District Centre Janakpuri Study Circle of NIRC of ICAI

Income Computation and Disclosure Standards (ICDS)

CA BALDEV RAJ
brc@baldevrajco.in
9312235173

ICDS ……..Journey

- CG notified 10 ICDS vide notification no. 32 of 2015 dated 31st March 2015 which were applicable from AY 2016-17 onward
- Due to various issues and representations made referred to Expert committee, ICDS Deferred by 1st year (P. R. Dt. 6th July 2016).
- CBDT rescinded the old ICDS through notification no. 86/2016 dated 29th September 2016 and issued revised ICDS vide notification no. 87/2016 and amended Tax Audit Form 3CD.
- FAQs (25) issued on 25th March 2017

Applicable

To whom and from when these ICDS are applicable ?

Class of assessee : ***Assessee following mercantile system of accounting***

Class of Income : Income under head :

a) Business and professional and b) other source

Exemption to individual and HUF who are not required to get it accounts audit u/s 44AB

- No minimum threshold
- applicable to all residential status
- Business cash basis – other source mercantile basis –applicable ?
- One business on mercantile basis and one cash basis - applicable ?
- Trust – section 11to 13 / 10(23) ?

FAQ 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 I of the Act contains specific provisions for Insurance business.

FAQ 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-111 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.

FAQ 14: Whether ICDS is applicable to revenues which are 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, hall also apply for computation of these incomes on gross basis for arriving at the amount chargeable to tax.

Do ICDS apply to a taxpayer who is offering his income to tax under a presumptive tax scheme, such as section 44AD? (Presumptive tax Scheme)

FAQ 3: Does ICDS apply to non-corporate taxpayers who are not required to maintain books of account and/or those who are covered by presumptive scheme of taxation like sections 44AD, 44AE, 44ADA, 448, 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 case may be.

Preamble

1. This Income Computation and Disclosure Standard is applicable 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 account.
2. In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Transitional provision

All contract or transaction

existing on 01-04-2016 or entered into on or after 01-04-2016

shall be dealt with in accordance with the provisions of this standard

after taking into account the income, expense or loss, if any,

recognized in respect of the said contract or transaction

for the previous year ending on or before 31-03-2016

Transitional Provisions-Valuation of Inventories-II

- Interest and other borrowing costs,
- which don't meet criteria for its recognition as a component of cost,
- but included in the cost of opening inventory as on 01-04-2016
- shall be taken into account for determining cost of such inventory for valuation as on close of previous year beginning on or after 01-04-2016,
- if such inventory continue to remain part of inventory as on close of the previous year beginning on or after 01-04-2016,

Transitional Provision-Construction Contract-III and revenue recognition –IV (services)

1. Contract revenue and contract cost associated with the construction contract, which commenced on or after 1st day of April, 2016 shall be recognized in accordance with the provisions of this standard.

2. Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2016 but no completed by the said date, shall be recognized based on the method regularly followed by the person prior to the previous year beginning on the 1st day of April, 2016.

Disclosure requirement

- 8 ICDS disclosure requirement
- 2 ICDS not required :
  a) Relating to the effects of changes in foreign exchange rates
  b) Relating to securities

How to give effect ?

1. Tax audit report
2. Income tax return

Clause no 13. (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).

13(e). If answer to 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 Rate*			
ICDS VII	*Government Grants*			
ICDS VIII	*Securities*			
ICDS IX	*Borrowing Costs*			
ICDS X	*Provision, contingent Liabilities and Contingent Assets*			
	Total			

13 (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.*

<u>Income tax return</u>

1. Form no 3 : Individuals , HUF'S having Income from a proprietary business or professional
2. Form no 5 : For persons other than – (i) Individual (ii) HUF , (iii) Company and (iv) person filing Form ITR -7
3. Form no 6 : For Companies other than companies claiming exemption u/s 11

A.Y 2017-18

Part A- OI Other Information (optional in a case not liable for audit under section 44AB) OTHER INFORMATION

Effect on the profit because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2)

[column 11(iii) of Schedule ICDS]

Schedule ICDS : Effect of Income Computation Disclosure Standards on profit

No	ICDS	Amount
(i)	(ii)	(iii)
I	Accounting Policies	
II	Valuation of Inventories	
III	Construction Contract	
IV	Revenue Recognition	
V	Tangible Fixed Asset	
VI	Effects of changes in foreign exchange rates	
VII	Government Grants	
VIII	Securities	
IX	Borrowing Costs	
X	Provisions, Contingent liabilities and Contingent assets	
II	Total Net Effect (+II+III+IV+V+VI+VII+VIII+IX+X)	

Income tax return and computation of income

When no column to give effect of ICDS in computation of income in income tax return ?

Conti……how to give effect of ICDS

1. Analyze of accounting policy are being followed by the assessee for maintained books of accounts
2. Applicable ICDS to Assessee
3. Note down the variance between accounting policies and ICDS requirement
4. Quantify the variance between accounting policies and ICDS requirement for each
5. ICDS and workout effect of that on books profit
6. Prepare disclosure requirement for each applicable ICDS
7. Consider variance in computation of Income
8. Compute Income tax provision and DTL/DTA

Contd…………give effect of ICDS

Check list - ICDS

Sl. No	ICDS	Whether Applicable	AMT IN RETURN AND 3CD	Dis-closure	Remar ks
(i)	(ii)	(iii)	(iv)	(v)	(VI)
I	Accounting Policies	Yes			
II	Valuation of Inventories	?			
III	Construction Contract	?			
IV	Revenue Recognition	Yes			
V	Tangible Fixed Asset	Yes			
VI	Effects of changes in foreign exchange rates	?			
VII	Government Grants	?			
VIII	Securities	?			
IX	Borrowing Costs	?			
X	Provisions, Contingent liabilities and Contingent assets	Yes			

ICDS Impact on the financial Statement

Whether ICDS would have any impact on the financial statements of the assessee?

- ❖ **Provision for Income tax and**
- ❖ **deferred tax**

will be the only two items in the **financial statements which shall be impacted**.

Consequences of non- Complying of ICDS

What are the consequences of non-complying with ICDS?

<u>By the Assessee</u> :

The Assessing Officer may make an assessment in the manner provided in section 144.

Section 145

(3) Where the <u>Assessing Officer is not satisfied</u> about the correctness or completeness of the accounts of the assessee, or where the method of accounting provided in sub-section (1) *has not been regularly followed by the assessee, or* **<u>income has not been computed in accordance with the standards notified under sub-section (2)</u>**, the Assessing Officer may make an ***<u>assessment in the manner provided in section 144.</u>***

Contd…….Consequences of non-Compliance

By the professional :

While finalizing the Audit ?

While finalizing tax Audit ?

While preparing the income tax return ?

Impact of ICDS on taxable profits under MAT/AMT??

What is the impact of ICDS on taxable profits under MAT?

FAQ 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 l15JC of the Act?

Answer: MAT under section 115JB 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.

SC/HC rulings and ICDS

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

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.

Amendments made in the Act

What are the amendments made in the Act to comply with the ICDS provisions?

There have been 3 specific amendments made to the Income-tax Act by the Finance Act 2015, to ensure that the provisions of the Act are in line with the provisions of ICDS. These 3 provisions are:

The definition of **“income” u/s. 2(24)** has been amended by insertion of **clause (xviii)** to **include assistance in the form of a subsidy or grant or cash incentive or duty drawback or favour or concession or reimbursement** (by whatever name called) by the Central Government or a State Government or any authority or body or agency **in cash or kind** to the assessee, **other than the subsidy or grant or reimbursement, which is taken into account for determination of the actual cost of the asset** in accordance with the provisions of explanation 10 to clause (1) of section 43. This is to align it with the provisions of ICDS VII on Government Grants.

Amendments made in the Act contd…

The provisions of the **proviso to section 36(1)(iii)** have been modified to delete the words **"for extension of existing business or profession",** after the words "in respect of capital borrowed for acquisition of an asset", to bring the section in line with **ICDS IX on Borrowing Costs,** whereby interest in respect of borrowings for all assets acquired, from the **date of borrowing till the date of first put to use** of the asset, is to be **capitalised.**

A **second proviso has been inserted to section 36(1) (vii),** to provide that where a debt has been taken into account in **computing the income of an assessee** for any year on the basis of ICDS without recording such debt in the books of accounts, **then such debt would be deemed to have been written off in the year in which it becomes irrecoverable.** This is to facilitate the claim for deduction of bad debts, where the debt has been recognised as income in accordance with ICDS, but has not been recognised in t he books of accounts in accordance with AS.

AS -revision

1. The Council of the Institute of Chartered Accountants of India (ICAI) at its 359th meeting held on August 16-17, 2016 noted that the Ministry of Corporate Affairs (MCA) has notified Companies (Accounting Standards) Amendment Rules, 2016 (G.S.R. 364(E) dated 30.03.2016) and amended the following Accounting Standards and omitted AS 6, Depreciation Accounting, issued under Companies (Accounting Standards) Rules, 2006:

- AS 2, Valuation of Inventories
- AS 4, Contingencies and Events Occurring After the Balance Sheet Date
- AS 10, Property, Plant and Equipment
- AS 13, Accounting for Investments
- AS 14, Accounting for Amalgamations
- AS 21, Consolidated Financial Statements
- AS 29, Provisions, Contingent Liabilities and Contingent Assets

Accounting Standards issued by the ICAI for non-corporate entities:

AS 6, Depreciation Accounting stands withdrawn.

The following Accounting Standards are amended:

- AS 2, Valuation of Inventories
- AS 4, Contingencies and Events Occurring After the Balance Sheet Date
- AS 10, Property, Plant and Equipment
- AS 13, Accounting for Investments
- AS 14, Accounting for Amalgamations
- AS 21, Consolidated Financial Statements
- AS 29, Provisions, Contingent Liabilities and Contingent Assets

will come into effect prospectively in respect of accounting periods commencing on or after April 1, 2017

ICDS –I
Accounting Polices

Scope
Deals with significant accounting policy

Contd…. ICDS-I

What are consideration in the selection of accounting policy in AS ?

1. Prudence
2. Substance over form and
3. Materiality

Contd…. ICDS-I

Prudence :

In view of uncertainty of further events Profits are not anticipated but recognized only when realized in cash, receivables or other wise.

Provision is made for all known liabilities & losses (on best estimates).

Materiality

Financial statements shall disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements.

Contd…. ICDS-I

What is the effect of not recognized the concept of “prudence” and “Materiality” while selecting accounting policy under ICDS ?

Marked to market loss or an expected loss shall not be recognized

unless such loss is in accordance with the provision of any other ICDS

FAQ 8: Para 4(ii) of ICDS-I provides that Market to Market (MTM) loss or an expected loss shall not be recognized unless the recognition is in accordance with the provisions of any other ICDS. Whether similar consideration applies to recognition of MTM gain or expected incomes?

Answer: Same principle as contained in ICDS-I relating to MTM losses or an expected 'loss shall apply mutatis mutandis to MTM gains or an expected profit

FAQ 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-I would apply.

Contd…. ICDS-I

When accounting policy could be change ?

- **As per AS**
  a) Required by the statue or
  b) Compliance with AS
  c) Would result in a more appropriate presentation of financial statement of enterprises

- As per ICDS – When reasonable cause
  Not defined, A wider term

FAQ 9: ICDS-1 provides that an accounting policy shall not be changed without reasonable cause'. The term 'reasonable cause' is not defined. What shall constitute reasonable cause'?

Answer: Under the Act, 'reasonable cause' is an existing concept and has evolved well over a period of time conferring desired flexibility to the tax payer in deserving cases.

Contd…. ICDS-I

Disclosure :

Change in accounting policy

Effect: - ascertainable ……..amount

Not ascertainable….fact should indicate

When no material effect in previous year

Disclosed in previous year when change adopted *and subsequent previous year in when effect first time effect*

Contd…. ICDS-I
Transitional Provisions

- All contract or transaction
- existing on 01-04-2016 or entered into on or after 01-04-2016
- shall be dealt with in accordance with the provisions of this standard
- after taking into account the income, expense or loss, if any,
- recognized in respect of the said contract or transaction
- for the previous year ending on or before 31-03-2016

Contd.... ICDS-I

Disclosure:

- All **significant** accounting policies.
- Any **change** in an accounting policy which has a **material effect i**n year of change or likely to effect in subsequently year. The fact of material change should disclosed in the period in which the change is adopted and in the 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.
- **Deviation** from fundamental accounting assumptions. i.e. going concern, consistency and accrual

AS-1

- All significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed.
- The disclosure of the significant accounting policies as such should form part of the financial statements and the significant accounting policies should normally be **disclosed in one place**
- **Any change** in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. In the case of a change in accounting policies which has a material effect in the current period, the amount by which any item in the financial statements is affected by such change should also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.
- If the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. **If a fundamental accounting assumption is not followed, the fact should be disclosed**.

FAQ 25: ICDS-1 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 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.

ICDS –II
Valuation of Inventories

ICDS-II

What is the effect of recognized "Standard cost" in techniques for measurement of the cost of inventories in ICDS ?

If the ***results approximate to the actual cost incurred in bringing the items of inventory to their present location and condition.***

Disclosure requirement

Disclosure

Where standard costing - measurement of cost –

detail of such inventory and

confirmation that cost is approximates the actual cost

Contd…. ICDS-II

What is the effect of when cost of purchased includes the cenvat, input credit and VAT credit in valuation of stock?

Contd…. ICDS-II

AS: The costs of purchase shall consist of 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. (Exclusive method).

ICDS: The costs of purchase shall consist of purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. (Inclusive method)

Contd…. ICDS-II

Method of accounting in certain cases.

145A. Notwithstanding anything to the contrary contained in section 145, 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-

(a) in accordance with the method of accounting regularly employed by the assessee; and

(b) **further 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.**

Explanation.- For the purposes of this section, any tax, duty, cess or fee (by whatever name called) under any law for the time being in force, shall include all such payment notwithstanding any right arising as a consequence to such payment.]

Tax Audit requirement

14 (b) Details of deviation, if any, from the method of valuation prescribed under Section 145A, and the effect thereof on the Profit or Loss. Please Furnish:-

Sl. No.	Particulars	Increase in profit (Rs)	Decrease in profit (Rs)
1	Increase in cost of opening stock on inclusion of excise duty on which CEN VAT credit is available/availed		20
2	Increase in purchase cost of raw material on inclusion of excise duty on which CEN VAT credit is available/availed		180
3	Increase in sales of finished goods on inclusion of excise duty	180	
4	Excise duty paid on sale of finished goods as a result of its inclusion in sales	-	180

5	**Increase in closing stock of raw material on inclusion of excise duty**	**40**	**-**
6	Increase in closing stock of finished goods on inclusion of excise duty	60	-
7	Increase in excise duty on closing stock of finished goods as a result of its inclusion in closing stock of finished goods	-	60
8	Accounting of CENVT credit availed and utilised on raw materials consumed in payment of excise duty on finished goods accounted on the basis of raw material consumed	160	-
	Total	440	440

Contd…. ICDS-II

Guidance note :

The ICAI in the Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961 has explained as follows:

"23.23 The adjustments envisaged by section 145A will not have any impact on the trading account of the assessee. In other words both under exclusive method of accounting and inclusive method of accounting, the gross profit in the trading account will remain the same."

Ruling

The view also confirmed by a decision in the ITAT MUMBAI BENCH 'D' Raj Petro Specialties Private Limited vs. Assistant Commissioner of Income-Tax, 10(2), Mumbai [2013] 34 taxmann.com 76 (Mumbai-Trib.)

Contd.... ICDS-II

How to value inventory in case of dissolution of firm, AOP, BOI ?

- **A.L.A Firm v. CIT (1991) 189 ITR 285 / 55 Taxman 497 (SC)**

  In case of dissolution of firm, the stock-in-trade will have to be valued at the prevailing market price while preparing the accounts if the business of the firm is discontinued.

- **Sakthi Trading Co. v. CIT (2001) 250 ITR 871 / 118 taxman 301 (SC)**

  If on dissolution of the firm the business is not discontinued, then, the ordinary principle of commercial accounting permitting valuation of stock-in-trade at cost or net realisable value, whichever is lower will apply.

As per ICDS – stock at net realizable value.

Contd…. ICDS-II

Transitional Provisions

- Interest and other borrowing costs,
- which don't meet criteria for its recognition as a component of cost,
- but included in the cost of opening inventory as on 01-04-2016
- shall be taken into account for determining cost of such inventory for valuation as on close of previous year beginning on or after 01-04-2016,
- if such inventory continue to remain part of inventory as on close of the previous year beginning on or after 01-04-2016,

Contd…. ICDS-II

Disclosures

The following aspects shall be disclosed:

- The **accounting policies** adopted in measuring inventories
- the **cost of formulae** used
- Where **standard costing**-measurement of cost – **detail of such inventory** and **confirmation** that cost is approximates the actual cost
- The **total carrying amount** of inventories and **classification** appropriate to a person.

AS-2

DISCLOSURE REQUIREMENTS:

1. All accounting policies adopted in measuring inventories.
2. Cost formula used in measuring inventories.
3. Total carrying amount of inventories and its classification

ICDS –III

CONSTRUCTION CONTRACTS

Scope

Determines the income for a construction contact of a contractor

Retentions

ICDS :

Retentions shall be included in contract revenue

AS-7 silent on inclusion of retentions in contract revenue.

FAQ 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 recognized as revenue subject to reasonable certainty of its ultimate collection condition contained in para 9 of I CDS-III on Construction contracts.

Para no 9 ICDS –III

“ Contract revenue shall be recognized when there is reasonable certainty of its ultimate collection.

Early stages of completion of contract

ICDS : During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognized only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25% of the stage of completion

AS :

no definition as to upto what % of completion it can be considered that contract is at early stage.

Netting off costs by incidental income

ICDS : Netting off allowed for all types of costs. However, such netting off not allowed if incidental income is in the nature of interest, dividends or capital gains

AS : Costs that relate directly to the specific contract shall be reduced by any incidental income that is not included in contract revenue.

Recognition of expected losses from contract

AS : To be recognized in full

ICDS : In proportion to percentage of completion.

Transitional Provision

1. Contract revenue and contract cost associated with the construction contract, which commenced on or after 1st day of April, 2016 shall be recognized in accordance with the provisions of this standard.

2. Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2016 but no completed by the said date, shall be recognized based on the method regularly followed by the person prior to the previous year beginning on the 1st day of April, 2016.

Disclosure (no change)

1. A person shall disclose:
   - the amount of contract revenue recognised as revenue in the period; and
   - the methods used to determine the stage of completion of contracts in progress.

2. A person shall disclose the following for contracts in progress at the reporting date, namely:—
   - amount of costs incurred and recognised profits (less recognised losses) up to the reporting date;
   - the amount of advances received; and
   - the amount of retentions.

REVENUE RECOGNITION

ICDS-IV

ICDS IV – Revenue Recognition

ICDS-IV Vs. (AS) 9		
Points of comparison	**ICDS IV: Revenue Recognition**	**(AS) 9 : Revenue Recognition**
1. Revenue postpone till	Only If there Is reasonable certainty of ultimate collection of the revenue	1. There Is reasonable certainty of ultimate collection of the revenue **2. The revenue can reliably be measured** **(Prudence) Para 9.1**

72

ICDS-IV Vs. (AS) 9		
Points of comparison	**ICDS IV: Revenue Recognition**	**(AS) 9 : Revenue Recognition**
2. Recognizes-rendering services	**only by** "percentage completion method". Option given for contracts who duration is not more than 90 days, may be on completion method. ***ICDS for Construction Contracts to apply mutatis mutandis***	**Recognizes both** 1. "proportionate completion method" and 2. "completed service contract method"

ICDS IV – Revenue Recognition

ICDS-IV Vs. (AS) 9		
Points of comparison	**ICDS IV: Revenue Recognition**	**(AS) 9 : Revenue Recognition**
3. Dividend	Dividend are recognized in accordance with provision of the Act "section 8" a) **Shall be deemed to be the income of the previous year in which it is declared , distributed or paid** b) **Interim dividend – previous year dividend unconditionally made available by the company to member**	Dividends are recognized when owner's right to receive payment is established.

ICDS IV – Revenue Recognition

ICDS-IV Vs. (AS) 9		
Points of comparison	**ICDS IV: Revenue Recognition**	**(AS) 9 : Revenue Recognition**
4. Interest	on a time proportion basis except : Interest on refund of any tax duty or cess shall be deemed to be income on the previous year in which such interest is received	**on a time proportion basis taking into account the amount outstanding and the rate applicable**

Question 13: The condition of ***reasonable certainty 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 S. 36 (1) (vii). Further, the provision of the Act (e.g. Section 43D) shall prevail over the provisions of ICDS.

FAQ 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 30th 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 be 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.

Transitional Provision

The transitional provisions of Standard on construction contract shall apply *mutatis mutandis* to the recognition of revenue and the associated costs for a service transaction undertaken on or before 31-03-2016 but not completed by the said date.

Revenue for a transaction, other than a service transaction referred above, undertaken on or before the 31st day of March, 2016 but not completed by the said date shall be recognized in accordance with the provisions of this standard for the previous year commencing on the 1st day of April, 2016 and subsequent previous year.

The ***amount of revenue, if any, recognized for the said transaction for any previous year commencing on or before the 1st day of April, 2015 shall be taken into account for recognizing revenue for the said transaction for the previous year commencing on the 1st day of April, 2016 and subsequent previous years.***

ICDS-IV Revenue Recognition

Disclosure

- In a transaction involved sale of goods, total amount not recognized as revenue during the previous year due to lack of reasonable certainly off its ultimate collection along with nature of uncertainty .

  The amount of revenue from service transactions recognized as revenue
- the methods used to determine the stage of completion of service transactions in progress.
- **For service transactions in progress at the end of the year :**

  (i) The amount of costs incurred and recognized profits (less recognized losses) up to end of previous year;

  (ii) the amount of advances received; and

  (iii) the amount of retentions

AS - Disclosure

In addition to the disclosures required by Accounting Standard 1 on 'Disclosure of Accounting Policies' (AS-1), an enterprise should also disclose the circumstances in which <u>revenue recognition has been postponed pending resolution of significant uncertainties</u>

TANGIBLE FIXED ASSETS

ICDS-V vs. AS-10

ICDS V – Fixed Assets

ICDS- V Vs. (AS) 10		
Points of comparison	**ICDS V: Tangible Fixed Assets**	**(AS) 10 : Accounting Fixed Assets**
1. Assets acquired in exchange	The fair value of tangible fixed assets so acquired shall be its actual cost.	The fair value of the asset/ securities given up, or value of the asset acquired, whichever is more clearly evident, should be recorded as actual cost.

ICDS- V Vs. (AS) 10

Points of comparison	ICDS V: Tangible Fixed Assets	(AS) 10 : Accounting Fixed Assets
2. Expenses incurred post completion of test but pending for commencement of commercial production	Not specified	Either expensed off or deferred over period of 3 to 5 years after the commencement of commercial production

ICDS- V Vs. (AS) 10

Points of comparison	ICDS V: Tangible Fixed Assets	(AS) 10 : Accounting Fixed Assets
3. Revaluation of tangible fixed assets	Silent	Deals with revaluation in detail.

Other aspects related to fixed assets covered by others ICDS

- Foreign Exchange difference –VI
- Government grants -VII
- Borrowing cost -IX

ICDS-V- Tangible fixed assets
vs
AS-16- Property, Plant and Equipment

Question 15: Para 8 of ICDS-V states expenditure incurred on commissioning of project, including expenditure incurred on test runs and experimental production shall be capitalized. It also states that expenditure incurred after the plant has begun commercial production i.e., production intended for sale or captive consumption shall be treated as revenue expenditure. What shall be the treatment of expense incurred after the conduct of test runs and experimental production but before commencement of commercial production?

Answer: As clarified in 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.

Transitional Provisions - ICDS-V

The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before 31-03-2016 but not completed by said date, shall be recognized in accordance with this standard.

The amount of actual cost, if any, recognized for the said assets for any previous year commencing on or before the 01-04-2016 shall be taken into account for recognizing actual cost of the said assets for previous year commencing on 01-04-2016 and subsequent previous years.

ICDS-V Tangible Fixed Assets

Disclosures

(a)Description of asset/block of assets.

(b) Rate of depreciation.

(c) Actual cost or written down value, as the case may be.

(d) 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-**

(i) CENVAT claimed and allowed under CENVAT Credit Rules, 2004

(ii) change in rate of exchange of currency, and

(iii) subsidy or grant or reimbursement, by whatever name called.

(e) Depreciation Allowable.

(f) WDV at the end of year.

AS-10 – FIXED ASSET

- **Disclosure :**

  i. **Gross and net book values of fixed assets at the beginning and end of an accounting period showing additions , disposals , acquisitions and other movements**

  ii. **Expenditure incurred on account of fixed assets in the course of construction or acquisitions**

  iii. **Revalued amounts substituted for historical costs of fixed assets, he method adopted to compute the revalued amounts, the nature of indices used, the year of any appraisal made, and whether an external valuer was involved, in case where fixed assets are stated at revalued amounts.**

ICDS-VI

Effect of change in Foreign exchange rates

Contd…. ICDS-VI

Scope :

- Treatment of foreign currency transactions,
- Translation of financial statements of foreign operations and
- Treatment of forward exchange contracts.

Contd…. ICDS-VI

What is treatment of foreign currency transactions in ICDS and different from AS-11 ?

Contd…. ICDS-VI

Treatment of foreign currency transactions

- **Initial recognition –**
  - to be recorded in reporting currency by applying exchange rate of the foreign currency at the date of the transaction.
- **Conversion at the reporting date-**
  - Monetary items to be converted by applying the closing rate
  - Non-monetary item which are carried at historical cost to be converted by applying rate at the date of transaction.
  - **Recognition of exchange differences-**
  - In respect of **monetary items only** to be recognised as income or expense in the previous year in which they arise.

The above are subject to section 43 A and rule 115?

Contd…. ICDS-VI

- **Monetary Items-** are money held and assets to be received or liabilities to be paid in fixed or determinable amount of money.
  - Examples: cash, trade receivables, trade payables.

- **Non-monetary items**- are assets and liabilities other than monetary items.
  - Examples: fixed assets, inventories, investments

Contd…. ICDS-VI

Sec 43A- Special provisions consequential to changes in rates of exchange of currency

– in case of acquisition of asset from country outside India for the purpose of his business in any previous year, an increase or decrease in liability <u>at the time of making the payment</u>, irrespective of the method of accounting adopted, shall be added or deducted, as the case may be from the actual cost of the asset.

Cont. ICDS-VI

Rate of exchange for conversion into rupees of income expressed in foreign currency

115. [(1)] The rate of exchange for the calculation of the value in rupees of any income accruing or arising or deemed to accrue or arise to the assessee in foreign currency or received or deemed to be received by him or on his behalf in foreign currency shall be the <u>*telegraphic transfer buying rate of such currency as on the specified date.*</u>

Cont…… ICDS-VI

Explanation : For the purposes of this rule,—

"specified date" means—

a) …..

b) …..

c) in respect of income chargeable under the heads "Income from house property", "Profits and gains of business or profession“ not being income referred to in clause (*d*) and "Income from other sources“ not being income by way of dividends and "Interest on securities” *<u>the last day of the previous year of the assesse;</u>*

d) …….. ……..

e) ………………

f) ………………

Rule 115 conti...

Provided that the specified date, in respect of income referred to in sub-clauses (a) to (f) payable in foreign currency and from which tax has been deducted at source under rule 26, shall be the date on which the tax was required to be deducted under the provisions of the Chapter XVII-B.

(2) Nothing contained in sub-rule (1) shall apply in respect of income referred to in clause (c) of the Explanation to sub-rule (1) where such income is received in, or brought into India by the assessee or on his behalf before the specified date in accordance with the provisions of the Foreign Exchange Regulation Act, 1973 (46 of 1973).

Foreign operation

ICDS - Only branch is considered as foreign operations of a person

Foreign operations translation if foreign operations has been those of persons himself

(As discussed in previous slides)

AS : Covers subsidiary, associate, joint venture or branch of reporting enterprise, the activities of which are based or conducted in a foreign country

Foreign operations in AS

Translation depends on :

Foreign operation is integral foreign operation or non-integral foreign operation.

Financial statements of an integral foreign operation of a person are to be translated as if the transactions of the foreign operation had been those of the person himself.

In case of non-integral foreign operations, assets and liabilities are to be translated at closing rate and income and expenses are translated at actual rates or at an average rate if it approximates the actual rate and the resulting exchange differences are accumulated in foreign currency translation reserve.

FAQ 16: What is the taxability of opening balance as on 1st day of April 2016 of Foreign Currency Translation Reserve (FCTR) relating to non-integral foreign operation, if any, recognised as per Accounting Standards (AS) 11?

Answer: FCTR balance as on 1st April 2016 pertaining to exchange differences on monetary items for non-integral operations, shall be recognized in the previous year relevant for assessment year 2017-18 to the extent not recognized in the income computation in the past.

Forward Exchange Contract

a) When held for an underlying asset or liability
b) When held for either **speculative or trading purposes**
c) When hedge for firm commitments or highly probable forecast transactions

AS -11
Forward exchange contract

A) Hedge an underlying asset or liability

- The premium/discount is amortized over the life of the contract
- The forward exchange contract is recorded as an asset/liability.
- The exchange difference on both the underlying (Asset and liability) and the forward exchange contract is recognized in the P&L account.
- The exchange gain/loss on the underlying will get offset by exchange loss/gain on the forward exchange contract.
- *The net impact on P&L account will be to the extent of amortization of premium /discount.*

Impact of Hedging – Capital account Explained with the help of Following Illustration

On 01-01-17, XYZ Ltd. imported asset from USA on credit, payment to be made $ 100000 on 30-06-17. On 01-01-17 itself it entered into a forward exchange contract to mitigate the risks associated with changes in exchange rates. The exchange rates (Rs. per US $) are as below -

Period	01-01-17	31-03-17	30-06-17
Spot Rate	60	63	65
Forward rate (for six months)	62		

Rs. In Lakhs

Cont.

F.Y.	AS 11			ICDS VI		Section 43A of IT Act, 1961
	Premium (Amortized over period of contract)	Forward Exchange Gain	Loss due to increase in Liability	Premium (Amortized over period of contract)	Forward Exchange Gain	Loss due to increase in Liability
16-17	(1) [62-60]/2	3 [63-60]	(3)* [63-60]	(1) [62-60]/2	3 [63-60]	Nil*
17-18	(1) [62-60]/2	2 [65-63]	(2)* [63-60]	(1) [62-60]/2	2 [65-63]	5 [65-60] Capitalized

The above differential treatment for loss will result into creation of DTA and then reversal of DTA due to depreciation difference because of capitalization.

* The Loss due to increase in Liability recognized in Statement of Profit & Loss will have to be added back while computing Profit and Gain for Business and Profession as the same will be capitalized as per Section 43A of IT Act, 1961 and not allowed as deduction.

AS -11

Forward exchange contract

b) Speculative or Trading Forward Exchange Contracts

Forward exchange contract is marked to market at each reporting date <u>and exchange gain or loss is recognized in the profit and loss account.</u>

the premium or discount is not recognized

Contd…. ICDS-VI

c) Forward exchange contracts –
Hedge firm commitments or highly probable transactions

- ✓ *<u>Not covered under AS-11</u>*
- ✓ Covered under AS 30 read with ICAI announcement
- ✓ Mark to market losses and gain are recognized
- ✓ However, gains if any are ignored till 31.03.2016

Contd…. ICDS-VI

ICDS –

Forward contract –

a) Hedge an underlying asset or liability – No change

b) Trading and speculation

c) Hedge the foreign currency risk of firm commitment, highly probable forecast transaction

Recognized at the ***<u>time of settlement</u>***

Since such mark-to- market gains or losses are unrealized in nature, the ICDS provides that all gains or losses on such contracts shall be recognized on settlement.

ICDS VI- Transitional provision

(1) All foreign currency transactions undertaken on or after 1st day of April, 2016 shall be recognised in accordance with the provisions of this standard.

(2)Exchange differences arising in respect of monetary items or non-monetary items on the settlement there of during the previous year commencing on the 1st day of April, 2016 or on conversion thereof at the last day or the previous year commencing on the 1st day of April, 2016 , shall be recognised in accordance with the provisions of this standard after toking into account the amount recognised on the last day of the previous year ending on the 31st March, 2016 for an item. if any, which is carried forward from said previous year.

Contd….ICDS VI- Transitional provision

(3) The financial statements or foreign operations for the previous year commencing on the 1st day of April, 2016 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2016 for an item. if any, which is carried forward from said previous year.

(4) All forward exchange contracts existing on the 1st day of April, 2016 or entered on or after 1st day of April, 2016 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March,20l6.

ICDS VII – GOVERNMENT GRANTS

2(24)(xviii)

Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee other than—

(a)the subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of section 43; or

(b)the subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or a State Government, as the case may be ;

Recognition of Government Grants

4(1) Government grants should not be recognised until there is reasonable assurance that (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.

4(2) Recognition of Government grant shall not be postponed beyond the date of actual receipt.

Comparison

Basis of comparison	ICDS VII	AS 12
Scope	1.This Standard deals with the treatment of Government grants (subsidies, cash, incentives, duty drawbacks, waiver, concessions, reimbursements). 2. It does not deal with any other Government assistance and Government participation in the ownership	Same 2. 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.

Basis of comparison	**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.	Recognizes two alternatives One method is same as ICDS VII. **In the second alternative, grants related to depreciable assets is recognized in the profit and loss in the life of the asset.**

Basis of comparison	**ICDS VII**	**AS 12**
Treatment of grants related to non depreciable assets	Grants shall be recognized as income over the same period over which cost of meeting such obligation is charged to income	Recognizes two methods. One method is same as in ICDS. In the second alternative, grants related to non depreciable assets are credited to capital reserve

Basis of comparison	**ICDS VII**	**AS 12**
Recognition of Government grants	1. Government grants should be recognized only if there is reasonable assurance that the person shall comply with the conditions laid down and the grants shall be received. 2. However, recognition of Government grant shall **not be postponed beyond the date of actual receipt.**	1. Recognition shall not be made until there is a reasonable comply with the conditions. **2. Mere receipt of a grant is not necessarily a conclusive evidence that conditions attaching to the grant have been or will be fulfilled**

Basis of comparison	**ICDS VII**	**AS 12**
Promoters Contribution	Government grants in the nature of <u>promoters Contribution are not dealt in ICDS VII</u>	Government grants in the nature of promoters Contribution are treated as capital reserve

Transitional Provision

All the Government grants which meet **recognition criteria** on or after 01-04-2016 shall be recognized for previous year commencing on or after 01-04-2016 in accordance with provisions of this standard after taking into account the amount, if any, of the said Government grant recognized for any previous year ending on or before 31-03-2016

Question 17: For subsidy received prior to I" 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 be 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 lCDS-VII provides that a government grant which meets the recognition criteria on or after 1st day of April 2016 shall be recognised in accordance with ICDS-VII. All government grants actually received prior to 1st day of April 2016 shall be deemed to have been recognised on its receipt in accordance with Para 4(2) of !CDS-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-VTI 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.

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 receipt. 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-VII : GOVERNMENT GRANTS

Disclosures

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

ICDS-VIII -Securities

Two parts

- Part –A - Securities held in stock- in- hand
- Part-B (Securities held by the scheduled bank or Public Financial Institution (PFI's)

ICDS-VIII

1. Securities held in stock- in- hand

2. Securities held by, “Securities” shall mean:

- As defined in S. 2(h) of the Securities Contracts (Regulation) Act, 1956
- Includes : Share of a company in which public are not substantially interested
- Excludes : But shall <u>not include derivatives</u> referred to in sub-clause (ia) of clause (h)

3. ICDS Does not deal with:

- Interest and dividend which are covered by Revenue recognition
- Securities held by business of Insurance
- Securities held by MF, VCF, Banks & PFIs

Initial Recognition to be:
On acquisition - at actual cost.
included its purchase price and acquisition
such as brokerage, fees, tax, duty or cess.

If acquired in exchange for other securities /asset
fair value of the security /asset so acquired shall be
its actual cost.

Where unpaid interest has accrued before the sale of an interest-bearing security and is included in the price paid for the security, the pre- acquisition portion of the interest is deducted from actual cost

Year end

At year end securities to be valued at lower of:

a) Actual cost initially recognised; or
b) Net realisable value

Comparison to be done category-wise and not each security wise

To be classified into the following categories:-

a) Shares;
b) Debt securities;
c) Convertible securities; &
d) Any other securities not covered above.

Unlisted securities or listed but not quoted with regularity –
at actual cost initially recognised.

Where actual cost initially recognised cannot ascertained by specific identification, then to determined on FIFO or weighted average

Part B I
Banks & PFIs

To be classified, recognised & measured in accordance with RBI guidelines in this regard

Claim for deduction in excess of said guidelines not to be taken into account

To this extent ICDS VI relating to forward exchange rates related to forward exchange contracts shall not apply

FAQ 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 realizable 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 below :-

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**
Securities Total		**1160**	**1150**	**1090**	**1135**

ICDS –IX

Borrowing Cost

Scope:-

(1) This Income Computation and Disclosure Standard deals with treatment of borrowing costs.

(2) This Income Computation and Disclosure Standard does not deal with the actual or imputed cost of owners' equity and preference share capital.

ICDS - Qualifying assets?

- Tangible assets
- Intangible assets
- Inventory which require period of 12 months or more for saleable condition

  Takes a substantial period of time to get ready in tangible and intangible assets as in AS is missing

  Qualifying assets for the purpose of general borrowings formula : which requires a period of 12 months or more.

What are Borrowing Costs ?

"**Borrowing costs**" are **interest** and other costs incurred by a person in connection with the borrowing of funds and include:

- Commitment charges on borrowings;
- Amortised amount of discounts or premiums relating to borrowings;
- Amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
- Finance charges in respect of assets acquired under finance leases or under other similar arrangements.

Section 2(28B)

Interest means interest payable in any manner in respect of any moneys borrowed or debt incurred (including a deposit, claim or other similar right or obligation)

and includes any service fee or other charge in respect of the moneys borrowed or debt incurred or

in respect of any credit facility which has not been utilized.

Question 20: There are specific provisions in the Act read with Rules under which a portion of borrowing cost may get disallowed under sections like 14A, 43B, 40(a)(i), 40(a) (ia), 40A(2)(b), etc of the Act. Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions?

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. Capitalization of borrowing cost shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act.

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

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

Section 36(1)(iii)

- The amount of interest paid in respect of capital borrowed for the purposes of business or profession:

- [Provided that any amount of the interest paid, in respect of capital borrowed for acquisition of an asset ~~for the~~ [~~extension of existing business or profession~~] (whether capitalized in the books of accounts or not), for any period beginning from the date on which the capital was borrowed for acquisition of the assets till the date on which such asset was first put to use, shall not be allowed as deduction.]

Foreign exchange difference held as interest cost as per AS-16.

Whether borrowing cost capitalization includes foreign exchange difference held as interest cost as per AS-16?

ICDS - not a part of borrowing

Example

XYZ Ltd. has taken a loan of USD 10,000 on April 1, 2016, for a specific project @5% p.a., payable annually.

On April 1, 2016, the exchange rate Rs. 45/USD.

The exchange rate, as at March 31, 2017, is Rs. 48/USD.

The corresponding amount could have been borrowed by XYZ Ltd. in local currency @11% p.a. on April 1, 2016.

- Interest - USD 10,000 × 5% × Rs. 48/USD = Rs. 24,000.
- Increase in the liability towards the principal amount = USD 10,000 × (48-45) = Rs. 30,000.
- Interest had the loan been taken in Indian currency = USD 10000 × 45 × 11% = Rs. 49,500.

Borrowing Costs

	Accounting	Income Tax	
Particulars		Pre-ICDS	Post ICDS
Exchange differences as per AS-11	4,500 (P&L)	4,500 Not allowed except u/s 43A	30,000 P&L
Borrowing Cost	49,500 (Capital)	49,500 – Capital	24,000 – Capital

Two types of Borrowing costs

1. Specific Borrowing cost
2. General Borrowing cost

Borrowing cost for specific purpose?

Borrowing cost to be capitalized from the date of funds borrowed to the date first put to use

and

in case of inventory of the date of inventory intended for sales completed.

Generally borrowing

Generally borrowing and utilized for the purpose of acquisition, construction or production

Qualifying assets : which requires a period of 12 months or more.

Capitalized as per formula given

From the date of fund utilized to the date of first put to use or in case of inventory up to date of intended sales are completed

General borrowings

Formula of generally borrowing prescribed –

A x B/C

A – Borrowing cost other than specific borrowings

B – average cost of qualifying assets excluded qualified asseets funded out of specific borrowings

i) first day and last day of P.Y i.e (01.04.2016 + 31.3.17)/2

ii) NIL on first day of P.Y - Half of qualifying assets

iii) Nil on last day of P.Y – (First day + date of put to used or completion)/2

C – average cost of total assets

(cost of total assets as on 31.3.16) + (cost of total assets as on 31.3.17)/2

(other than assets directly funded out of specific borrowing)

Qualifying assets : which requires a period of 12 months or more

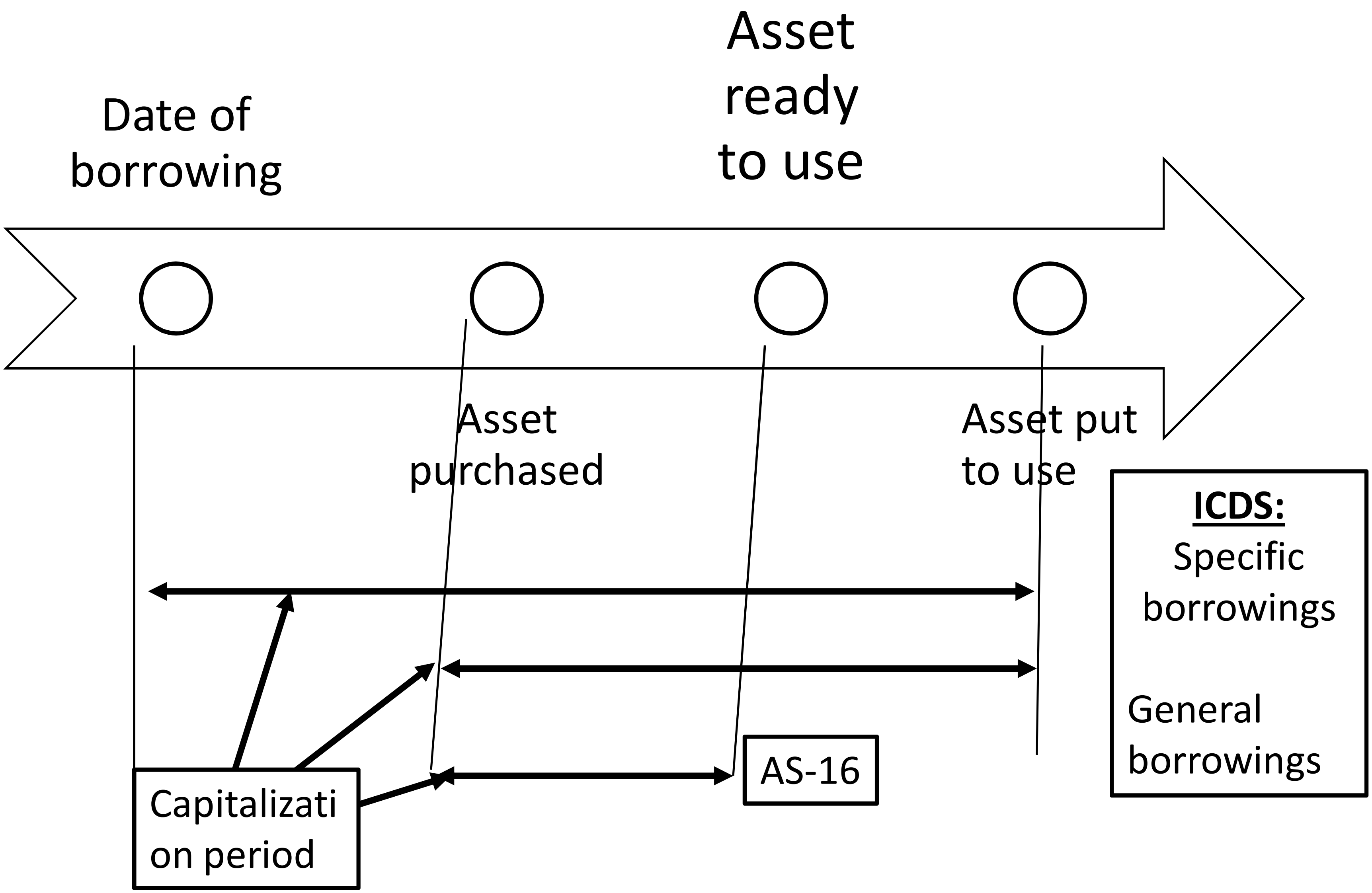
Subject to : capitalisation cost shall be cease when such assets put to use

Funds are borrowing general –in AS

12. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.

FAQ 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 borrowing cost under ICDS-IX shall be done on asset –by-asset basis


Date of borrowing
Asset ready to use
Asset purchased
Asset put to use
ICDS:
Specific borrowings
General borrowings
AS-16
Capitalization period

Income on temporary investment of borrowed funds which are specifically borrowed for obtaining a qualifying asset

ICDS :

- No netting off from cost of asset.
- Will be taxed as income

Suspension of capitalization

AS 16 :

Capitalization suspended during extended periods in which active development is interrupted.

ICDS :

No suspension of capitalization under any circumstances

Transitional Provision

All the borrowing costs incurred on or after 1st day April, 2016 shall be capitalized for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalized, if any, for the same borrowing for any previous year ending on or before 31st day of March, 2016

ICDS IX- Borrowing Costs- same

Disclosure

- ✓ The accounting policy adopted for borrowing costs; and
- ✓ The amount of borrowing costs capitalized during the previous year.

ICDS –X PROVISIONS CONTINGENT LIABILITIES CONTINGENT ASSETS

AS - Provisions, Contingent Labilités &Contingent Assets

1. This standard should be applied in accounting for Provisions, Contingent Liabilities & Contingent Assets, except:

a) those resulting from **financial instruments** that are carried at fair value**;**

b) those resulting from **executory contracts**, except where the contract is **onerous**;

c) those arising in insurance enterprises from contracts with policy-holders; and

d) those covered by another Accounting Standard

2. 'Executory Contracts' are those contracts wherein neither parties to the contract have performed their obligations or both parties have partially performed their obligations equally

3. '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.

ICDS VS AS Comparison

Treatment of ‘onerous contracts’ is not covered under ICDS.

For recognition of income from contingent assets there should be reasonable certainty that inflow of economic benefit will arise as per ICDS, whereas AS-29 requires virtual certainty (Probable).

For recognition of Reimbursement of any expenditure, there should be a *reasonable* certainty that reimbursement will be received as per ICDS where as AS 29 requires virtual certainly.

ICDS does not deal with recognition of restructuring provision.

ICDS does not deal with discounting of provision in case of decommissioning , restoration and similar liabilities that are recognized 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) A brief description of the nature of the obligation
b) Carrying amount at the beginning and end of the previous year
c) additional provisions made in the previous year and increase in existing provisions.
d) amounts used, that is incurred & charged against the provision, during the previous year
e) unused amounts reversed during the previous year
f) Amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement

For each class of asset and related income:

a) A brief description of the nature of the asset & related income;
b) The carrying amount of asset at the beginning and end of the previous year;
c) Additional amount of asset &related income recognized during the year, including increases to assets and related income already recognized; &
d) Amount of asset and related income reversed during the previous year.

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 1st day of April 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 31st day of March, 2016

The intent of transitional provision is that there is neither 'double taxation' of income due to application of ICDS nor there should be escape of any income due to application of ICDS from a particular date. This is explained as under –

Provisions Required as per ICDS on 31st March 2017 for the item brought forward from 31st day of March 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 2016-1 7or earlier ... (D)	INR 2 Crores
Net Provision as per ICDS in FY 2016-17 to be recognized as per transition provision…….(E)=(C)-(D)	INR 6 Crores

Question 24: Expenditure on most post-retirement benefits like provident fund, gratuity, etc. are covered by specific provisions. There are other post-retirement benefits offered by companies like medical benefits. Such benefits are covered by AS-15 for which no parallel ICDS has been notified. Whether provision for these liabilities 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 be governed by specific provisions of the Act and are not dealt with by ICDS-X.

Any Query ?

Thanks

BALDEV RAJ & Co.
1206, PADMA TOWER-1,RAJENDRA PLACE ,NEW DELHI
011-49876673 / 9312235173