitalisation of borrowing costs should be **suspended** during extended periods in which active development is interrupted.

- Capitalisation of borrowing costs should cease when **substantially all the activities** necessary to prepare the qualifying asset for its intended use or sale are complete.

- When construction of qualifying asset is **completed in parts** and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

- **DISCLOSURE REQUIREMENTS UNDER AS - 16:**
  - The accounting policy adopted for borrowing costs; and
  - The amount of borrowing costs capitalised during the period.

Comparison at a Glance

	ICDS IX	AS 16
Definition of Qualifying asset	Qualifying asset means: • Specified tangible and intangible assets are qualifying assets (regardless of substantial period condition) • inventories that require a period of twelve months or more to bring them to a saleable condition.	A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.
Borrowing costs eligible for capitalisation in respect of general borrowings	Capitalised by using the formula: *General borrowing cost* * ***Average amount of qualifying asset / Average amount of total assets*** *(Detailed formula provided in next slide)*	Determined by applying a capitalisation rate to expenditure of that asset. Capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period other than specific borrowings.

Borrowing costs eligible for capitalisation in respect of general borrowings (As per ICDS – IX)

Borrowing Cost **in respect of any borrowings except specific borrowings** to be capitalized in accordance with the following formula:

(A) X B/C

Where ;

A = Borrowing cost incurred during the previous year except on borrowings directly relatable to specific purposes;

B = Average cost of Qualifying asset appearing in the balance sheet as on the first day and last day of the previous year, **OR**

50% of cost of Qualifying asset (If Qualifying asset does not appear in balance sheet on first day)

Note: this is possible when the qualifying asset is not under capital-WIP and has been capitalized in the mid of the year directly.

OR

Average of cost of Qualifying asset on first day and on the date of put to use or completion, as the case may be (if Qualifying asset does not appear in the balance sheet on the last day of previous year) [excluding the qualifying assets directly funded out of specific borrowings] **&**

C = Average cost of total assets at the first day and last day in balance sheet of the previous year other than the assets to the extent they are directly funded out of specific borrowings

Comparison at a Glance

	ICDS IX	AS 16
Commencement of capitalisation	In case of specific borrowings from the date on which funds are borrowed and in case of general borrowings the date on which funds are utilised.	The capitalisation of borrowing cost shall commence when the following conditions are satisfied: • expenditure for acquisition, construction or production of a qualifying asset is incurred • borrowing costs are incurred • activities necessary to prepare the asset for its intended use or sale are in progress
Cessation of capitalization	Cessation from the date when asset is put to use	Cessation from the date when asset is ready to use
Suspension of capitalization	ICDS does not cover suspension of capitalisation.	Capitalisation of borrowing costs shall be suspended during extended periods in which active development is interrupted.

Contd..

	ICDS IX	AS 16
Definition of borrowing costs	Borrowing costs does **not cover exchange differences** arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.	Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs are included in borrowing costs.
Capitalisation of Borrowing cost on Qualifying Asset	No such provision	Borrowing costs on Qualifying Asset should be capitalised when it is probable that they will result in future economic benefits and can be reliably measured.
Income on temporary investments of funds	No such provision	Income on temporary investments of funds borrowed should be reduced from borrowing costs eligible for capitalization.
Disclosure Requirements	**same as in AS-16.**	As provided above on Slide No. 189

Contd..

CBDT issued clarification for specific transactions under ICDS IX

Question 20: Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions such as 14A, 43B, 40(a)(i), 40(a)(ia), 40A(2)(b)?

- **Answer:** Since specific provisions of the Act override the provisions of ICDS, it is clarified that borrowing costs to be considered for capitalization under ICDS IX shall exclude those borrowing costs which are disallowed under specific provisions of the Act.

Question 21: Whether bill discounting charges and other similar charges would fall under the definition of borrowing cost?

- **Answer:** Yes, The definition of borrowing cost is an inclusive definition. Bill discounting charges and other similar charges are covered as borrowing cost.

Question 22: How to allocate borrowing costs relating to general borrowing as computed in accordance with formula provided under Para 6 of ICDS-IX to different qualifying assets?

- **Answer:** The capitalization of general harrowing cost under ICDS-IX shall he done on asset-by-asset basis

Observations…

- Due to non inclusion of Foreign exchange difference in borrowing cost, borrowing cost to be capitalised will be reduced resulting in lesser amount of depreciation and hence the **profit for current year may increase**.

- Due to non inclusion of suspension period, the borrowing cost for the current period will include suspension period borrowing cost, resulting in increase in the amount to be capitalised and depreciation on it. Therefore, **the profit for current year will reduce**.

- If half of the cost of the qualifying assets or average of the cost of the qualifying assets is taken without any consideration of number of days for which is capitalization is eligible, it may result into litigations and disputes.

Observations…

- The capitalisation of specific borrowing will start immediately on receipt of borrowing even when the construction of qualifying asset has not started. It will lead to increase in borrowing cost for current year and depreciation on it, which will reduce the profit of current year, if the asset installed during the same year.

- The non deduction of earning from temporary investment of borrowed funds from borrowing cost may have impact on profit for the current year because on the one hand our borrowing cost will increase thereby decreasing the profit due to depreciation, if any and, on the other hand, profit will increase due to earning.

- Due to change in formula of calculation of general borrowing cost, amount of borrowing cost capitalised to specific qualifying asset may change which in turn, may change the amount of depreciation resulting into **increase or decrease** in the profit.

Observations…

- The Fixed assets, which are acquired off the shelf, like books, laptops etc. would also be treated as qualifying assets and accordingly the proportionate borrowing cost thereof needs to be worked out and added to the cost of such asset. This would practically result into maintaining two sets of fixed assets registers i.e. one for financial accounts and another one for tax accounts.
- ICDS IX emphasizes on purpose of borrowing rather than on utilization of funds. Therefore it may be interpreted that in cases where funds have been borrowed for the purpose of acquisition etc. of a qualifying assets but has been used (or partly used) for purpose other than acquisition etc. of qualifying asset, the borrowing cost may still have to be capitalized.

ICDS X	AS-29
Provisions, Contingent liabilities and Contingent Assets	Provisions, Contingent liabilities & Contingent Assets

AS-29 : Provisions, Contingent Liabilities & Contingent Assets

- This standard should be applied in accounting for Provisions, Contingent Liabilities & Contingent Assets, except:
  - those resulting from **financial instruments** that are carried at fair value**;**
  - those resulting from **executory contracts**, except where the contract is **onerous**;
  - those arising in insurance enterprises from contracts with policy-holders; and
  - those covered by another Accounting Standard
- '**Executory Contracts**' are those contracts wherein neither parties to the contract have performed their obligations or both parties have partially performed their obligations equally.
- **'Onerous contracts'** are those contracts where the costs involved with fulfilling the terms and conditions of the contract are higher than the amount of economic benefit received from the contract itself.

- The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the Financial Statements to enable users to understand their nature, timing and amount.

Provision:

- A provision should be recognised when:
  - as a result of a past event;
  - there is a present obligation
  - that probably requires outflow of resources embodying economic benefits; and
  - a reliable estimate can be made of the amount.

- Gains from the expected disposal of assets should not be taken into account in measuring a provision.

- Provisions should be reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Contd....

- The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount of a provision should not be discounted to its present value except in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment. The discount rate should be a pre-tax rate that reflect current market assessments of the time value of money and the risks specific to the liability.
- A provision for restructuring costs is recognised only when the recognition criteria for provisions are met. A restructuring provision should include only the direct expenditures arising from the restructuring, which are those that are both:

  (a) necessarily entailed by the restructuring; and

  (b) not associated with the ongoing activities of the enterprise.

  But does not include such costs as; retraining or relocating continuing staff; marketing; or investment in new systems and distribution networks.

Contd….

- Following events are covered under Restructuring:
  (a) sale or termination of a line of business;
  (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
  (c) changes in management structure, for example, eliminating a layer of management; and
  (d) fundamental re-organisations that have a material effect on the nature and focus of the enterprise's operations.
- Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the **reimbursement** should be recognised when, and only when, it is **virtually certain** that reimbursement will be received.
- A provision should be used only for expenditures for which the provision was originally recognised.
- Provisions should not be recognised for future operating losses.

CONTINGENT LIABILITY:

- A contingent liability should not be recognised. It should be disclosed when:
  - as a result of past events,
  - there is **present or possible obligation**
  - that may, but **probably will not** , require an outflow of resources.

- When as a result of past events, there is present or possible obligation, where the **chances of outflow of resources are remote**, then neither provision should be recognised nor contingent liability should be disclosed.

Contd….

- **CONTINGENT ASSET:**
  - Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits.
  - For example: a claim that an enterprise is pursuing through legal processes, where the outcome is uncertain.
  - These are usually not disclosed in FS, rather disclosed in the report of approving authority when inflow of economic benefit is probable.
  - A contingent asset should not be recognised since this may result in the recognition of income that may never be realised. It should be recognized when realization of income is virtually certain.

DISCLOSURE REQUIREMENTS UNDER AS - 29:

Contd....

- For each class of provision, an enterprise should disclose:
  a) carrying amount at the beginning and end of the period
  b) additional provisions made in the period
  c) amounts used during the period
  d) unused amounts reversed during the period
- An enterprise should disclose the following for each class of provision:
  (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
  (b) an indication of the uncertainties about those outflows. Where necessary to provide adequate information, an enterprise should disclose the major assumptions made concerning future events, as addressed in paragraph 41; and
  (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Provided that *Small and Medium-sized Enterprise* ***(SMSE)*** *may not comply with above provisions.*

DISCLOSURE REQUIREMENTS UNDER AS - 29 :

- Unless the possibility of any outflow in settlement is remote, an enterprise should disclose for each class of contingent liability at the balance sheet date a brief description of the nature of the contingent liability and, where practicable:
  - (a) an estimate of its financial effect, measured under paragraphs 35-45;
  - (b) an indication of the uncertainties relating to any outflow; and
  - (c) the possibility of any reimbursement.

Where any of the information required above is not disclosed because it is not practicable to do so, that fact should be stated.

Comparison at a Glance

	ICDS X	AS 29
Recognition of provision	Recognised only when it is ***reasonably certain*** that outflow of resources will be required to settle an obligation.	Recognised only when it is ***probable*** that outflow of resources will be required to settle an obligation.
Recognition of contingent assets	Recognised only when it becomes **reasonably certain** that inflow of economic benefits will arise.	Recognised only when it becomes **virtually certain** that inflow of economic benefits will arise.
Meaning of obligation	No specific guidance on meaning of 'obligation	Clarifies that obligations may be legally enforceable and may also arise from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner.

	ICDS X	AS 29
Onerous executory contracts	Onerous executory contracts excluded from the scope of ICDS	Includes onerous executory contracts within its scope If an entity has an onerous contract, the present obligation shall be recognised and measured as a provision.
Reimbursement	A reimbursement of expenditure required to settle a provision is recognised when its recovery is reasonably certain. The amount recognised for the reimbursement should not exceed the amount of the related provision.	Unlike ICDS, recovery should be virtually certain

Comparison b/w ICDS X & AS 29

- ICDS does not deal with recognition of restructuring provision.
- ICDS does not deal with discounting of provisions in case of decommissioning, restoration and similar liabilities that are recognised as cost of Property, Plant and Equipment.

Type of provisions & relevant provisions of the Act

- Depreciation: Section 32
- Doubtful debts: Section 36(1)(vii)/ (viia)
- Gratuity: Section 40A(7)
- Leave Encashment: Section 43B
- Liquidated damages
- and other provisions

Disclosure requirements under ICDS X

- **For each class of provision:**
  - A brief description of the nature of the obligation
  - carrying amount at the beginning and end of the period
  - additional provisions made in the previous year and increase in existing provisions.
  - amounts used, that is incurred & charged against the provision, during the previous year
  - unused amounts reversed during the previous year
  - Amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

Contd….

- **For each class of asset and related income:**
  - A brief description of the nature of the asset & related income;
  - The carrying amount of asset at the beginning and end of the previous year;
  - Additional amount of asset &related income recognized during the year, including increases to assets and related income already recognized; &
  - Amount of asset and related income reversed during the previous year.

Can the provision be allowed on the basis of probable conditions...........

Judicial Decisions overruled by ICDS X

- **Himalaya Machinery (P.) Ltd. *v.* DCIT[2011] 16 taxmann.com 60 (Guj.) :** The assessee made provision for warranty obligation, in view of fact that actual expenditure incurred during relevant year was more than provision made, assessee's claim in respect of said provision was to be allowed
- **FL Smidth Minerals (P.) Ltd. *V.* DCIT [2013] 36 taxmann.com 72 (Madras) :** A company making reliable estimate of liquidated damages based on performance capacity and quality and materials relating to machinery, its claim for provision towards damages was fully allowable
- Refer: **Kone Elevator India (P.) Ltd. V. ACIT [2012] 21 taxmann.com 81 (Madras)**
- **Rotork Controls India (P.) Ltd. V. CIT [2009] 180 TAXMAN 422 (SC)**

Observations…

- **<u>Amendment to Finance Act, 2015 to "align accounts with ICDS" </u>[w.e.f. 1-4-2016]**

  Second proviso to section 36(1)(vii) inserted to provide for the deduction of bad debts, in regard to income recognised as per the ICDS without recording in books of accounts, in the year in which such debt '**<u>becomes irrecoverable</u>**'- <u>deemed to be written off in accounts</u>.

<u>Section 36 (vii)-</u> subject to the provisions of sub-section (2), the amount of any bad debt or part thereof which is written off as irrecoverable in the accounts of the assessee for the previous year:

Provided further that **<u>where the amount of such debt or part thereof has been taken into account in computing the income </u>**of the assessee of the previous year in which the amount of such debt or part thereof becomes irrecoverable or of an earlier previous year **<u>on the basis of ICDS notified under sub-section (2) of section 145 without recording the same in the accounts</u>**, **<u>then, such debt or part thereof shall be allowed in the previous year in which such debt or part thereof becomes irrecoverable</u>** and it shall be deemed that such debt or part thereof has been written off as irrecoverable in the accounts for the purposes of this clause.

Observations…

- Due to non-inclusion of onerous contract in ICDS, the expected loss cannot be recognised as provision in the current period. Therefore, the amount of profit during the current year will increase on reversal of any outstanding amount of provision made in the preceding year.

- There will be no impact on computation of income due to change in criteria of recognition of Contingent Asset.

CBDT issued clarification for Transitional Provisions under ICDS X

Question 23: What is the impact of Para 20 of ICDS X containing transitional provisions?

- **Answer:** Para 20 of ICDS X provides that all the provisions or assets and related income shall be recognised for the previous year commencing on or after 01/04/2016 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31/03/2016. This is explained as under

Provision required as per ICDS on 31 March 2017 for items brought forward from 31/03/2016 …(A)	INR 3 Crores
Provisions as per ICDS for FY 2016-17 …(B)	INR 5 Crores
Total gross provision …(C) = (A) + (B)	INR 8 Crores
Less: Provision already recognised for computation of taxable income in FY 2016-17or earlier …(D)	INR 2 Crores
Net provisions as per ICDS in FY 2016-17 to be recognised & per transition provision …(E) = (C) — (D)	INR 6 Crores

Other clarifications issued by CBDT on ICDSs vide circular 10/2017

Clarifications by CBDT on ICDS

Question 2: Certain ICDS provisions are inconsistent with judicial precedents. Whether these judicial precedents would prevail over ICDS?

- **Answer:** The ICDS have been notified after due deliberation and after examining judicial views for bringing certainty on the issues covered by it. Certain judicial pronouncements were pronounced in the absence of authoritative guidance on these issues under the Act for computing Income under the head "Profits and gains of business or profession" or Income from other sources. Since certainty is now provided by notifying ICDS under section 145(2), **the provisions of ICDS shall be applicable to the transactional issues dealt therein in relation to assessment year 2017-18 and subsequent assessment years.**

Question 3: Does ICDS apply to non-corporate taxpayers who are not required to maintain hooks of account and/or those who are covered by presumptive scheme of taxation like sections 44AD, 44AE, 44ADA, 44B, 44BB, 44BBA, etc. of the Act?

- **Answer:** ICDS is applicable to specified persons having income chargeable under the head Profits and gains of business or profession' or 'Income from other sources'. **Therefore, the relevant provisions of ICDS shall also apply to the persons computing income under the relevant presumptive taxation scheme**. For example, for computing presumptive income of a partnership firm under section 44AD of the Act, the provisions of ICDS on Construction Contract or Revenue recognition shall apply for determining the receipts or turnover, as the ease may be.

Question 4: If there is conflict between ICDS and other specific provisions of the Income-tax rules,1962(`the Rules') governing taxation of income like rules 9A, 9B etc. of the Rules, which provisions shall prevail?

- **Answer:** ICDS provides general principles for computation of income. In case of conflict, if any, between the provisions of Rules and ICDS, **the provisions of Rules, which deal with specific circumstances, shall prevail.**

Question 5: ICDS is framed on the basis of accounting standards notified by Ministry of Corporate Affairs (MCA) vide Notification No. GSR 739(E) dated 7 December 2006 under section 211(3C) of erstwhile Companies Act 1956. However, MCA has notified in February 2015 a new set of standards called 'Indian Accounting Standards' (Ind-AS). **How will ICDS apply to companies which adopted Ind-AS?**

- **Answer:** ICDS shall apply for computation of taxable income under the head " Profit and gains of business or profession" or "Income from other sources" under the Income Tax Act. **This is irrespective of the accounting standards adopted by companies i.e. either Accounting Standards or Ind-AS.**

Question 6: Whether ICDS shall apply to computation of Minimum Alternate Tax (MAT) under section 115JB of the Act or Alternate Minimum Tax (AMT) under section 115JC of the Act?

- **Answer:** MAT under section 115.113 of the Act is computed on 'book profit' that is net profit as shown in the Profit and Loss Account prepared under the Companies Act subject to certain specified adjustments. Since, the provisions of ICDS are applicable for computation of income under the regular provisions of the Act, **the provisions of ICDS shall not apply for computation of MAT.**

  AMT under section 115JC of the Act is computed on adjusted total income which is derived by making specified adjustments to total income computed as per the regular provisions of the Act. Hence, **the provisions of ICDS shall apply for computation of AMT.**

Question 7: Whether the provisions of ICDS shall apply to Banks, Non-banking financial institutions, Insurance companies, Power sector, etc.?

- **Answer:** The general provisions of ICDS shall apply to all persons unless there are sector specific provisions contained in the ICDS or the Act. For example, ICDS VIII contains specific provisions for banks and certain financial institutions and Schedule 1 of the Act contains specific provisions for Insurance business.

Question 10: Which ICDS would govern derivative instruments?

- **Answer:** ICDS –VI (subject to para 3 of ICDS-VIII) provides guidance on accounting for derivative contracts such as forward contracts and other similar contracts. For derivatives, not within the scope of ICDS-VI, provisions of ICDS-1 would apply.

Question 12: Since there is no specific scope exclusion for real estate developers and Build -Operate- Transfer (BOT) projects from ICDS IV on Revenue Recognition, please clarify whether ICDS-III and ICDS-IV should be applied by real estate developers and BOT operators. Also, whether ICDS is applicable for leases.

- **Answer:** At present there is no specific ICDS notified for real estate developers, BOT projects and leases. Therefore, relevant provisions of the Act and ICDS shall apply to these transactions as may be applicable.

***However, The CBDT issued Draft Income Computation and Disclosure Standards on Real Estate Transactions by press release on 11th May, 2017 and asking for comments from stakeholders.**

Contd...

Question 13: The condition of reasonable uncertainty of ultimate collection is not laid down for taxation of interest, royalty and dividend. Whether the taxpayer is obliged to account for such income even when the collection thereof is uncertain?

- **Answer:** As a principle, interest accrues on time basis and royalty accrues on the basis of contractual terms. Subsequent non recovery in either cases can be claimed as deduction in view of amendment to sec 36(1)(vii). Further, the provision of the Act (e.g. sec 43D) shall prevail over the provisions of ICDS.

Question 14: Whether ICDS is applicable to revenues which arc liable to tax on gross basis like interest, royalty and fees for technical services for non-residents u/s. 115A of the Act.

- **Answer:** Yes, the provisions of ICDS shall also apply for computation of these incomes on gross basis for arriving at the amount chargeable to tax.

Question 18: If the taxpayer sells a security on the 30th day of April 2017. The interest payment dates are December and June. The actual date of receipt of interest is on the 30st day of June 2017 but the interest on accrual basis has been accounted as income on the 31st day of March .2017. **Whether the taxpayer shall he permitted to claim deduction of such interest *i.e.* offered to tax but not *received* while computing the capital gain?**

- **Answer: Yes,** the amount already taxed as interest income on accrual basis shall be taken into account for computation of income arising from such sale.

Question 24: Whether provision for employee benefit such as provident fund, gratuity, etc. are excluded from scope of ICDS X?

- **Answer:** It is clarified that provisioning for employee benefit which are otherwise covered by AS 15 shall continue to he governed by specific provisions of the Act and are not dealt with by ICDS-X.

Question 25: ICDS-I requires disclosure of significant accounting policies and other ICDS requires specific disclosures. Where is the taxpayer required to make such disclosures specified in ICDS?

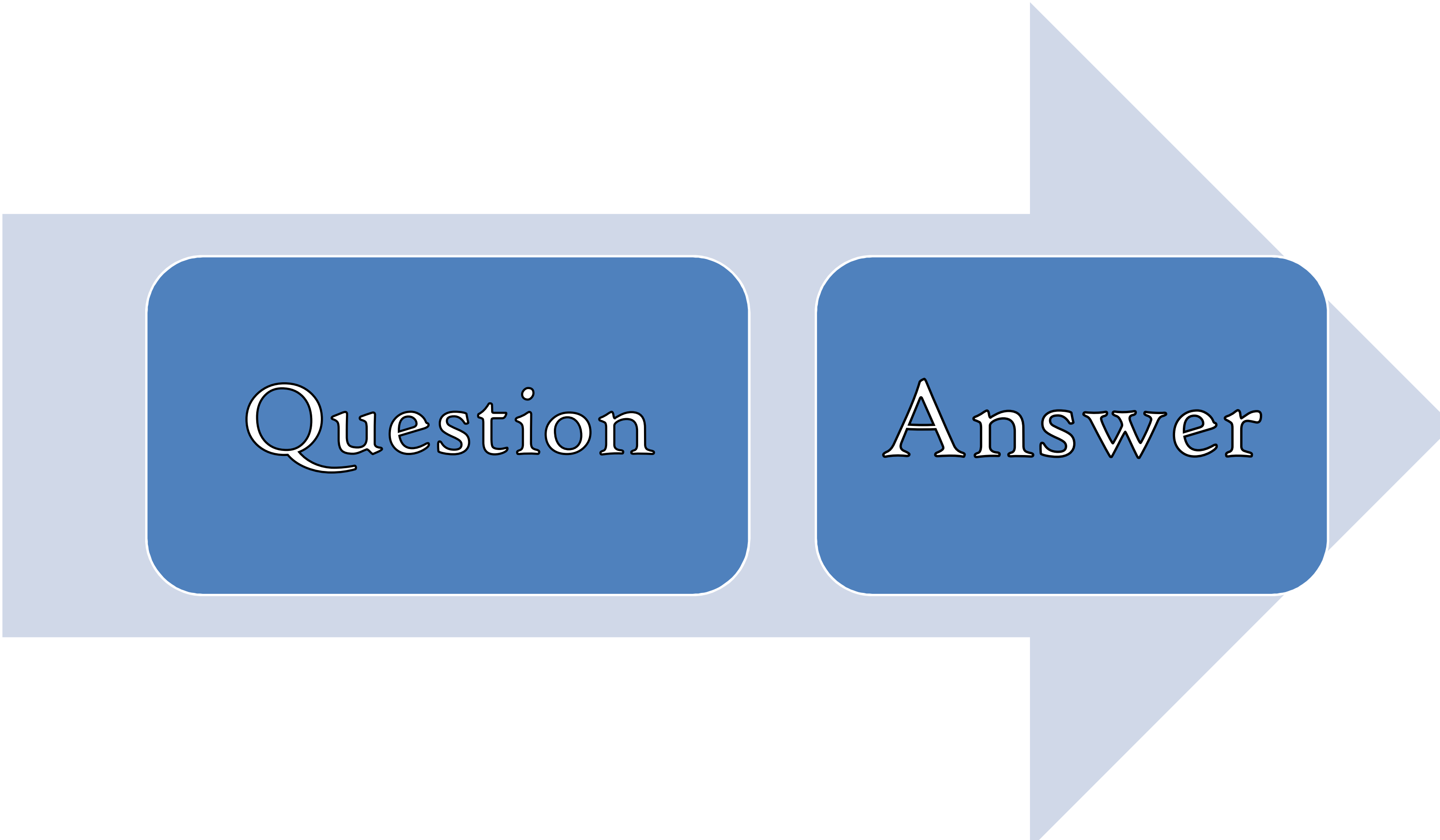
- **Answer:** Net effect on the income due to application of ICDS is to be disclosed in the Return of income. The disclosures required under ICDS shall he made in the tax audit report in Form 3CD. however, there shall not be any separate disclosure requirements for persons who are not liable to tax audit.

General Impact of all ICDSs

General Impact of all ICDSs

- It will result in increase in administration cost.
- The difference in Accounting Income and Taxable Income will result in Increase in deferred tax assets/liabilities.
- It will reduce litigations because of standards providing the definite method of computation of income and also the proper disclosure required by the authorities.
- Non-compliance of ICDS may result into Assessment u/s 144 of the Income Tax act, 1961.
- ICDS are also considered for Tax Audit.

Note: No need to maintain separate set of books of account for the purpose of ICDS ***(As explained vide FAQ 1, Circular No. 10/2017***


Question
Answer

THANK YOU...!!

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