DISTRICT CENTRE JANAK PURI
STUDY CIRCLE OF NIRC of ICAI

INCOME COMPUTATION AND DISCLOSURE STANDARDS

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Finance (No. 2) Act, 2014

Section 145(2)/(3)

Accounting standards

substituted

Income computation and disclosure standard

SECTION 145

(1) Income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" shall, subject to the provisions of sub-section (2), be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee.

(2) The Central Government may notify in the Official Gazette from time to time ~~accounting standards~~ (w.e.f. 1.4.2015) **income computation and disclosure standards** to be followed by any *class of assessees* or in respect of *any class of income.*

Income computation and disclosure standard

Notified on 31.03.2015

Reduce litigation and bring certainty

Reality ?

Litigation ? ?

Cost of compliance ?

$\Uparrow$

The Central Government gets unrestricted powers to formulate the Standards

a) **<u>Collect taxes on items that cannot be regarded as "income" under commercial accounting principles :</u>**

Requires valuation of stock at net realizable value on dissolution of a firm or an AOP irrespective of whether the business is discontinued or not. This is contrary to the decision of the Supreme Court in Shakti Trading Company's case (250 ITR 871).

b) **<u>To advance the taxable event even though in terms of commercial accounting principles</u>** no real income has accrued.

Requires retention as income and

interest income should be recognized on time basis. If the amount and principal itself is doubtful of recovery, no income can be recognized on **<u>commercial accounting principles and also based on real income theory</u>**

<u>ICDS apparently ignores these principles</u>.

c) **<u>to disallow expenses / losses for which there were court rulings in the past favourable to the assessee</u>**

but no statutory provision have been enacted by the Parliament to nullify such court rulings ICDS III denies allowance for anticipated losses in a contract. Courts have held anticipated losses as Allowable

Validity ?

AS – 22 notified under Companies Act

Issue came up before the Supreme court in the case of J.K. Industries Ltd **where validity** of delegated legislation of Accounting Standard 22 ("AS-22") issued by Central Government under the Companies Act, 1956 was challenged.

Supreme Court upheld the validity of the Rule adopting AS-22 and held that the disclosure of true and fair view of the profits and the state of affairs is the guideline inherent in the provisions of the Companies Act delegating the powers to notify accounting standards and that the adoption of AS-22 was within such guideline

J.K. Industries Ltd. v. Union of India [2008] 297 ITR 176 (SC)

Tax Standards upto AY 2015-16

Section 145(2)

W.e.f 25.01.1996

1. Disclosure of accounting polices and
2. Disclosure of Prior period and extra ordinary items and change in accounting policies

EXISTING COMPUTATION ADJUSTMENTS

- Depreciation
- Disallowance –
  - u/s 36
  - u/s 37
  - u/s 40 including 40(a), 40(ia)
  - u/s 40A
  - u/s 43B
- Allowed –
  - Depreciation u/s 32
  - Disallow u/s 40 in preceding previous year
  - Disallow u/s 43B in preceding previous year

Journey of TAS to ICDS

- In December, 2010, the CBDT Constituted a Committee to harmonise Accounting Standards (AS) issued by ICAI with the provisions of the Act for the purposes of notification under the Act and to suggest amendments to the Act.
- Committee formulated drafts of 14 Tax Accounting Standards (TAS) and submitted its report in August, 2012.
- CBDT invited public comments on drafts of TAS,
- The CBDT has revised 10 TAS and notified u/s. 145 (2) on 31-3-2015 as ICDS

SALIENT FEATURES

- ICDS applicable with effect from AY 2016-17
- ICDS applicable to all ***Assessee following mercantile system of accounting***
- Income under head :

  a) Business and professional and

  b) other source
- No minimum threshold or exemption
- ICDS for income computation, not for maintenance of books of account
- Provisions of Act to prevail in case of conflict with ICDS

  - 43B,40(a),(ia)
- All standard are apparently lucid and short
- ICDS generally modified the bold portion of the AS and omitted the explanatory paragraphs and examples contained in the AS
- Transitional provision –

  neither double taxation nor escapement of income – there is no "Grandfathering"
- Disclosure requirement

Salient feature cont…..

- revenue / expenses on which there is no ICDS
  - governed by AS /Income Tax Act/ judicial pronouncements
- Not defined words , expression
  - meaning in IT Act i.e Interest
- Overcome to judicial Pronouncements

HIERARCHY

- INCOME TAX ACT
- INCOME TAX RULES
- ICDS

Highlights –ICDS

- Does not recognized the concept of “prudence” and “Materiality”
- Marked to market loss or an expected loss shall be recognized on settlement
- WIP in business of services provider included in inventories
- Does not recognized “Standard cost”
- Valuation of inventory in case of dissolution of firm ,AOP,BOI at net realizable value
- Retention money is contract revenue
- Contract cost and contract revenue to be recognized on POCM basis
- Pre-construction income not to reduced from cost of construction
- Early stage of Contract : reached at 25% stage the profit to be recognized
- Services contract revenue recognition at par with Construction contract : POCM , 25% , disclosure etc
- Criteria of ability to reliably measure for revenue recognition is absence
- Assets acquired in exchange shall be recorded at fair value of assets acquired
- Foreign exchange transactions subject to section 43 A and rule 115
- Borrowing cost incurred from the time of borrowing till the time assets to use to be capitalized
- General borrowing formula prescribed for capitalization
- Government grant shall not postponed beyond the date of receipts
- “Virtually certain” replaced with “reasonably certain” for recognition of income and the related assets

Challenges

- Need of ICDS ?
- Impact and effect of ICDS ?

Effect :-

- ***Accounts :***

  The assessee will have to maintain its accounts in accordance with applicable AS issued by ICAI or IND-AS notified under the Companies Act.

- **Computation of Income**

  If there is any difference between the accounting results and the requirements of applicable ICDS, the Assessee ***will have to make adjustments*** while ***computing its taxable income in two sources of Income – Business and Profession and income from*** **other source** in filing return of Income

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>

Challenges cont……

- Accounting policy AS / Ind AS Vs. ICDS
- Income Computation
- Disclosure
- Turnover / gross receipt u/s 44AB u/s 44AD and 44AE after ICDS
- Deferred tax assets / liability
- Whether applicable to compute of Book profit under (MAT) u/s 115JB provision ?

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS

I. MARKED TO MARKET, EXPECTED AND PROBABLE LOSSES	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
a) Loss incurred on account of **evaluation of contract on last date of accounting period**, (before date of maturity of forward contract) is an allowable deduction - *Dy. CIT (International Taxation) v. Bank of Bahrain & Kuwait* [2010] 41 SOT 290 (Mum.)(SB) b) The losses incurred by assessee due to **revaluation of an un-materialized oil exchange contract were allowable as deductions** - *Addl. DIT (IT) v. British Bank of Middle East* [2011] 44 SOT 109 (Mum.)(URO)	a) No deduction for marked-to-market or expected and probable losses a) 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

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd………..)

MARKED TO MARKET, EXPECTED AND PROBABLE LOSSES	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
c) **Possible losses from unsettled contracts could not be** allowed as deductions - *CIT v. Indian Overseas Bank* [1984] 19 Taxman 542 (Mad.) d) **Just because anticipated profits are not assessed to tax, it would not follow as a corollary thereto that anticipated losses cannot be allowed** as deductions in computation of business income - *ABN Amro Securities India (P.) Ltd. v. ITO* [2011] 15 taxmann.com 177 (Mum.)	

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

MARKED TO MARKET, EXPECTED AND PROBABLE LOSSES	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
e) It was held that any profit arising on account of revaluation of forward contract on the last day of accounting period has to be treated as an income of the assessee - *Addl. DIT(IT) v. Development Bank of Singapore* [2011] 12 taxmann.com 35 (Mum.)(URO) **f)** **Mark-to-market loss on derivatives held as stock-in-trade shall be allowed** as business loss - *Deputy CIT v. Kotak Mahindra* [2013] 35 taxmann.com 225 (Mumbai - Trib.)	

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd………..)

MARKED TO MARKET, EXPECTED AND PROBABLE LOSSES	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
g) Forex loss computed at the end of the financial year on derivatives contract entered for hedging currency related risk had to be allowed as revenue expenditure - *Reliance Industries Limited v. CIT (LTU)* [2013] 40 taxmann.com 431 (Mumbai - Trib.) h) Booking of expected loss, might be warranted in terms of Accounting Standards, but for tax purposes, only expenses incurred or losses suffered could be allowed - *EDAC Engineering Ltd. v. Deputy CIT [*2013] 30 taxmann.com 355 (Chennai - Trib.)	

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

II. CHANGES TO METHOD OF VALUATION OF INVENTORY	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
a) Change in accounting policy isn't allowed if there is nothing on record to indicate that the change is intended to be followed regularly in future by the assessee – *Snow White Food Products Co. Ltd. v. CIT* [1983] 141 ITR 847 (Cal.) b) An **<u>assessee can change the method of accounting unilaterally in respect of a source of income</u>** - *Reform Flour Mills (P.) Ltd. v. CIT* [1978] 114 ITR 227 (Cal.)	The method of valuation of inventory shall not be **<u>changed without a reasonable cause</u>**

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

CHANGES TO METHOD OF VALUATION OF INVENTORY	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
c) Where it was found that the change adopted by the assessee was for *bona fide* purpose and was not actuated by consideration to reduce income for income-tax purposes, the revenue had no right to interfere with the change in the method of valuation of inventory - *CIT v. Mopeds India Ltd.* [1988] 38 Taxman 123 (AP) d) Change in method of accounting in view of mandatory requirements of AS-7 is a *bonafide* reason for change, particularly in view of qualification made in this regard by statutory auditors as well as by Comptroller & Auditor General of India - *Mazagon Dock Ltd. v. JCIT* [2009] 29 SOT 356 (Mum.)	

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

CHANGES TO METHOD OF VALUATION OF INVENTORY	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
e) No addition could be made to income of assessee on account of **change in accounting policy as to valuation of closing stock if such change had been made on account of statutory requirements** - *Uniflex Industries (P.) Ltd. v. ITO* [2007] 15 SOT 246 (LUCK.)	

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd………..)

III. VALUATION OF INVENTORY ON DISSOLUTION OF FIRM

WHAT JUDICIAL PRECEDENTS PROVIDE	WHAT ICDS PRESCRIBED
a) ***A.L.A. Firm v. CIT [1991] 55 Taxman 497 (SC) / 189 ITR 285*** In cases 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 b) *Sakthi Trading Co. v. CIT* [2001] 118 Taxman 301 (SC) Where **firm got dissolved due to death of a partner and business was reconstituted with the remaining partners, and business continued without any interruption,** the closing stock was to be valued at the cost or market price, whichever was lower, and not at market value.	**Inventory on the date of dissolution of partnership firm or AOP or BOI shall be valued at the net realizable value** (ICDS – Valuation of inventory)

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

VALUATION OF INVENTORY ON DISSOLUTION OF FIRM	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
c) Market value has to be adopted where dissolution of firm is accompanied by discontinuance of business and not otherwise - *Kwality Steel Suppliers v. CIT* [2004] 141 Taxman 177 (Guj.) d) Partnership firm stood converted into proprietorship firm after retirement of one out of only two partners of the firm, closing stock to be valued at market price instead of book value shown in books of dissolved firm - *Madhu Rani Mehra v. CIT* [2011] 10 taxmann.com 126 (Delhi)	

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

V. TAXABILITY OF RETENTION MONEY IN CONSTRUCTION CONTRACTS	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
a) Where **retention money and security deposit** were repayable to the assessee after completion of the contract to the satisfaction of the contractee, it **could not be said that said amount had accrued to assessee and, therefore, could not be taxed in assessee's hand** - *CIT v. P & C Constructions (P.) Ltd.* [2009] 318 ITR 113 (Mad.) b) 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. The AO was not justified in treating entire contract amount as accrued on submission of bills - *CIT v. Simplex Concrete Piles India (P.) Ltd.* [1989] 45 Taxman 370 (Cal.)]	**Retention money shall accrue to the taxpayer for computing revenue** based on percentage of completion method (POCM) (ICDS – Construction Contracts)

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

TAXABILITY OF RETENTION MONEY	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
c) Retention money could not be said to be accrued to assessee till completion of work - *DIT (International Taxation) v. Ballast Nedam International* [2013] 33 taxmann.com 139 (Gujarat) d) Retention money was to be taxed in assessment year relevant to 'previous year' in which it became payable to assessee as per terms of contract - *Amarshiv Construction (P.) Ltd. v. Dy. CIT* [2014] 45 taxmann.com 429 (Gujarat) e) Retention money to be brought to tax in the year in which contract was successfully completed irrespective of the fact that assessee had adopted mercantile system of accounting - *Asst. CIT v. B.G.R. Energy Systems Ltd*. [2014] 47 taxmann.com 266 (Hyderabad - Trib.)	

VI. ANTICIPATED LOSSES IN CONSTRUCTION CONTRACTS

WHAT JUDICIAL PRECEDENTS PROVIDE	WHAT ICDS PRESCRIBED
a) Where construction project has long gestation period and POCM (Percentage of Compleation Method) 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.) **b)** **<u>Deduction for foreseeable losses allowed by Delhi High Court</u>** in *CIT v. Triveni Engg. & Industries Ltd.* [2010] 8 taxmann.com 146	Future or anticipated losses shall not be allowed unless such losses are actually incurred (ICDS – Construction Contracts)

INCOME COMPUTATION AND DISCLOSURE STANDARDS Vs. JUDICIAL PRECEDENTS (contd…………)

ANTICIPATED LOSSES IN CONSTRUCTION CONTRACTS	
WHAT JUDICIAL PRECEDENTS PROVIDE	**WHAT ICDS PRESCRIBED**
c) **Contentions of assessee regarding allowability of foreseeable losses were accepted principally** - *Jacobs Engineering India (P.) Ltd. v. Asst. CIT* [2011] 14 taxmann.com 186 (Mum.) d) **AS-7 allowed assessee to make provision for foreseeable losses and therefore, said losses provided by assessee in its books of account had to be allowed in year under consideration** – *Asst. CIT v. ITD Cementation India Ltd.* [2013] 36 taxmann.com 74 (Mumbai - Trib.)	

VII. DEFERMENT OF REVENUE

WHAT JUDICIAL PRECEDENTS PROVIDE	WHAT ICDS PRESCRIBED
The assessee couldn't be said to be following wrong accounting policy if it didn't recognize the interest accrued on loan given to certain companies which eventually became sick - *Kerala State Industrial Products Trading Corporation Ltd. v. Asst. CIT* [2012] 22 taxmann.com 78 (Cochin)	Recognition of revenue can be deferred if <u>there is an uncertainty in its ultimate collection</u> (ICDS– Revenue Recognition)

Income Computation & Disclosure Standards (ICDS)

ICDS NO	NAME	Equivalent New IND AS No	Equivalent AS No
I	Accounting Policies	8	1 & 5
II	Valuation of Inventories	2	2
III	Construction Contract	115	7
IV	Revenue Recognition	115	9
V	Tangible Fixed Asset	16	10
VI	Effects of changes in foreign exchange rates	21	11
VII	Government Grants	20	12
VIII	Securities	32/109	13/ 30
IX	Borrowing Costs	23	16
X	provisions, contingent liabilities and contingent assets	37	29

Suggested by committee but not notified

- Prior period items
- Events after the Balance Sheet
- Lease
- Intangible Assets
- Separate ICDS for Services concession arrangement – Build , operate and transfer (BOT) contracts or PPT Projects

Accounting Polices

AS-1/ IND AS -1

VS

ICDS-I

AS-1- Disclosure of accounting Policies

- Deals with disclosure of significant accounting polices followed in preparation and presenting financial statements
- Fundamental accounting assumption – going concern , consistency , accrual
- Nature of accounting polices –examples –area in which different accounting policies may be adopted, not exhaustive list.
- Consideration in selection of accounting policies Prudence , substance over form and materiality
- Should represent a true and fair view of the state of affairs of the enterprises as at balance sheet date and of the profit or loss for the period ended on that date
- Disclosure of accounting polices –

  a) all significant polices, form part of financial statement , suggested to be at one place ,

  b) Change in policy- material effect should disclosed with amount to the extend ascertainable if not than that fact should disclosed.

  3) if fundamental assumption not followed- fact should disclosed

ICDS 1 – ACCOUNTING POLICIES

ICDS-I Vs. IND AS-1		
Points of comparison	ICDS 1 : Accounting Policies	(AS) 1 : Disclosure of Accounting policies
1. Scope	Deals with significant accounting policies only	Deals with disclosure of significant accounting polices ***followed in preparation and presenting financial statements***

ICDS 1 – ACCOUNTING POLICIES

ICDS-I Vs. IND AS-1		
Points of comparison	ICDS 1 : Accounting Policies	(AS) 1 : Disclosure of Accounting policies
2. Deviation	Deviation from ICDS-I allowed only ***if requirements of ICDS-I would conflict with the Act***	Deviation from requirement of an Ind-AS allowed ***if conflict with Compnay Act or management concludes that compliance would make financial statements misleading***

ICDS 1 – ACCOUNTING POLICIES (contd…)

Points of comparison	ICDS 1 : Accounting Policies	(AS) 1 : Disclosure of Accounting policies
3. True and fair	Accounting policies adopted by a person shall be such so as to **represent a true and fair view of the *state of affairs*** **and** **income of the business, profession or vocation.**	Accounting Policies by an enterprises is that the financial statement prepared and ***presented on the basis of such accounting policies should represent a true and fair view of the state of affairs of the enterprise as at the balance sheet date and of the profit and loss for the period ended on that date.***

ICDS 1 – ACCOUNTING POLICIES (contd…)

Points of comparison	ICDS 1 : Accounting Policies	(AS) 1 : Disclosure of Accounting policies
4. "Prudence"	**<u>Not included</u>** **And further Provided :** **"marked to market loss" or an "expected loss" shall not be recognized - <u>unless the recognition of such loss is in accordance with the provisions of any other ICDS</u>**	**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 <u>all known liabilities & losses</u> (on best estimates)**

ICDS 1 – ACCOUNTING POLICIES (contd…)

Points of comparison	ICDS 1 : Accounting Policies	(AS) 1 : Disclosure of Accounting policies
5. Materiality	**ICDS is silent about the concept of materiality.** Since the Act does not recognize the concept of materiality for the purpose of computation of taxable income, the same has not been incorporated in the ICDS.	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.

Transitional Provisions

- All contract or transaction
- existing on 01-04-2015 or entered into on or after 01-04-2015
- 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 31-03-2015

ICDS-I Accounting Policies

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
- Disclosure of accounting policies or of changes therein **cannot remedy a wrong** or inappropriate treatment of the item.
- **Deviation** from fundamental accounting assumption.

Valuation of Inventories

AS-2/ IND AS -2

VS

ICDS-II

AS-2

- Deals with the determination of value of inventories carried in the financial statement
- Inventories are assets :-
  - a) held for sale in the ordinary course of business,
  - b) in the process of production for such sale ,
  - c) in the form of material or supplies to be consumed in the production process or in the rendering of services
- Not applied :
  - a) WIP under construction contract
  - b) WIP business of services
  - c) Stock in hand - Shares debentures and other instruments
  - d) Producers' inventories of livestock, agricultural and forest products etc.

AS-2

- Measurement of inventories : should be lower of cost or net realizable value.
- Cost of inventories : purchases , conversion , other cost and exclusions from the cost
- Cost formulas : FIFO or weighted average cost
- Techniques for measurement of cost : standard cost method , retail cost method
- Net releasable value to be computed - item by item, (in some cases - group wise etc)
- Materials held for production of inventories are not written down below cost if ultimate Finished Product is expected to be sold at or above cost.
- Disclosure :

  a) accounting policies adopted in measuring inventories , including the cost formula used

  b) The total carrying amount of inventories and its classification appropriate to the enterprises

ICDS II – VALUATION OF INVENTORIES

ICDS-II Vs. (AS) 2		
Points of comparison	**ICDS II: Inventories**	**(AS) 2 : Valuation of Inventories**
1. Costs 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	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

145 A and inclusive method

As per the requirements of section 44AB required to provide details of deviation, if any, from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss in Form 3CD.

The ICAI in the Guidance Note on Tax Audit under section 44AB of the Income-tax Act, 1961 (‘the guidance note’) 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.”

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

ICDS II – VALUATION OF INVENTORIES

ICDS-II Vs. (AS) 2		
Points of comparison	**ICDS II: Inventories**	**(AS) 2 : Valuation of Inventories**
2. Valuation of inventories of service provider	The costs of services in the case of a service provider shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads. **SWIP ?**	Nil

ICDS II – VALUATION OF INVENTORIES (contd)

ICDS-I Vs. (AS) 2		
Points of comparison	**ICDS II: Inventories**	**(AS) 2 : Valuation of Inventories**
3 Valuation of inventory on dissolution of a partnership firm or association of person or body of individuals	In case of dissolution of a partnership firm or association of person or body of individuals, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the net realizable value.	

Case laws discussed

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

In cases 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] 118 Taxman 301 (SC) / 250 ITR 871***

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 Realizable value whichever is lower will apply.

ICDS II – VALUATION OF INVENTORIES (contd)

ICDS-I Vs. (AS) 2		
Points of comparison	**ICDS II: Inventories**	**(AS) 2 : Valuation of Inventories**
4.Techniques for measurement of the cost of inventories	Standard cost method is not allowed	standard cost method or the retail method may be used if the ***results approximate to the actual cost***. .

ICDS II – VALUATION OF INVENTORIES (contd)

ICDS-I Vs. (AS) 2		
Points of comparison	**ICDS II: Inventories**	**(AS) 2 : Valuation of Inventories**
5. Opening stock	a) Cost of inventory if any on day of commencement of the business when business start in previous year b) Value of inventory as on the close of immediately proceeding previous year	no reference

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 01-04-2015,
- shall be taken into account for determining cost of such inventory for valuation as on close of previous year beginning on or after 01-04-2015
- if such inventory continue to remain part of inventory as on close of the previous year beginning on or after 01-04-2015

ICSD II- Valuation of Inventories

Disclosures

The following aspects shall be disclosed:

- The **accounting policies** adopted in measuring inventories
- the **cost of formulae** used
- The **total carrying amount** of inventories , and
- **classification** appropriate to a person.

Construction contracts

AS-7/ IND AS -115

VS

ICDS-III

AS-7 CONSTRUCATION CONTRACTS

- Applied in accounting of construction contracts
- Contract revenue : initial amount agreed in contract and variation in contract work, claims and incentive etc
- Contract cost : directly relate to specific contract , cost attributable, other cost specifically chargeable to customer
- incident income reduced from cost
- Recognition of contract revenue and expenses : when can be estimated reliable : as stage of completion of the contract activity at reporting date
- When can't estimated reliable – revenue to the extend of cost incurred
- Method to determined percentage of completion of contract : proportion of contract cost incurred , survey of work performed , completion of physical proportion of the contract work
- **All expected loss should recognized immediately**
- Change in estimates
- Disclosure :

  a) contract revenue recognized, method used to determined contract revenue, method used to determined stage of completion

  b) aggregate cost incurred and recognized profit up to reporting date, advance received , retention

  c) Gross amount due from customer –as an assets and Gross amount due to customer – as a liability

ICDS III – CONSTRUCTION CONTRACTS

ICDS-III Vs. (AS) 7		
Points of comparison	**ICDS III: Construction Contracts**	**(AS) 7 : Construction Contracts**
1. Recognition of contract costs and contract revenues with reference to stage of completion of the contract activity at the reporting date ***<u>(percentage of completion method)</u>***	Contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.	When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.
	ICDS-III does not recognize that the possibility that outcome of a construction contract cannot estimated reliably except during early stages of contract i.e. upto 25% stage of completion.	(AS) 7 **specifies criteria as to when the outcome of a construction contract can be estimated reliably for fixed price contracts and cost plus contracts.**

ICDS III – CONSTRUCTION CONTRACTS

ICDS-III Vs. (AS) 7 : cont.. Recognition of contract costs and contract revenues		
Points of comparison	**ICDS III: Construction Contracts**	**(AS) 7 : Construction Contracts**
	Where contract revenue already recognized as income is subsequently written off in the books of accounts as uncollectible , the same shall be recognized as an expenses, not adjustment of the amount of contract revenue	

ICDS III – CONSTRUCTION CONTRACTS (Contd…)

ICDS-III Vs. (AS) 7

Points of comparison	ICDS III: Construction Contracts	(AS) 7 : Construction Contracts
2. Early stages of completion of contract	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.	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.** However, ***no definition as to upto what% of completion it can be considered that contract s at early stage.***

ICDS III – CONSTRUCTION CONTRACTS (Contd…)

ICDS-III Vs. (AS) 7		
Points of comparison	**ICDS III: Construction Contracts**	**(AS) 7 : Construction Contracts**
3. Netting of costs by incidental income	Netting off allowed for all types of costs. However, such netting off not allowed if incidental income is in the ***<u>nature of interest, dividends or capital gains</u>***.	Costs that relate directly to the specific contract shall be reduced by any incidental income that is not included in contract revenue. Such netting off not allowed from – (i) Costs that are attributable to contract activity in general and can be allocated to the contract; (ii) Such other costs as are specifically chargeable to the customer under the terms of the contract

ICDS III – CONSTRUCTION CONTRACTS (Contd..)

ICDS-III Vs. (AS) 7		
Points of comparison	**ICDS III: Construction Contracts**	**(AS) 7 : Construction Contracts**
4. Recognition of actual / expected losses from contract	**In proportion to percentage of completion**	**To be recognized in full.**
5. Retentions	**Retentions shall be included in contract revenue**	**(AS) 7 silent on retentions**
6. Incentive payments & claims	If reliably measurable	• If reliably measurable • **Specified performance standards are met**

Disclosure

- Contract revenue recognized as revenue in the period and
- The methods used to determine the stage of completion.
- Costs incurred and recognized profits (less recognized losses)
- Amount of advances received; and
- Amount of retentions

Revenue Recognition

ICDS-IV Vs. AS 9

AS-9- Revenue Recognition

- Deals with bases for recognition of revenue in the statement of profit and loss account
- Revenue from sales or service transactions should be recognized
  - when the requirements as to performance as set out are satisfied,
  - provided that at the time of performance it is not unreasonable to expect ultimate collection.
- In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:
  - The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer; and
  - No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.
- In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method,
  - whichever relates the revenue to the work accomplished.

AS-9- Revenue Recognition

- Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.

- Revenue arising from the use of other enterprise resources yielding interest, royalties and dividends should only be recognised when no significant uncertainty as to measurability or collectability exists. These revenues are recognised on the following bases:
  - Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable.
  - Royalties: on an accrual basis in accordance with the terms of the relevant agreement.
  - Dividends from investments in shares: when the owner’s right to receive payment is established

- **Disclosure :**

  Circumstances in which revenue recognition has been postponed pending resolution of significant uncertainties

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	There Is reasonable certainty of ultimate collection of the revenue **The revenue can reliably be measured (Prudence)**
2. Recognizes	**only by** "percentage completion method". ICDS for Construction Contracts to apply *mutatis mutandis*	**Recognizes both** "proportionate completion method" and "completed service contract method"

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ICDS-IV Revenue Recognition

Revenue from Rendering of Services

- ✓ By POCM
- ✓ Revenue is matched with the costs incurred in reaching the stage of completion,

- ✓ ICDS on construction contract *mutatis mutandis* apply to the recognition of revenue and the associated expenses for a service transaction.

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 31-03-2015 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, 2015 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, 2015 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, 2014 shall be taken into account for recognizing revenue for the said transaction for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.***

ICDS-IV Revenue Recognition

Disclosure

- Claim **raised for escalation of price and export incentives but not recognized as revenue** during the previous year along with nature of uncertainty about such claims

- Revenue from service transactions recognized as revenue ; and the methods used to determine the stage of completion of service transactions in progress.

- **For service transactions in progress (SWIP) :**

  (i) costs incurred and recognized profits (less recognized losses) upto end of previous year;

  (ii) advances received; and

  (iii) retentions

Tangible Fixed Assets

ICDS-V vs. AS-10

AS-10 – Fixed Asset

- Deals with accounting of Fixed assets
- The cost of a fixed asset should comprise its purchase price and any attributable cost of bringing the asset to its working condition for its intended use.
- Self-constructed asset shall be accounted at cost.
- **In case of exchange of asset, fair value of asset acquired or the net book value of asset given up whichever is more clearly evident shall be considered.**
- Revaluation is permitted provided it is done for the entire class of assets. The basis of revaluation should be disclosed.
- Increase in value on revaluation shall be credited to Revaluation Reserve while the decrease should be charged to Profit and Loss Account.
- Goodwill to be accounted only when paid for.
- **Assets acquired on hire purchase shall be recorded at its fair value**.

AS-10 – Fixed Asset

- Assets should be eliminated from books on disposal or when of no utility value.
- Profit/loss on disposal be recognized on disposal to Profit and Loss Account.
- Machinery spares that can be used only in conjunction of specific asset shall be capitalized.
- **Disclosure :**

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

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

  Detail about revalue amount

ICDS V – Fixed Assets

ICDS- V Vs. (AS) 10		
Points of comparison	**ICDS V: Fixed Assets**	**(AS) 10 : 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.
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

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Other aspects related to fixed assets covered by others ICDS

- Borrowing cost -IX
- Foreign Exchange difference -VI

Transitional Provisions - ICDS-V

The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before 31-03-2015 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 01-04-2014 shall be taken into account for recognizing actual cost of the said assets for previous year commencing on 01-04-2015 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.

Accounting For Effects Of Changes In Foreign Exchange.

ICDS-VI vs. (AS) 11

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

- Activities involving Foreign Exchange:
  - Transactions in Foreign Currencies
    - Monetary Items
    - Non-Monetary Items
  - Foreign operations
    - Integral Operation
    - Non-integral Operation
  - Forward Exchange Contract

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

- Objective of the Standard:

  To include

  – Foreign Currency Transactions, and

  – Foreign Operations

    - In the Financial Statement of an Enterprise

- Action Required

  – Express FX Transactions in Enterprise's Reporting Currency

  – Translate Foreign Operation in Reporting Currency

- Does not deal with

  – Restatement of FS for convenience of users

  – Presentation in Cash Flow Statement

  – Translation of Cash Flow of Foreign Operations

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

- Foreign Currency Transaction
  - Transaction denominated in FX
  - Requires settlement in FX
- Type of Foreign Currency Transactions
  - Buy or sell goods or services
  - Borrows or lends funds
  - Unperformed Forward Exchange Contract
  - Acquisition or Disposal of Assets
  - Incur or settle liabilities

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

- **Initial Recognition**
  - Exchange Rate at the Date of Transaction
- **Subsequent Recognition**
  - **Monetary items**
    - closing rates.
    - Restrictions on remittances – Realisable Rate
    - Closing Rate Unrealistic – Realisable Rate
  - **Non monetary items carried in terms of historical cost**
    - exchange rate on the date of the transaction.
  - **Non monetary items carried at fair value**
    - Exchange rate that existed when the values were determined

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

- Exchange differences- Monetary Items – Integral Operation-Income / Expense of the Period:
  - On settlement of Monetary Items
  - On reporting of Monetary Items at closing rate period in which they arise except in case of fixed assets and differences on account of forward contracts.

- Exchange differences- Monetary Items – Non Integral Operation- forms part of Net Investment
  - Until disposal - Accumulated in FX Translation Reserve.
  - On disposal – Income or Expense of the period in which disposed.

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

Translation of Financial Statements:

- **Integral Foreign Operations** are Translated as if the transactions of foreign Operations are those of Reporting Enterprise itself.

- **Non Integral Foreign Operations:**
  - **Assets & Liabilities items – Closing Rates**
  - **Income & Expense** items – Rate at the transaction date
  - **Resulting Exchange Differences**- Accumulated in FX Translation Reserve until disposal of Net investment

AS-11- Accounting For Effects Of Changes In Foreign Exchange.

Forward Exchange Contract

- **Gains or losses** - recognized through profit and loss account (unless it relates to fixed assets)
- **Measurement of gains or losses** - depends upon the intention for which it is taken.
- When **not for trading or speculative purposes**
  - the premium/discount is amortised over the term of the contracts.
- When held for either **speculative or trading purposes,**
  - the gain or loss is arrived at each reporting date after comparing the FAIR VALUE of contract for its remaining term of maturity with the carrying amount at the reporting date.
- **Profit/Loss on cancellation or renewal**
  - recognized as income/expenses of the respective Period.

ICDS-VI vs. (AS) 11:
Effects of Change in Foreign exchange rates

Points of comparison	ICDS VI	(AS) 11
1. Scope Exception	no scope exception for exchange differences arising from foreign currency borrowings which may be regarded as an adjustment to interest cost.	AS -11, contains an exception for **exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs**.
2. Effects of Change in Foreign Exchange Rates	Expressly provides that these provisions will be subject to Section 43A of the Act and Rule 115 of the Income-tax Rules, 1962.	AS-11 provides guidance on initial and subsequent recognition of foreign currency transactions and the resultant exchange differences

ICDS-VI vs. (AS) 11:

Effects of Change in Foreign exchange rates

Points of comparison	ICDS VI	(AS) 11
3. Foreign Currency transitional Reserve	Such exchange differences shall be recognized for the purpose of computation of income.	Exchanges differences arising on translation of the financial statements of **non-integral foreign operations should be accumulated in a foreign currency translation reserve in the balance sheet**
4. Forward contract	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. **(**hedge the foreign currency risk of firm commitment, highly probable forecast transaction)	Forward exchange or similar contracts entered into for trading or speculation purposes should be mark-to-market at each balance sheet date and the resultant exchange differences should be recorded in profit or loss.

Capital monetary items – Not relating to Imported assets

Judicial precedents

- Section 43A of the Act was introduced by the Finance (No. 2) Act, 1967 with effect from 1st April, 1967.

- In the case Tata Iron & Steel [TISCO - (1998) 231 ITR 285 (SC)] for the case relating to AY 1960-61 and AY 1961-62 (When Section 43A was not introduced), Supreme Court had held that cost of an asset and cost of raising money for purchase of asset are two different and independent transactions and events subsequent to acquisition of assets cannot change price paid for it. Therefore, fluctuations in foreign exchange rate while repaying instalments of foreign loan raised to acquire asset cannot alter actual cost of assets for computing depreciation.

Capital monetary items – Not relating to Imported assets

Hence, **<u>given that the provisions of Section 43A requiring foreign exchange gain/loss to be adjusted with the cost of the assets, apply only with respect to imported assets, the case of indigenous assets will continue to be governed by the ratio of the Tata Iron & Steel's decision.</u>**

- Gains arising on deposits (in foreign currency) are capital receipt as the deposits were in essence loan/capital and not a trading receipt - Shell Company of China Ltd. [22 ITR 1 (CA)]

- If the foreign currency is held as a capital asset or as fixed capital, profit or loss to an assessee on account of appreciation or depreciation in the value of foreign currency held by it, on conversion into another currency, would be of capital nature. - Sutlej Cotton Mills Ltd., [(1979) 116 ITR 1 (SC)]

Transitional Provision

All foreign currency transactions existing on 01-04-2015 or undertaken on or after 01-04-2015 shall be recognized in accordance with provisions of this standard.

Government Grant

ICDS-VII Vs. (AS) 12

AS-12 – Government Grant

- **Government Grants-** Subsidies, Cash incentive, Duty Drawbacks, etc.

- **Nature of Grants –**
  - Promoters' Contribution – reference to total investment/ Capital outlay - not earned – an incentive
  - Non Gratuitous - Enterprise earns them through compliance/ meeting obligation

- **Accounting of Government Grants**
  - Capital Approach – promoters' contribution
  - Income Approach – non gratuitous - matched over a period with cost

AS-12 – Government Grant

- Deals with accounting for government grant known as subsidies , cash incentives, duty drawback etc.
- Grants should **not be recognised unless reasonably assured to be realized**.
- Grants towards specific assets be presented as deduction from its gross value.

  Alternatively, be treated as deferred income in Profit & Loss Account on rational basis over the useful life of the asset when depreciable.
- For non-depreciable asset requiring fulfillment of any obligations, it be credited to Profit & Loss Account during the concerned period to fulfill obligations.
- Grant of nature of promoters' contribution should be credit to capital reserves and considered as shareholders' funds.
- Grants in the form of non monetary assets given at concessional rate be accounted at their acquisition cost.
- Asset given free of cost be recorded at nominal value.

AS-12 – Government Grant

- Grants receivable as compensation of losses/expenses incurred be recognized and disclosed in Profit & Loss Account in the year it is receivable and shown as extraordinary item if appropriately read with AS-5.
- Contingency related to grant be treated in accordance with AS-4. Grants when become refundable, be shown as extraordinary item read with AS-5.
- Grants related to revenue on becoming refundable be adjusted first against unamortized deferred credit balance of the grant and then be charged to Profit & Loss Account.
- Grants against specific assets on becoming refundable be recorded by increasing the value of the respective assets or by reducing Capital Reserve/Deferred Income balance of the grant.
- Grant to promoter's contribution when refundable be reduced from the Capital Reserve.
- Disclosure

  Accounting policy adopted for grants including method of presentation,

  Nature and extent of recognition in financial statements including non monetary assets at concession/free of cost be disclosed.

ICDS VII – GOVERNMENT GRANTS

ICDS-VII Vs. (AS) 12		
Points of comparison	**ICDS VII: Government Grants**	**(AS) 12 : Government Grants**
1. Government grant related to a depreciable fixed assets	Where the Government grant relates to a depreciable fixed assets or assets of a person, the grant shall be deducted from the actual cost of the asset or assets concerned or from the written down value of block of assets to which concerned asset or assets be longed to. **No option to recognize as deferred income over the useful life.**	Where the Government grant relates to a depreciable fixed assets, the same may be deducted from assets concerned or **treated as deferred income over the useful life on a systematic and a rational basis.**

ICDS VII – GOVERNMENT GRANTS (contd….)

ICDS-VII Vs. (AS) 12		
Points of comparison	**ICDS VII: Government Grants**	**(AS) 12 : Government Grants**
2. Grant in the nature of Promoter's contribution	Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, shall be deducted from the actual cost of the asset or shall be reduced from the written down value of block of assets to which the asset or assets belonged to.	To be credited to capital reserve

ICDS VII – GOVERNMENT GRANTS (contd….)

ICDS-VII Vs. (AS) 12		
Points of comparison	**ICDS VII: Government Grants**	**(AS) 12 : Government Grants**
3. Recognition of Government grants	Should not be recognized until there is reasonable assurance that 1. The person shall comply with the conditions attached the them 2. The grants shall be received **Recognition of government grant shall not be postponed beyond the date of actual receipts**	Should not be recognized until there is reasonable assurance that 1. The person shall comply with the conditions attached the them 2. The grants shall be received

ICDS-VII : GOVERNMENT GRANTS

Disclosures

- ✓ Nature and extent of Government grants recognised 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 recognised during the previous year

  as income;
- ✓ Nature and extent of Government grants not recognised 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 recognised during the previous year as income and reasons thereof.

Transitional Provision

All the Government grants which meet recognition criteria on or after 01-04-2015 shall be recognized for previous year commencing on or after 01-04-2015 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 31-03-2015.

Investment Accounting
ICDS-VIII Vs. (AS) 13

AS-13 – Investment Accounting

- Current investments and long-term investments shall be disclosed distinctly with further sub-classification.
- Cost of investment to include acquisition charges, e.g., brokerage, fees and duties.
- Current investments shall be disclosed at lower of costs and fair value.
- Long-term investments shall be disclosed at cost.
- Provision for decline (other than temporary) to be made.
- Adequate disclosure is required for: the accounting policy adopted — classification of investments — income
- from investments, profit/loss on disposal and changes in carrying amount of such investment — aggregate
- amount of quoted and unquoted investments giving aggregate market value of quoted investments.
- Significant restrictions on right of ownership, realisation of investment and remittance of income and proceeds of disposal thereof be disclosed.

ICDS-VIII Securities

ICDS-VIII Vs. (AS) 13		
Points of comparison	**ICDS VIII: Securities**	**(AS) 13 : Accounting for investments**
1. Scope	As ICDS, deals with computation of income under business or other sources heads hence it only deals with securities held as stock – in – trade.	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 with suitable modifications
2. Subsequent measurement of securities	securities should be valued at lower of cost or net realizable value. It further elaborates that the comparison of cost and NRV shall be done category wise and not for each individual security. The major heads of classification are (i) shares (ii) debt securities (iii) convertible securities (iv) any other securities not covered above	values long term and current investments differently, i.e long term investments are valued at cost and current investments are valued at cost or fair value which ever is lower.

ICDS-VIII Vs. (AS) 13

Points of comparison	ICDS VIII: Securities	(AS) 13 : Accounting for investments
3. Subsequent measurement of securities	ICDS, prescribes that the 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	incorporates in itself no such condition related to recognition of cost of unlisted or listed but not quoted on a recognised stock exchange.
4. Subsequent measurement of securities	ICDS prescribes that where the actual cost initially recognised cannot be ascertained by reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method	incorporates in itself no such condition of first-in-first-out method.

ICDS-VIII Vs. (AS) 13

Points of comparison	ICDS VIII: Securities	(AS) 13 : Accounting for investments
5. Recognition and initial measurement of securities	ICDS, prescribes that when a security is acquired in exchange for other securities or for another asset, the fair value of the security so acquired shall be its actual cost.	in case a security is acquired in exchange for another security, the fair value of the securities issued should be its actual cost. Whereas in case a security is acquired in exchange for another asset, acquistion cost of investment is fair value of the asset given up or fair value of the investment received if it is more clearly evident.

Borrowing Cost
ICDS-IX Vs. (AS) 16

AS-16 – Borrowing Cost

- Deal with accounting of Borrowing Cost
- Borrowing costs that are directly attributable to the acquisition, construction or production of any qualifying asset
  - (assets that takes a substantial period of time to get ready for its intended use or sale) should be capitalised.

- Borrowing costs that can be capitalised are interest and other costs that are directly attributable to the acquisition, construction and production of a qualifying asset.

- Income on the temporary investment of the borrowed funds to be deducted from borrowing costs.

AS-16 – Borrowing Cost

- Capitalisation of borrowing costs should be suspended during extended periods in which development is interrupted.
- Capitalisation should cease when completed substantially or if completed in parts, in respect of that part, all the activities for its intended use or sale are complete.
- Statement does not deal with the actual or imputed cost of owner's equity/preference capital are treated as borrowing costs.
- **Financial statements to disclose**

  Accounting policy adopted for borrowing cost and

  The amount of borrowing costs capitalised during the period.

ICDS IX – BORROWING COSTS

ICDS-IX Vs. (AS) 16

Points of comparison	ICDS IX: Borrowing Costs	(AS) 16 : Borrowing Costs
1. Exchange differences arising from foreign currency borrowings to the extent regarded as interest costs	These are not treated as borrowing costs under ICDS	These are regarded as borrowing costs.
2. Qualifying assets	Term expressly includes know-how, patents, copyrights, trade marks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets	Term not defined to cover intangible assets
3. Income on temporary investment of borrowed funds which are specifically borrowed for obtaining a qualifying asset	No netting off from cost of asset. Will be taxed as income	To be netted off from borrowing costs and capitalized.

ICDS IX – BORROWING COSTS (Contd…..)

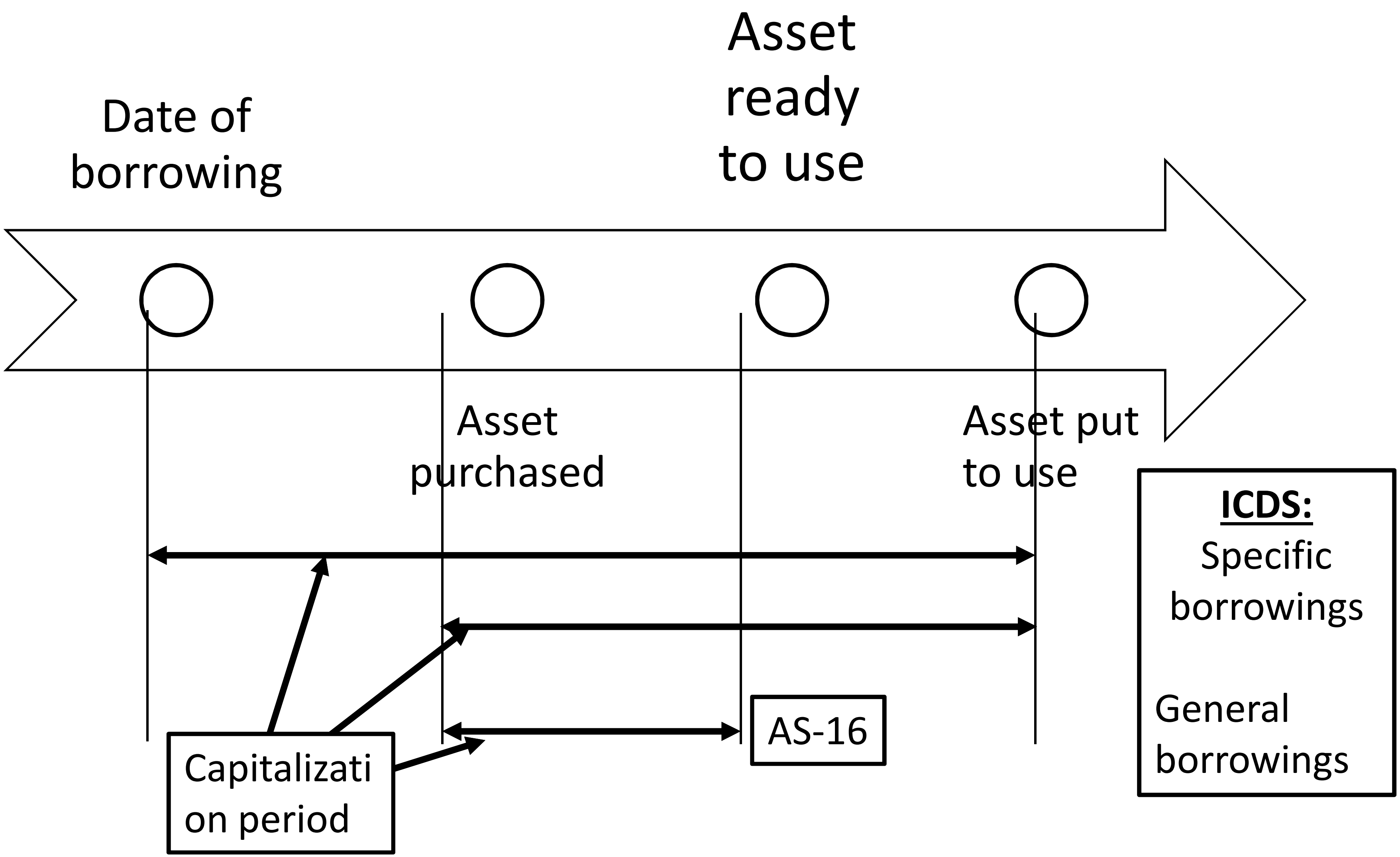
ICDS-IX Vs. (AS) 16		
Points of comparison	**ICDS IX: Borrowing Costs**	**(AS) 16 : Borrowing Costs**
4. Commencement of capitalization	The capitalization of borrowing costs shall commence – (a) In a case referred to in paragraph 5 (funds specifically borrowed for obtaining a qualifying asset), from the date on which funds were borrowed (b) In a case referred to in paragraph 6 (funds borrowed generally and used for obtaining a qualifying asset), from the date on which funds were utilized.	The capitalization of borrowing costs shall commence from the date all the following conditions are satisfied (i) Expenditure for a acquisition, construction or production of a qualifying asset is being incurred ; (ii) Borrowing costs are being incurred; and (iii) Activities that are necessary to prepare the asset for its intended use are in progress.

ICDS IX – BORROWING COSTS (Contd…..)

ICDS-IX Vs. (AS) 16		
Points of comparison	**ICDS IX: Borrowing Costs**	**(AS) 16 : Borrowing Costs**
5. Suspension of capitalization	No suspension of capitalization under any circumstances.	Capitalization suspended during extended periods in which active development is interrupted.

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.


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

ICDS IX- Borrowing Costs

Disclosure

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

Transitional Provision

All the borrowing costs incurred on or after 01-04-2015 shall be capitalized for the previous year commencing on or after 01-04-2015 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 31-03-2015.

Provision, Contingent Liabilities And Contingent Assets ICDS-X Vs. (AS) 29

AS-29 - Provision, Contingent Liabilities And Contingent Assets

- The Standard prescribes the accounting and disclosure for all provisions, contingent liabilities and 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.
- Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent;
  - Those arising in insurance entities from contracts with its policyholders; or
  - Those covered by another Standard.

AS-29 - Provision, Contingent Liabilities And Contingent Assets

Provisions

- The Standard defines provisions as a liability which can be measured only by using a substantial degree of estimation. A provision should be recognised when, and only when:
  - An entity has a present obligation (legal or constructive) as a result of a past event;
  - It is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and
  - A reliable estimate can be made of the amount of the obligation. The Standard notes that it is only in extremely rare cases that a reliable estimate will not be possible.

AS-29 - Provision, Contingent Liabilities And Contingent Assets

- 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.

- Gains from the expected disposal of assets should not be taken into account, even if the expected disposal is closely linked to the event giving rise to the provision.

AS-29 - Provision, Contingent Liabilities And Contingent Assets

- An entity may expect reimbursement of some or all of the expenditure required to settle a provision. An entity should:
  - Recognise a reimbursement when, and only when, it is **virtually certain** that reimbursement will be received if the entity settles the obligation. The amount recognised for the reimbursement should not exceed the amount of the provision; and
  - Recognise the reimbursement as a separate asset. In the income statement, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

AS-29 - Provision, Contingent Liabilities And Contingent Assets

- The Standard defines a restructuring as a programme that is planned and controlled by management, and materially changes either:
  - The scope of a business undertaken by an entity; or
  - The manner in which that business is conducted.
- A provision for restructuring costs is recognised only when the general recognition criteria for provisions are met.

AS-29 - Provision, Contingent Liabilities And Contingent Assets

Contingent Liabilities

The Standard defines a contingent liability as:

- A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- A present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.
- An entity should not recognise a contingent liability.

ICDS-X Vs. (AS) 29

Points of comparison	ICDS X: Provisions, Contingent laibilities and Contigent assets	(AS) 29 : Provisions, Contingent laibilities and Contigent assets
1. Scope	ICDS while defining the scope excludes the following : (a) resulting from financial instruments; (b) resulting from executory contracts; (c) arising in insurance business from contracts with policyholders; and (d) covered by another Income Computation and Disclosure Standard.	while defining the scope excludes the following : (a) Those resulting from financial instrument that are carried at fair value. (b) Those resulting from executory contracts, except where the contract is onerous. (c) Those arising in insurance enterprise from contracts with policy holders. (d) Those covered by another Accounting Standard.

ICDS-X Vs. (AS) 29		
Points of comparison	**ICDS X: Provisions, Contingent laibilities and Contigent assets**	**(AS) 29 : Provisions, Contingent laibilities and Contigent assets**
2. Recognition	A provision should be recognised **when it is reasonably certain** that an outflow of resources embodying economic benefits will be required to settle the obligation.	A provision should be recognised **when it is probable that** an outflow of resources embodying economic benefits will be required to settle the obligation.
3. Recognition	Contingent assets should be assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.	contingent assets are assesed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised.

INCOME COMPUTATION & DISCLOSURE STANDARD X RELATING TO PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Following disclosures shall be made in respect of each class of provision, namely –

a) A brief description of the nature of the obligation
b) The carrying amount at the beginning and end of the previous year ;
c) Additional provisions made during the previous year, including increases to existing provisions ;
d) Amounts used, that is incurred and charged against the provision, during the previous year ;
e) Unused amounts reversed during the previous year ; and
f) The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

INCOME COMPUTATION & DISCLOSURE STANDARD X RELATING TO PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS (Cont…)

Following disclosure shall be made in respect of each class of asset and related income recognized as provided in para 11, namely –

a) A brief description of the nature of the asset and related income ;

b) The carrying amount of assets at the beginning and end of the previous year ;

c) Additional amount of asset and related income recognized during the year, including increases to assets and related income already recognized; and

d) Amount of assets and related income reversed during the previous year ;

Recognition of provisions

- Provision for Warranty is allowed as an expenditure upholding the test of ‘probable’ warranty obligation in the following judgments.

  - Rotork Controls India P. Ltd. (2009) 314 ITR 62 (SC) (extract on next slide)
  - Himalaya Machinery (P) Limited v DCIT 334 ITR 64
  - CIT vs. Luk India P. Ltd. 52 DTR 117.
  - Siemens Public communication Networks Limited v CIT
  - CIT v Indian Transformer Limited. 270 ITR 259

Thanks for your patience

Any Query ?