2017

Income Computation & Disclosure Standards

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INCOME COMPUTATION AND DISCLOSURE STANDARDS

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Overview of Income Computation and Disclosure Standards

Sr. No.	Particulars	Remarks
1	Applicability	Applicable from AY 2016-17 and subsequent years.
2	Assesses/ class of Assesses to whom ICDS is applicable	All Assesses following mercantile system of accounting **except** Individual and HUF not covered under Section 44B
3	Disclosure requirements	Disclosure to be made in Item No. 13(f) of form no. 3CD
4	Deviation from ICDS and effect thereof on profit/loss and disclosure	To be disclosed against substituted item No. 13(d) & 13(e) of form 3CD
5	Use of standard cost techniques for measurement of cost of inventories.	**Allowed** if the results approximate the actual cost, subject to disclosures.
6	Use of retail method in retail trade for measurement of cost of conversion of large amount of rapidly changing items that have similar margins and for which it is impracticable to use other costing method.	**Allowed**. However an average percentage for each retail department is to be used. A global percentage for all retail departments **not** allowed.
7	Methods for recognition of revenue from service transactions	(a)Percentage completion method (b) Straight line method over specific period, where services are provided by an indeterminate number of acts over the specific period of time. (c)Recognition of revenue when rendering of services is completed or substantially completed in case of service contract with duration less than 90days.
8	Details of jointly owned tangible fixed assets are to be entered in 'Tangible Fixed Asset register'	Not required

9	Translation of financial statements of foreign operation.	To be translated as if the transaction of the foreign operation have been those of the person itself.
10	Shares of the closely held company be regarded as held as stock-in-trade.	Yes. It can be regarded as stock-in-trade.
11	Consideration of securities held by schedule banks and Public Financial Institutions.	ICDS contains special requirements regarding securities held by schedule banks and Public Financial Institutions.-to be classified and measure as per RBI Guidelines.

Clarifications on Income Computation and Disclosure Standards (ICDS) notified under section 145(2) of the Income-tax Act, 1961 By CBDT.[Circular No 10/ 2017 Dated 23.03.2017]

Question 1: Does ICDS apply to non-corporate taxpayers who are not required to maintain hooks of account and/or those who are covered by presumptive scheme of taxation like sections 44AD, 44AE, 44ADA, 44B, 44BB, 44BBA, etc. of the Act?

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

Question 2: ICDS is framed on the basis of accounting standards notified by Ministry of Corporate Affairs (MCA) vide Notification No. GSR 739(E) dated 7 December 2006 under section 211(3C) of erstwhile Companies Act 1956. However, MCA has notified in February 2015 a new set of standards called 'Indian Accounting Standards' (Ind-AS). How will ICDS apply to companies which adopted Ind-AS?

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

Question 3: Whether ICDS shall apply to computation of Minimum Alternate Tax (MAT) under section 115JB of the Act or Alternate Minimum Tax (AMT) under section 115JC of the Act?

Answer: MAT under section 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.

Question 4: Whether the provisions of ICDS shall apply to Banks, Non-banking financial institutions, Insurance companies, Power sector, etc.?

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

Question 5: Since there is no specific scope exclusion for real estate developers and Build - Operate- Transfer (BOT) projects from ICDS IV on Revenue Recognition, please clarify whether ICDS-III and ICDS-IV should be applied by real estate developers and BOT operators. Also, whether ICDS is applicable for leases**?**

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

ICDS-I: ACCOUNTING POLICIES

❖ Applicability

- ICDS-I shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment year. (subject to transitional provision)

❖ Preamble to ICDS-I (New)

- ICDS is applicable for computation of income chargeable under the head **Profit and Gains of Business and Profession** or **Income from other sources and NOT for purpose of maintenance of books accounts.**
- In case of conflict between the provisions of Income Tax Act, 1961 ('The Act') and the ICDS, **the provisions of the Act shall prevail.**

ICDS-I (New) Vs. AS-1

Sr. No.	ICDS-I: Accounting Policies	Accounting Standard-I: Accounting Policies
1	Expected losses or mark-to-market losses shall **not be recognized** unless permitted by any other ICDS. **However it is silent about mark-to-market gain.**	Based on the concept of prudence, expected losses are to be recognized, profits are not anticipated.
2	**Materiality** concept is **not recognized** for the purpose of computation of taxable Income.	For selection of accounting policies, materiality concept is recognized.
3	Accounting policies shall not be changed without a reasonable cause.	Accounting policies may be changed if it is considered that the change would result in more appropriate presentation (AS-1 read with AS-5).
4	**No stipulation as to where and how significant accounting policies are to be disclosed.**	Disclosure of accounting policies should form part of financial statements. Disclosure should be at one place.
5	There is **no definition** of what constitutes 'changes in accounting policies'	AS-5 defines 'changes in accounting policies'.

❖ **Disclosure**

Following disclosures are required by ICDS-I (new),

- Disclosure of the fact that the fundamental accounting assumption is not followed. [Para 3.9 of ICDS-I]
- Disclosure of Accounting Policies. [Para 3.12- Para 3.12-1 of ICDS-I]
- Disclosure in respect of changes in Accounting Policies [Para 3.12-2 of ICDS-I].

Major consideration while dealing with ICDS-I

- **In ICDS-I, there is only consideration of concept-substance over form**
- Expected losses or mark-to-market losses shall **not be recognized**

Clarifications on Income Computation and Disclosure Standards (ICDS) By CBDT.[Circular No 10/ 2017 Dated 23.03.2017]

Question 1: Preamble to of ICDS-I states that this ICDS 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 purposes of maintenance of books of accounts. However, Para I of ICDS I states that it deals with significant accounting policies. Accounting policies are applied for maintenance of hooks of accounts and preparing financial statements. What is the interplay between ICDS-I and maintenance of books of accounts?

Answer: As stated in the Preamble, ICDS is not meant for maintenance of books of accounts or preparing financial statements. Persons are required to maintain books of accounts and prepare financial statements as per accounting policies applicable to them. For example, companies are required to maintain books of account and prepare financial statements as per requirements of Companies Act 2013. The accounting policies mentioned in ICDS-I being fundamental in nature shall be applicable for computing income under the heads "Profits and gains of business or profession" or "Income from other sources".

Question 2: Para 4(ii) of ICDS-I provides that Mark to Market (MTM) loss or an expected loss shall not he 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.

Question 3: ICDS-I provides that an accounting policy shall not he 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..

Question 4: ICDS-I requires disclosure of significant accounting policies and other ICDS requires specific disclosures. Where is the taxpayer required to make such disclosures specified in ICDS?

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

Question 5: Which ICDS would govern derivative instruments?

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

ICDS-II: VALUATION OF INVENTORY

❖ Applicability

- ICDS-II shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment year. (subject to transitional provision)

❖ Preamble to ICDS-II (New)

- ICDS is applicable for computation of income chargeable under the head Profit and Gains of Business and Profession or Income from other sources and NOT for purpose of maintenance of books accounts.
- In case of conflict between the provisions of Income Tax Act, 1961 ('The Act') and the ICDS, the provisions of the Act shall prevail.

❖ Scope

Applied for the valuation of inventory **except**:

(a) Work in progress arising under 'Construction Contract' including directly related service contracts.

(b) Work in progress which is dealt with in other ICDS.

(c) Shares, debentures, other financial instruments held as stock in trade.

(d) Producers' inventory such as livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value.

(e) Machinery spares, which can be used only in connection with tangible fixed assets and their use is expected to be irregular.

ICDS-II (New) Vs. AS-2

Sr.No.	Points of comparison	ICDS-II (New): Valuation of Inventory	Accounting Standard-2: Valuation of Inventory
1	Applicability	Does not apply for the purpose of maintenance of books of accounts	Applies for the purpose of preparation of financial statements.
2	Cost of purchase	Shall consist of purchase price **including duties and taxes**, fright inward and other expenditure directly attributable to the acquisition.	Shall consist of purchase price **including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authority)**, freight

			inward and other expenditure directly attributable to the acquisition.
3	Valuation of inventory of **service provider.**	The cost of services in case of service provider shall consist of labour and other cost of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.	----------
4	Valuation of inventory on dissolution of partnership firm or AOP or BOI.	Notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be **valued at the net realizable value.**	----------
5	Application of retail method	Where the retail method is used on retail trade an average percentage for each retail department is to be used.	An average retail percentage for department is often used.AS-2 merely refers to a practice often used without making it mandatory.

❖ **Disclosure**

The following aspects shall be disclosed:-

(a) The accounting policies adopted in measuring inventories including the cost formulae used where standard costing has been used as the technique for measurement of cost details of such inventories and confirmation of the fact that the standard cost approximates actual costs.

(b) The total carrying amount of inventories and its classification appropriate to a person. [Para 26 of ICDS-II]

WHAT NEEDS TO BE CHECKED WHEN DEALING WITH ICDS-II?

a. Valuation of service inventory to be the lower of cost or NRV.

b. Cost of inventory includes labor and other costs of personnel directly engaged in providing services including supervisory personnel and attributable overheads.
c. Difficulty would arise in case of services whose chargeability depends on the success of the service.
d. According to ICDS, 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.** This is contrary to law settled by Apex court in the case of **Sakthi Trading Co. v. CIT [In case of Sakthi Trading Co. v. CIT [2001] 118 Taxman 301 (SC) / 250 ITR 871**
[The decision was given as –if in 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]

Clarifications on Income Computation and Disclosure Standards (ICDS) By CBDT. [Circular No 10/ 2017 Dated 23.03.2017]

Question 1: Since there is no specific scope for exclusion of real estate developers and Build -Operate- Transfer (BOT) projects from ICDS IV on Revenue Recognition, please clarify whether ICDS-III and ICDS-IV should be applied by real estate developers and BOT operators. Also, whether ICDS is applicable for leases.

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

ICDS-IV: REVENUE RECOGNITION

❖ Applicability

- ICDS-IV shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment year. (subject to transitional provision)

❖ Preamble to ICDS-IV (New)

- ICDS is applicable for computation of income chargeable under the head **Profit and Gains of Business and Profession** or **Income from other sources and NOT for purpose of maintenance of books accounts.**
- In case of conflict between the provisions of Income Tax Act, 1961 ('The Act') and the ICDS, the provisions of the Act shall prevail.

❖ Scope

- ICDS-IV deals with the bases for recognition of revenue arising in the course of ordinary activity
  - i. The sale of goods.
  - ii. The rendering of services
  - iii. The use by others of the person's resources yielding interest, royalty or dividends.

ICDS-IV (New) Vs. AS-9

Sr.No.	Points of comparison	ICDS-IV: Revenue Recognition	Accounting Standard-IX: Revenue Recognition
1	Applicability	Does not apply for the purpose of maintenance of books of accounts	Applies for the purpose of preparation of financial statements.
2	Revenue recognition for rendering of services	Revenue from service transaction shall be recognized by (a) Percentage completion method. (b)When services are provided by an indeterminate number of acts over the specific period of time, revenue may be recognized on the straight line basis over the specific period. (c)Revenue from service contract with duration of not more than 90days may be recognized when the rendering of services under the contract is completed or substantially completed. (d) When the duration of the service contract is more than 90 days, revenue to be recognized as per completed service contract method.	Revenue may be recognized by (a)completed service contract method or (b)proportionate completion method Whichever relates the revenue to the work performed.
3	Recognition of dividends	Dividends are recognized in accordance with provisions of the Act	Dividends are recognized when owner's right to receive payment is established.
4	Recognition of royalties	Unless having regard to the substance of the transaction, it is more appropriate to recognize revenue on some other systematic and rational basis.	Royalties shall accrue in accordance with the terms of the relevant agreements.

Sr.No.	Points of comparison	ICDS-IV: Revenue Recognition	Accounting Standard-IX: Revenue Recognition
5	Recognition of interest	Interest on refund of tax, duty or cess to be recognized as income in the year of receipt.	Interest on refund of tax to be recognized on accrual basis- on time basis determined by outstanding amount and interest rate.
6	Postponement of revenue recognition at the time of uncertainty of ultimate collection	Postponement applicable only to claims for price escalation and export incentives.	Postponement applicable to all revenues.

❖ **Disclosure**

Following disclosures shall be made in respect of revenue recognition, namely:-
(a) in a transaction involving sale of goods, total amount not recognized as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty.

(b)the amount of revenue from service transactions recognized as revenue during the previous year

(c)the method used to determine the stage of completion of service transactions in progress and

(d) for service transactions in progress at the end of previous year:

i. Amount of cost incurred and recognized profits less recognized losses up to the end of previous year.
ii. The amount of advance received.
iii. The amount of retention [Para 13 of ICDS-IV (New)]

WHAT NEEDS TO BE CHECKED WHILE DEALING WITH ICDS-IV?

a. The ICDS is silent about the treatment of advance
b. As-9 does not apply to Insurance companies; This ICDS is also silent about this matter.

Clarifications on Income Computation and Disclosure Standards (ICDS) By CBDT. [Circular No 10/ 2017 Dated 23.03.2017]

Question 1: 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 5.36 (1) (vii). Further, the provision of the Act (e.g. Section 43D) shall prevail over the provisions of ICDS.

Question2: If the taxpayer sells a security on the 30th day of April 2017.The interest payment dates are December and June. The actual date of receipt of interest is on the 30st day of June 2017 but the interest on accrual basis has been accounted as income on the 31st day of March 2017. Whether the taxpayer shall he permitted to claim deduction of such interest i.e. offered to tax but not received while computing the capital gain?

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

Question 3: 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 shall also apply for computation of these incomes on gross basis for arriving at the amount chargeable to tax.

ICDS-V: TANGIBLE FIXED ASSETS

❖ Applicability

- ICDS-V shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment year. (subject to transitional provision)

❖ Preamble to ICDS-V (New)

- ICDS is applicable for computation of income chargeable under the head **Profit and Gains of Business and Profession** or **Income from other sources and NOT for the purpose of maintenance of books accounts.**
- In case of conflict between the provisions of Income Tax Act,1961 ('The Act') and the ICDS , the provisions of the Act shall prevail.

❖ Scope

IT deals with the treatment of tangible fixed assets. [Para 1 of ICDS-V]

ICDS-V (New) Vs. AS-10

Sr. No.	Points of comparison	ICDS-V Tangible Fixed Assets	AS-10 Accounting for Fixed Assets
1	Applicability	Does not apply for the purpose of maintenance of books of accounts	Applies for the purpose of preparation of financial statements.
2	Tangible fixed asset acquired in exchange for another asset	The fair value of the tangible asset so acquired shall be its **actual cost**	The fair value of the tangible asset so acquired shall be (a)Fair market value of asset given up or acquired whichever is more clearly evident. (b)Net book value of asset given up, adjusted for balance payments (c)receipt of cash or other consideration

3	Tangible fixed asset acquired in exchange for shares or other securities	The fair_value of the tangible asset so acquired shall be its **actual cost**	The fair_value of the tangible asset so acquired shall be (a)Fair market value of the asset acquired. (b))Fair market value of the securities issued Whichever is more clearly evident.
4	Revaluation of fixed assets	Silent	Deals with the revaluation

❖ **Disclosure**

Following disclosures shall be made in respect of tangible fixed assets, namely:-

(a) description of asset or block of assets.

(b) rate of depreciation

(c)actual cost or written down value, as the case may be;

(d) additions or 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. Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004;
ii. change in rate of exchange of currency
iii. subsidy or grant or reimbursement, by whatever name called;
iv. depreciation allowable; and
v. Written down value at the end of the year. [Para 19 of ICDS-V (New)]

WHAT NEEDS TO BE CHECKED WHILE DEALING WITH ICDS-V?

a. It provides that machinery spares which can be used only in connection with tangible fixed asset and their use is expected to be irregular, shall be capitalized. Stand-by equipment and servicing equipment also to be

capitalized. [It does not provide any further guidance on subsequent treatment that whether it will form part of the block of the asset.]

b. When several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

c. When a tangible fixed asset is acquired in exchange for other asset or for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.

Clarification on Income Computation and Disclosure Standards (ICDS) By CBDT. [Circular No 10/ 2017 Dated 23.03.2017]

Question 15: 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.

ICDS-VI: THE EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

❖ Applicability

- ICDS-VI shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment year. (subject to transitional provision)

❖ Preamble to ICDS-VI (New)

- ICDS is applicable for computation of income chargeable under the head **Profit and Gains of Business and Profession** or **Income from other sources and NOT for purpose of maintenance of books accounts.**
- In case of conflict between the provisions of Income Tax Act,1961 ('The Act') and the ICDS , the provision of the Act shall prevail.

❖ Scope

a) treatment of transaction in foreign currencies;
b) translating the financial statements of foreign operations;
c) treatment of foreign currency transactions in the nature of forward exchange contracts. [Para 1 of ICDS-VI]

ICDS-VI (New) Vs. AS-11

Sr. No.	Points of comparison	ICDS-VI: Effect of changes in Foreign Exchange Rates	Accounting Standard-11: Effect of changes in Foreign Exchange Rates
1	Applicability	Does not apply for the purpose of maintenance of books of accounts	Applies for the purpose of preparation of financial statements.
2	Scope of the term Foreign operation	It does not cover subsidiaries, associates or joint ventures.	The term covers subsidiaries, associates or joint ventures or branch of reporting enterprise, the activities of which are based or conducted in a

			foreign country.
3	Translation of financial statements of foreign operations	financial statements of foreign operation of a person whether integrated or non integrated are to be translated. ICDS-VI omits the definition of the terms "integrated foreign operation" and "non- integrated foreign operation". Exchange differences relating to monetary items are treated as income/expenditure of previous year. Hence no question of accumulating any exchanges difference in foreign currency translation reserve.	Translation of foreign Operations depend on whether the foreign operations are integrated foreign operation or non-integrated foreign operation".
4	Forward exchange or similar contracts entered into for trading or speculation purpose.	All gains and losses (premium, exchange difference/discounts) on such contracts are being recognized on settlement. Unrealized gains/losses on mark-to-market not to be treated as income/expenditure.	Contracts to be mark to market at balance sheet date and resultant exchange differences to be recognized in profit/loss statements.

❖ **Disclosure**

ICDS-VI stipulates no disclosure requirement.

WHAT NEEDS TO BE CHECKED WHILE DEALING WITH ICDS-VI?

a. Revenue from monetary items such as trade receivables, payables bank balances etc., shall be converted into reporting currency by applying closing rates.
b. Revenue from non-monetary items such as inventories converted into reporting currency using the exchange rate at the date of the transaction. Hence, no exchange difference would arise. [Hence, the Foreign Exchange

gain/loss as per the books of accounts will have to be reduced/ added back respectively while computing the taxable income.]

c. The definition of foreign operations given under ICDS does not include a subsidiary, associate or joint venture of the reporting enterprise. Hence, the tax positions will remain the same in the case of foreign operations being a subsidiary, associate or joint venture of the person.

d. At the time of forward Exchange Contracts Premium, discount or exchange difference on contracts will be recognised at the time of settlement only.

e. Foreign Currency Translation Reserve balance as on 1 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.

Clarifications on Income Computation and Disclosure Standards (ICDS) By CBDT. **[Circular No 10/ 2017 Dated 23.03.2017]**

Question 1: 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, recognized as per Accounting Standards (AS) 11?

Answer: FCTR balance as on 1 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.

ICDS-VIII: SECURITIES

❖ Applicability

- ICDS-VIII shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment years. (subject to transitional provision)

❖ Preamble to ICDS-VIII (New)

- ICDS is applicable for computation of income chargeable under the head Profit and Gains of Business and Profession or Income from other sources and NOT for purpose of maintenance of books accounts.
- In case of conflict between the provisions of Income Tax Act,1961 ('The Act') and the ICDS , the provisions of the Act shall prevail.

❖ Scope

Part A of the ICDS deals with the securities held as stock in trade. However it does **not** deal with:

a) The base for recognition of interest and dividends on securities which are covered by ICDS-IV i.e. Revenue Recognition.

b) Securities held by a person engaged in the business of Insurance.

c) Securities held by the mutual funds, venture capital funds, bank and public financial institution formed under a Central or a state Act or so declared under the companies Act, 1956 or the companies Act, 2013 [Para2 Part A ICDS-VIII]

However Part-B of ICDS-VIII contains special requirements regarding securities held by schedule banks and Public Financial Institution- to be classified recognized and measured as per RBI Guidelines.

ICDS-VIII (New) Vs. AS-13

Sr. No.	ICDS-VIII: SECURITIES (stock in trade)	Accounting Standard-13: Accounting for Investments.
1	ICDS-VIII only deals with securities held as stock-in-trade.	AS-13 deals with accounting for current investments, long term investments and investments properties but **excludes** shares, debentures or other securities held as stock-in-trade
2	It modifies the provision of AS-13 relating to valuation of securities.	Though it does not apply to stock-in-trade, the manner in which they are accounted for is quite similar to current investments.

❖ **Disclosure**

There are no disclosure requirements as per ICDS-VIII

WHAT NEEDS TO BE CHECKED WHILE DEALING WITH ICDS-VIII?

a. Securities held as Stock-in-trade shall be valued at actual cost or Net Realizable Value, whichever is lower.

b. There is Category wise Valuation of securities namely, **-**
   (1)Shares
   (2)Debt securities
   (3)Convertible securities
   (4)Any other securities not covered above

c. If at the end of any previous year, securities are not listed on a recognized stock exchange; or listed but not quoted on a recognized stock exchange with regularity from time to time, **shall be valued at actual cost** initially recognized.

d. ICDS on securities both require the pre-acquisition interest to be deducted from the actual cost.

e. Where a security is acquired in exchange for other securities or asset, the fair value of the security so acquired shall be its actual cost.

ICDS-IX: BORROWING COSTS

❖ Applicability

- ICDS-IX shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment years. (subject to transitional provision)

❖ Preamble to ICDS-IX (New)

- ICDS is applicable for computation of income chargeable under the head Profit and Gains of Business and Profession or Income from other sources and NOT for purpose of maintenance of books accounts.
- In case of conflict between the provisions of Income Tax Act, 1961 ('The Act') and the ICDS , the provisions of the Act shall prevail.

❖ Scope

This ICDS deals with the treatment of borrowing costs. However it **does not deal** with the actual or imputed cost of owner's equity and preference share capital.

[Para 1(2) of ICDS-IX (new)]

ICDS-IX (New) Vs. AS-16

Sr. No	Points of comparison	ICDS-IX: Borrowing Costs	Accounting Standard-16:Borrowing Costs
1	Applicability	Does not apply for the purpose of maintenance of books of accounts	Applies for the purpose of preparation of financial statements
2	Exchange difference 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.

3	Scope of the term Qualifying Assets	(a) Term expressly includes Know-how, patents, copy-rights, trade marks, licenses, and franchises or any other business or commercial rights of similar nature, being intangible assets. (b) Tangible Assets (land, building, machinery, plant or furniture) (c) Even if (a) and (b) did not require period of 12months for acquisition, construction or production. (d) Inventories that requires period of 12months or more to bring them in saleable condition.	Term not defined to cover Intangible Assets
4	Period of time necessary taken for acquisition, construction or production of Qualifying Assets,	(a) (a)ICDS-IX allows capitalization of only actual borrowing costs incurred on funds specifically borrowed for acquisition, construction or production of qualifying assets. (b) Capitalization of borrowing cost other than those incurred on funds specifically borrowed as aforesaid	Only tangible assets, inventories and investments property that necessary requires substantial period of time (ordinarily 12 month or more) to get ready for intended sale or use are regarded as Qualifying Assets. Qualifying Assets can be of less than 12 months only if in facts and circumstances of the case it is justified to do so.

		as per specified formula is allowed **only when** qualifying assets require a period of 12 months or more for acquisition, construction or production. (c) Capitalization of borrowing cost other than those borrowing costs which are specifically borrowed for asset **is not allowed** where asset requires less than 12 months for acquisition, construction or production.	
5	Qualification in case of 'investments properties'	Investment properties are **not** qualifying assets	Investment properties are qualifying assets
6	Determination of period that an asset necessarily requires for acquisition, construction or production	ICDS is silent in this regard.	It is the time which an asset takes technologically and commercially to get it ready for its intended sale or use.
7	Income on temporary investments on borrowed funds which are specifically borrowed for	No netting off from cost of assets. Will be taxed as income.	To be netted off from the borrowing costs and capitalized.

	obtaining Qualifying Assets.		
8	Commencement of capitalization.	(a) For the funds specifically borrowed for obtaining Qualifying Assets, from the date on which funds were borrowed. [Para-5] (b) In a case referred to in para-6, from the date on which funds were utilized.	Capitalization of borrowing costs shall commence from the date when **all** conditions are satisfied: (a) Expenditure for acquisition, construction or production of qualifying asset is being incurred. (b) Borrowing costs are being incurred. (c) Activities that are necessary to prepare the assets for its intended use are in progress.
9	Suspension of capitalization.	**No** Suspension of capitalization under any condition.	Capitalization suspended during extended periods in which active development is interrupted.
10	Cessation of capitalization	Capitalization of borrowing costs shall cease when asset is first put to use in case of qualifying assets other than inventory.	Capitalization of borrowing costs shall cease when substantially all the activity necessary to prepare such inventories for its intended sale is complete.

❖ **Disclosure**

(a) The accounting policy adopted for borrowing costs.
(b) The amount of borrowing costs capitalized during the previous year.
[Para-11 of ICDS-IX]

WHAT NEEDS TO BE CHECKED WHILE DEALING WITH ICDS-IX?

a. AS-16 requires income from temporary deployment of unutilized fund to be reduced from borrowing cost. However, ICDS does not provide for the same. The income from temporary deployment of unutilized funds from specific loans shall be taxable as Income from other sources under the ICDS.

b. The commencement of capitalization:
(1)Specific borrowings – Date on which funds were borrowed
(2)General borrowings – Date on which funds were utilised.

Clarifications on Income Computation and Disclosure Standards (ICDS) By CBDT.
[Circular No 10/ 2017 Dated 23.03.2017]

Question 1: There are specific provisions in the Act read with Rules under which a portion of borrowing cost may get disallowed under sections like 14A, 43(1), 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.

ICDS-X: PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

❖ Applicability

- ICDS-X shall come into force with effect from 1st April, 2016.
- Shall be applicable from AY 17-18 and subsequent assessment years (subject to transitional provision)

❖ Preamble to ICDS-X (New)

- ICDS is applicable for computation of income chargeable under the head Profit and Gains of Business and Profession or Income form other sources and NOT for purpose of maintenance of books accounts.
- In case of conflict between the portions of Income Tax Act,1961 ('The Act') and the ICDS , the provision of the Act shall prevail.

❖ Scope

This ICDS deals with provisions, contingent liabilities and contingent assets, except those

(a) Resulting from financial instruments
(b) Resulting from executory contracts.
(c) Arising in Insurance business from contracts with policy holders;
(d) Covered by another ICDS.
(e) The term 'provision' is also used in context of items such as depreciation, impairment of assets and doubtful debts which are adjusted to the carrying amount of assets and are not addressed in this ICDS.

ICDS-X (New) Vs. AS-29

Sr. No	Points of comparison	ICDS-X: provisions, contingent liabilities and contingent assets	Accounting Standard-29: provisions, contingent liabilities and contingent assets
1	Applicability	Does not apply for the purpose of maintenance of books of accounts	Applies for the purpose of preparation of financial statements
2	Recognition provision	Provision to be recognized when outflow of resources to settle the obligation is	Provision to be recognized when outflow of resources is **probable.**

		reasonably certain.	
3	Recognition of Contingent Asset	(a) Contingent Assets shall not be recognized. (b) When it becomes **reasonably certain** that inflow of economic benefit will arise, the asset and related income are to be recognized.	(a) Contingent Assets shall not be recognized (b)When it becomes **virtually certain** that inflow of economic benefit will arise , the asset and related income are to be recognized
4	Recognition of reimbursements in respect of provision.	(a) Where some or all the expenditure is required to settle the provision is expected to be reimbursed by another party, such reimbursement shall be recognized only when it is **reasonably certain** that reimbursement will be received. (b) The amount recognized as reimbursements shall not exceed the amount of provision.	(a) Where some or all the expenditure is required to settle the provision is expected to be reimbursed by another party, such reimbursement shall be recognized only when it is **virtually certain** that reimbursement will be received. (b) The amount recognized as reimbursements shall not exceed the amount of provision
5	Onerous executory contracts.	Not excluded from purview of ICDS-X	Excluded from the scope of AS-29
6	Reconstructing Provision.	Does not contain any provisions in this regard.	AS-29 contains guidance in this regards.

❖ **Disclosure**

(a) Brief description of the nature of obligation
(b) The carrying amount at the beginning and at the end of the previous year.
(c) Additional provision made during the previous year including increase to existing provision.
(d) Amount used that is incurred and charged against the provision during the previous year.
(e) Unused amount reversed during the previous year
(f) The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.
[Para 21 (1) of ICDS-X]

- The following disclosures are to be made in respect of each class of assets and related income recognized as provided in Para 11-

a) A brief description of the nature of the asset and related income.
b) The carrying amount of the asset at the beginning and at the end of previous year.
c) Additional amount of asset and related income recognized during the year including increase to assets and related income already recognized.
d) Amount of assets and income reversed during the previous year.
[Para 21(2) of ICDS-X]

Clarifications on Income Computation and Disclosure Standards (ICDS) By CBDT **[Circular No 10/ 2017 Dated 23.03.2017]**

Question 1: 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 provisions 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.

Disclosure requirements as per Form-3CD

FORM NO. 3CD

[See rule 6 G(2)]

Statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961

PART - A

1. Name of the assessee

2. Address

3. Permanent Account Number (PAN)

4. Whether the assessee is liable to pay indirect tax like excise duty, service tax, sales tax, customs duty, etc. if yes, please furnish the registration number or any other identification number allotted for the same

5. Status

6. Previous year from……to……

7. Assessment year

8. Indicate the relevant clause of section 44AB under which the audit has been conducted

PART - B

9. (*a*) If firm or association of persons, indicate names of partners/members and their profit sharing ratios.

(*b*) If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change

10. (*a*) Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession)

(*b*) If there is any change in the nature of business or profession, the particulars of such change.

11. (*a*) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.

(*b*) List of books of account maintained and the address at which the books of account are kept.

(In case books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of account are not kept at one location, please furnish the addresses of locations along with the details of books of account maintained at each location.)

(*c*) List of books of account and nature of relevant documents examined.

12. Whether the profit and loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant section (44AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, Chapter XII-G, First Schedule or any other relevant section.)

13. (*a*) Method of accounting employed in the previous year

(*b*) Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.

(*c*) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

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

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

(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.*