Referencer on ICDS

Eastern India Regional Council

The Institute of Chartered Accountants of India

President, Vice-President, ICAI & Team EIRC 2016 – 17

CA M. Devaraja Reddy
President, ICAI

CA Nilesh Shivji Vikamsey
Vice-President, ICAI

CA Anirban Datta
Chairman, EIRC

CA Manish Goyal
Vice Chairman, EIRC

CA Sonu Jain
Secretary, EIRC

CA Sumit Binani
Treasurer, EIRC

CA Nitesh Kumar More
Member, EIRC

CA Sanjib Sanghi
Member, EIRC

CA (Dr.) Debashis Mitra
Council Member, ICAI

CA Ranjeet Kumar Agarwal
Council Member, ICAI

CA Sushil Kumar Goyal
Council Member, ICAI

Eastern India Regional Council of The Institute of Chartered Accountants of India.

Disclaimer

(i) This publication is for the limited purpose of disseminating knowledge on the topic / subject of the publication. The views contained herein, if any, are only that of the contributors and not that of the Regional Council & Central Council of the Institute or any of its Committees;

(ii) for the authoritative views/ pronouncements of the Institute of Chartered Accountants of India on the topics covered in the publication, reference should be made to the original publications of the Institute of Chartered Accountants of India; and

(iii) this publication does not carry the authority of the Council of the Institute or any of its Committees.

(iv) All efforts have been made to ensure accuracy of the information, in this publication. The views expressed in this compilation are those of various contributors. EIRC of ICAI or ICAI do not necessarily subscribe to the same. The publishers do not hold themselves responsible for any errors that may have inadvertently occurred.

(v) EIRC of ICAI or ICAI would not be responsible for any financial loss by the Members of any kind in discharging their duties.

Published by
Eastern India Regional Council
The Institute of Chartered Accountants of India
ICAI Bhawan, 7, Anandilal Poddar Sarani (Russell Street)
Kolkata – 700 071
Phone : (91-33) 3989-3989, 3021-1140/41
Toll Free Number : 1800-3000-1019
Email : eirc@icai.in
Website : www.eirc-icai.org

Price : ₹ 100/-

Designed & printed by :
Dayglo
Suite No. 307
1 British India Street
Calcutta - 700 069
Phone : 2210-5517, 90515-33005
E.mail : dayglo.in@gmail.com

First Edition - May 2016
Second Edition - June 2016

ABOUT THE ICAI

The Institute of Chartered Accountants of India is a statutory body established by an Act of Parliament viz., The Chartered Accountants Act, 1949 in the year 1949 for regulating the profession of Chartered Accountancy in the country. The Institute, which functions under the administrative control of Ministry of Corporate Affairs, Government of India, has five Regional Councils at Mumbai, Chennai, Kanpur, Kolkata and New Delhi. It presently has 153 Branches covering the length and breadth of the country, 22 Chapters outside India and an overseas office in Dubai.

Founded 66 years ago with just seventeen hundred members, the Institute has grown to cross mark of 2,46,000 members and 9,35,000 students as of now. A significant majority of our membership is in practice and a good deal of specialisation in traditional areas of direct/indirect taxes and in emergent specialism's inter-alia, in financial services, information technology, insurance sector, joint ventures, mutual funds, exchange risk management, risk and assurance service environment/energy/quality audits, investment counseling, corporate structuring and foreign collaborations. The other half was/is in employment, many occupying senior positions such as CMDs in Banks/Financial Institutions, CEOs in leading and reputed public/private sector companies etc.

One of the important elements of the developmental role of the Institute is to make contributions to Government authorities and Regulations viz., the Ministry of Corporate Affairs, Trade Policy Division of the Ministry of Commerce, CBDT, RBI, IRDA, C&AG, SEBI etc. to name a few, on relevant matters of importance to the economy and profession.

On International front, the Institute, a permanent member of International and Regional Accounting bodies, like International Federation of Accountants(IFAC), International Accounting Standards Board(IASB), Confederation of Asian and Pacific Accountants(CAPA) and South Asian Federation of Accountants(SAFA) has made its presence felt through its effective and sustained contribution Professional bodies like American Institute of Certified Public Accountants(AICPA) in U.S.A. The Institute of Chartered Accountants in England and Wales(ICAEW) in U.K. and a host of similar bodies in many other countries have signed MOUs with our Institute for professional collaboration in areas such as education, examination, training etc. and on issues confronting the accounting profession worldwide.

The Institute, being a statutory body, is administered by a Council which is the highest policy making body of the chartered accountancy profession. The Council is comprised of 40 members of whom 32 are elected from among its members spread all over the country. The remaining eight members are nominated by the Central Government representing such authorities as the Comptroller and Auditor General of India, Ministry of Finance, Ministry of Corporate Affairs and persons of eminence from the fields of law, banking, economic, business, finance, industry, management, public affairs etc.

ABOUT EIRC

In 1952, Eastern India Regional Council (EIRC of ICAI) was constituted with its jurisdiction on West Bengal, Orissa, Assam, Tripura, Sikkim, Arunachal Pradesh, Mehalaya, Nagaland, Manipur, Mizoram and the Union Territory of Andaman & Nicobar Islands. The founder Chairman was Mr. Molay Deb and the office of EIRC was located in the 2nd Floor of 7, Hastings Street(Now renamed as Kiron Shankar Roy Road).

On 10th December, 1975, the foundation stone of the present EIRC Building at 7, Russell Street (Now renamed as Anandilal Poddar Sarani) was led by the then Chief Justice, Calcutta High Court, Hon'ble Justice Shankar Prasad Mitra. On 14th April, 1977, the building was inaugurated by the then Hon'ble Governor of West Bengal, His Excellency Shri A.L. Dias.

On 17th January, 2014, the Second State of Art Building at 382/A, Prantik Pally, Rajdanga, Kasba, Kolkata-700107 has been inaugurated and the same is in operation to cater its dedicated service to its more than 23,005 Members and 83,690 Students.

EIRC has 11 Branches, 18 Study Circles, 5 Study Circles for Members in Industry, 5 CPE Chapters and 8 Study Groups.

EIRC has the privilege and pride in presenting 10 Presidents to ICAI and each one of them has enriched and empowered the profession through their visionary leadership and innovative dynamism.

The cherished dream of EIRC is to kindle the spark within the fraternity and to make the members world class professionals as well as good human beings – to contribute as an active partner in the nation building exercise.

CHAIRMAN'S MESSAGE

Dear Professional Colleagues,

With the astounding success of the Referencer on ICDS, taken out recently, EIRC has got the impetus & encouragement to bring out the second edition of the **ICDS Referencer**.

It is beyond doubt that ICDS will change the way Income will be computed and will materially impact the Tax computation. I have no doubt that our profession would rise to the occasion, acquit itself well in discharging their responsibility and justify the confidence reposed by their clients and various stakeholders. However, there are certain challenges in the adoption of ICDS which needs clarification. We have thus come out with this Referencer to clarify the various provisions in detail so as to keep our Members up to date of all the developments.

I acknowledge the support & active participation of all my colleagues in the Regional Council & Central Council in bringing out this Referencer. I earnestly appreciate the efforts of CA Manish Goyal, Chairman, Direct Taxes Committee of EIRC & CA Nitesh Kumar More, Chairman, Research Committee of EIRC for bringing out the second edition of this Referencer in the next month itself.

I am sure that this edition would guide our Members as the earlier edition and would be of great assistance to our Members.

Let's touch base…today, tomorrow and forever!!!

Date : 11th June 2016 **CA Anirban Datta**

Place : Kolkata **Chairman, EIRC**

CHAIRMAN, DIRECT TAXES COMMITTEE & CHAIRMAN, RESEARCH COMMITTEE'S MESSAGE

Dear Professional Colleagues,

It is with pride and pleasure; we place before our readers the second updated version of **ICDS Referencer** due to its huge demand from the readers in the second month itself after publishing first edition in May, 2016. The Referencer contains all the key features, detailed explanation of the provisions of Income Computation and Disclosure Standards.

The Ministry of Finance has issued 10 Income Computation and Disclosure Standards, operationalising a new framework for computation of taxable income in relation to the income computed under the head "Profit & gains of business and Profession" & "Income from other Sources". ICDS is expected to fill some gap in the current taxation set up by bringing in consistency and clarity in computation of taxable income and providing stability in tax treatment of various items. Thus to keep our fraternity updated and provide our Members with full support in discharging their duties we have come out with this Referencer.

We are extremely thankful to CA Anirban Datta, Chairman, EIRC who has been the guiding force behind the release of the Referencer. We are also thankful to our other Central Council and Regional Council Members for their constant support. We would also like to acknowledge the efforts of all the contributors to this Referencer, which made it possible.

In case of any feedback, you can always write to us at eircreferencer@gmail.com.

We are sure that this edition of Referencer would be of great assistance to the readers.

CA Manish Goyal
Vice Chairman, EIRC & Chairman,
Direct Taxes Committee, EIRC of ICAI

CA Nitesh Kumar More
Member, EIRC & Chairman,
Research Committee, EIRC of ICAI

Date : 11th June, 2016
Place : Kolkata

ACKNOWLEDGEMENT

We are thankful to all the tireless efforts in earnestly
contributing for the **ICDS Referencer**.
Without their kindest support this would not have been a success.

CA Vivek Newatia

CA Sanjay Bhattacharya

CA Mohit Bhuteria

CA Puja Borar

EIRC Officials

Dr. Alok Ray, Joint Secretary, DCO Head

Mr. Amit Paul, Assistant Secretary, EIRC

CA Jyoti Luharuka, Executive Officer, EIRC

Mr. Santanu Bose, DEO, EIRC

INDEX

INTRODUCTION AND BACKGROUND

1. **<u>Section 145(1)</u>**

1.1. Section 145(1) of the Income Tax Act, 1961 {hereinafter referred to as 'the Act'} provides that the **<u>income chargeable</u>** 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 **<u>computed</u>** in accordance with:

- either **cash**
- or **mercantile**

system of **accountingregularly** employed by the assessee.

2. **<u>Position prior to 1st April 2015</u>**

2.1. *Inserted by Finance Act 2015*

Section 145(2) of the Act, **provided** that the Central Government may notify in the Official Gazette from time to time ***"accounting standards"*** to be followed by any **class of assessees or** in respect of any **class of income**.

2.2. The Finance Act, 1995 empowered the Central Government to notify the Accounting Standards for any class of assessees or for any class of income. Explaining the reason for introduction of this provision, it was stated that there is flexibility in the standards issued by the Institute of Chartered Accountants of India (ICAI) which makes it possible for an assessee to avoid the payment of correct taxes by following a particular system and, therefore, there is an urgent need to standardize one or more of the alternatives in various standards, so that income for tax purpose can be computed precisely and objectively.

2.3. In 1996, two Accounting Standards relating to "disclosure of accounting policies" and "disclosure of prior period and extraordinary items and changes in accounting policies" were notified.

3. **<u>Position w.e.f. 1st April 2015</u>**

3.1. The Finance Act (No.2), 2014 has **substituted** the expression ***"accounting standards"*** by "***income computation and disclosure standard"****w.e.f.* 1.4.2015.

3.2. Accordingly, *w.e.f.* 1.4.2015 **section 145(2)** reads as follows:

"The Central Government **may notify** in the Official Gazette from time to time **"income <u>computation</u> and <u>disclosure</u> standards"** to be followed by any class of **<u>assessees</u> or** in respect of any class of **<u>income</u>**."

4. **<u>Background to the amendment by Finance Act (No. 2) 2014 and notification of ICDS</u>**

4.1. The Government constituted a committee in July 2002 [Committee (2002)] for formulation of Accounting Standards for the purposes of notification under the Income-tax Act. The Committee (2002) recommended for notification of the Accounting Standards issued by the ICAI without any modification along with consequential legislative amendments to the Act for preventing any revenue leakage.

4.2. There were significant developments since the Committee (2002) submitted its report, such as:

- The Government of India through the Ministry of Corporate Affairs (MCA) has notified twenty-eight Accounting Standards issued by the ICAI, under the Companies Act, 1956.
- The Government of India has decided to converge Indian Accounting Standards with the International Financial Reporting Standards (IFRS). The MCA, being the nodal agency for this convergence has placed 35 converged Accounting Standard (Ind-AS) on its website vide press release dated 25.02.2011.
- In the absence of notification of Accounting Standards under the Act, uncertainty and litigation continues on various accounting related issues such as accounting for construction contracts, foreign exchange fluctuations and government grants.

4.3. Accordingly, the CBDT constituted another Committee vide Order dated 20th December 2010 [Committee (2010)], terms of reference of which were as under:

- to study the harmonization of Accounting Standards issued by the ICAI with the direct tax laws in India, and suggest Accounting Standards which need to be adopted under section 145(2) of the Act along with the relevant modifications;
- to suggest method for determination of tax base (book profit) for the purpose of MAT in case of companies migrating to IFRS in the initial year of adoptionand thereafter; and
- to suggest appropriate amendments to the Act in view of transition to Ind-ASregime.

4.4. *Key recommendations made by the Committee (2010)*

- To avoid the requirement of maintaining two sets of books of account by the taxpayer, the accounting standards notified under the Act should be made applicable only to the computation of taxable income and a taxpayer should not be required to maintain books of account on the basis of accounting standards to be notified under the Act.
- To distinguish accounting standards notified under the Act with the Accounting Standards issued by the ICAI, the accounting standards notified under the Act should be termed as "Tax Accounting Standards" (TAS).
- Each notified TAS should include the following in preamble:

  "This Tax Accounting Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account."
- As the TAS would be applicable only for computation of taxable income and taxpayers will not be required to maintain books of account on the basis of TAS, the TAS should be made applicable to all taxpayers for bringing certainty on the issues covered by the TAS.
- As the TAS are intended to be in harmony with the provisions of the Act, there should not be any conflict between the TAS and the provisions of the Act. However, for resolving conflict arising on account of amendment/interpretation between the Act and TAS, it should be expressly provided in the TAS that in case of conflict, the provisions of the Act shall prevail over the TAS.
- For this purpose, each TAS should include the following preamble: "*In the case of conflict between the provisions of the Income-tax Act, 1961 and this Tax Accounting Standard, the provisions of the Income-tax Act, 1961 shall prevail to that extent.*"
- Transitional provisions, wherever required, should also be notified along with the TAS.
- For ensuring compliance with the provisions of TAS by the taxpayer, appropriate modification should be made in the return of income. For tax audit cases, the Form 3CD should also be modified so that a tax auditor is required to certify that the computation of taxable income is made in accordance with the provisions of TAS.

4.5. *Harmonisation with the Accounting Standards*

- The Committee examined all the 31 Accounting Standards issued by the ICAI and found that some of the accounting standards are not relevant for the computation of taxable income under the Act. The Committee also noted that the Act already contains detailed provisions on the issues covered by a few of the accounting standards. In view of this, the Committee decided that the following seven accounting standards need not be examined by the Committee for the purpose of harmonisation with the provisions of the Act:
  - AS 6 - Depreciation Accounting
  - AS 20 - Earning Per Share
  - AS 21 - Consolidated Financial Statements
  - AS 22 - Accounting for Taxes on Income
  - AS 23 - Accounting for Investments in Associates in Consolidated Financial Statements
  - AS 25 - Interim Financial Reporting
  - AS 28 - Impairment of Assets
- During the deliberations, the Committee noted that some of the accounting standards which are selected for harmonisation with the provisions of the Act mainly relate to disclosure requirements in the financial statements, whilst some others contain matters that are dealt with in the Act. These Accounting Standards were:
  - AS-3 - Cash Flow Statements
  - AS-14 - Accounting for Amalgamations

- AS-15 - Employee Benefits
- AS-17 - Segment Reporting
- AS-18 - Related Party Disclosures
- AS-24 - Discontinuing Operations
- AS-27 - Financial Reporting of Interests in Joint Ventures
- AS-30, 31, 32 - Financial Instruments (Recognition and Measurement, Presentation and Disclosure)

\- The Committee noted that there are certain areas on which the ICAI is yet to issue any accounting standards but where guidance on computation of income under the Act is required to reduce litigation and provide certainty. Accordingly, the Committee recommends that TAS covering the following areas may also be considered for notification under the Act:

- Share based payment
- Revenue recognition by real estate developers
- Service concession arrangements (example, Built Operate Transfer agreements)
- Exploration for and evaluation of mineral resources.

\- The Committee, after due deliberations, formulated the drafts of the Tax Accounting Standards on the following issues based on the corresponding Accounting Standard issued by the ICAI after harmonising the same with the provisions of the Act:

- Disclosure of Accounting Policies (Corresponding to AS-1)
- Valuation of Inventories (Corresponding to AS- 2)
- Events Occurring After the Previous Year (Corresponding to AS-4)
- Prior Period Expense (Corresponding to AS- 5)
- Construction Contracts (Corresponding to AS- 7)
- Revenue Recognition (Corresponding to AS- 9)
- Accounting for Tangible Fixed Assets (Corresponding to AS- 10)
- The Effects of Changes in Foreign Exchange Rates (Corresponding to AS-11)
- Government Grants (Corresponding to AS-12)
- Securities (Corresponding to AS-13)
- Borrowing Costs (Corresponding to AS-16)
- Leases (Corresponding to AS-19)
- Intangible Assets (Corresponding to AS- 26)
- Provisions, Contingent Liabilities and Assets (Corresponding to AS-29)

4.6. Considering the recommendations of the Committee (2010), the Finance Bill (No. 2) 2014, proposed to amend Section 145(2) and 145(3) of the Act and provided Central Government the power to notify in the Official Gazette from time to time income computation and disclosure standards (ICDS) to be followed by any class of assessees or in respect of any class of income.

The nomenclature of the standards was changed from Tax Accounting Standards (TAS) to Income computation and disclosure standards (ICDS) to clarify that the standards are meant only for the purposes of computation and disclosure and not for the purpose of maintenance of books of accounts.

4.7. 12 Draft Income computation and disclosure standard (ICDS) were released in January 2015 for comments of the stakeholders.

4.8. By Notification No.32/2015, F. No. 134/48/2010-TPL dated 31st March 2015, the 10 ICDS have been notified without any changes to the draft released in January 2015, as under:

ICDS	Particulars	Equivalent AS	Equivalent IND-AS
ICDS I	Accounting Policies	AS – 1	IND AS 1 and 8
ICDS II	Valuation of Inventories	AS – 2	IND AS 2
ICDS III	Construction Contracts	AS – 7	IND AS 115
ICDS IV	Revenue Recognition	AS – 9	IND AS 115
ICDS V	Tangible Fixed Assets	AS – 10	IND AS 16
ICDS VI	Effects of changes in Foreign Exchange Rates	AS – 11	IND AS 21

ICDS VII	Government Grants	AS – 12	IND AS 20
ICDS VIII	Securities	AS – 13	IND AS 32
ICDS IX	Borrowing Costs	AS – 16	IND AS 23
ICDS X	Provisions, Contingent Liabilities and Contingent Assets	AS – 29	IND AS 37

5. Consequences of departure from ICDS

5.1. Section 145(3) of the Act reads as under:

*"Where the **Assessing Officer** is not **satisfied** 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 income has not been computed in accordance with the standards notified under sub-section (2)**, the Assessing Officer **may** make an assessment in the manner provided in **section 144**.*

5.2. The analysis of the amended **Section 145(3)** is as follows:

- *where the **Assessing Officer***
- *is **not satisfied** 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***
- ***income has not been computed in accordance with the standards notified under sub-section (2)**,*
- *the Assessing Officer **may** make an assessment in the manner provided in **section 144**.*

5.3. It means that besides the circumstances enumerated in clauses (a), (b) and (c) of section 144(1) of the Act, best judgment assessment u/s 144 **may** be made under either of the aforesaid three circumstances.

5.4. Accordingly, if the assessee fails to compute his income in accordance with the ICDS, it may expose itself to the proceedings under Section 144 of the Act.

6. Relationship of Section 145 with other provisions

6.1. For a better understanding of the provisions of Section 145 of the Act with respect to compliance with "Income Computation and Disclosure Standards", it is of paramount importance to look into other relevant provisions of the Act. These notified ICDS are required to be followed for **computing** the **chargeableincome** under two specified heads.

6.2. The aforesaid three words are emanating from the charging Section 4(1) of the Act, which reads as under:

*"Where any Central Act enacts that income-tax shall be **chargeable** for anyassessment year at any rate or rates, income-tax at that rate or those rates shall be charged for that year in accordance with, and subject to the provisions (including provisions for the levy of additional income-tax) of, this Act in respect of the **total income** of the previous year."*

"Total income" is defined in **section 2(45)** of the Act, according to which

*"total income" means the total amount of **income** referred to in **section 5**, **computed** in the manner laid down in this Act."*

6.3. On a reading of the above provisions, we can, therefore, infer that:

income tax is chargeable in respect of the total income, which comprises total amount of income as is referred to in Section 5 of the Act, computed in the manner laid down in this Act.

Section 2(24) of the Act provides an inclusive definition of "**income**". It means that the total income encompasses more than one item of income, which may be of a different nature and may be from a different source.

Further, such income must be the income referred to in Section 5 of the Act.

6.4. It means that **before** computing the ***'income'*** in the manner laid down in the Act, such ***'income'*** is to be tested under the provisions of **section 5**. If such ***'income'*** **does notfall within the scope** of the provisions of **section 5**, the provisions of the Act relating to computation of income shall not apply to such income; **and** if the provisions of the Act **does not apply** for computing the income **or** any income is not capable of being computed in the manner laid down in the Act, such ***'income'*** cannot be charged to tax u/s 4(1) of the Act as it will not comprise in the ***'total income'***.

6.5. Section 5 of the Act contains provisions relating to "**scope of total income**".

Section 5 is divided into 2 sub-sections:

- o Sub-section (1) relates to a '**person**' who is a '**resident**'.

  Resident *is defined in**section 2(42)** of the Act, according to which a person is **'resident'** for the purposes of **section 5(1)** if he is **'resident in India'** within the meaning of section 6 of the Act.*

- o Sub-section (1) relates to a '**person**' who is a '**non-resident**'.

  Non-resident *is defined in **section 2(30)** of the Act, according to which a person is **'non-resident'** for the purposes of **section 5(2)** if he is **'not a resident'**. It means that he is not a resident is India within the meaning of section 6 of the Act. Non-resident also **includes** for the purposes of section 92, 93 and 168 a person who is **'not ordinarily resident'** within the meaning of section of clause (6) of section (6) of the Act.*

  Section 5(1) brings into the scope of 'total income' of any previous year of a person who is a resident –

- o All incomes
- o Derived from whatever source
- o Which is
  - ▪ **received ordeemed to be received** 'in India' in <u>such year</u> by or on behalf of such person; **or**
  - ▪ **accrues or arises** or deemed to accrue or arise to him 'in India' during <u>such year</u>; **or**
  - ▪ **accrues or arises** to him 'outside India' during <u>such year.</u>

Section 5(2) brings into the scope of 'total income' of any previous year of a person who is a non-resident –

- o All incomes
- o Derived from whatever source
- o Which is
  - ▪ **received ordeemed to be received** 'in India' in <u>such year</u> by or on behalf of such person; **or**
  - ▪ **accrues or arises** or deemed to accrue or arise to him 'in India' during <u>such year;</u>

6.6. The 'scope of total income' provided in **Section 5(1)** and **Section 5(2)**is clarified in the following explanations:

Explanation 1. - Income accruing or arising outside India **shall not be deemed** to be received in India within the meaning of this section by reason only of the fact that it is taken into account **in a balance sheet prepared in India**.

Explanation 2. - For the removal of doubts, it is hereby declared that income which has been included in the total income of a person on the basis that it has accrued or arisen or is deemed to have accrued or arisen to him **shall not again beincluded** on the basis that it is received or deemed to be **received by him in India**.

6.7. In order to derive **"total income"** for charging the same to income-tax u/s 4(1) of the Act, <u>**such**</u> **incomes** *{which are covered in the scope of total income as provided in section 5 of the Act}* are to be **computed** in the **manner** laid down in this Act.

6.8. It means that before **various incomes** are aggregated to form **total income**, they are required to be **computed** in the **manner** laid down in this Act.

6.9. The mechanism of **computation of total income** is provided in **section 14** of the Act *{Heads of income}*, according to which for the purposes of **computation** of **total income** for charging the same to income-tax, **all incomes** shall be classified under the following heads of income:

A - Salaries.

B - {since omitted}

C - Income from house property.

D - Profits and gains of business or profession.

E - Capital gains.

F - Income from other sources.

6.10. For the purpose of **computation** of income chargeable under the head **"Profits and gains of business or profession"**-

- o **Section 28** provides that the **incomes** mentioned in clause *(i)* to *(vii)*, r/w *Explanation* 2 thereof, shall be **chargeable** to income-tax under the head "Profits and gains of business or profession"

- o **Section 29** provides that the **income** referred to in section 28 shall be **computed** in accordance with the provisions contained in sections 30 to 43D.

6.11. Similarly, for the purpose of **computation** of income chargeable under the head **"Income from other sources" -**

- o **Section 56(1)** provides that income of every kind which is not to be excluded from the total income under this Act shall be **chargeable** to income-tax under the head "Income from other sources", if not chargeable to income-tax under any of the heads specified in section 14, item A to E.
- o **Section 56(2)** provides that in particular, and without prejudice to the generality of the provisions of sub-section (1), the incomes mentioned in clause *(i)* to *(ix)*, shall be **chargeable** to income-tax under the head "Income from other sources"
- o **Section 57 and 58** are the **computation** sections under the head "Income from other sources".
- o **Section 57** provides that the income chargeable under the head "Income from other sources" shall be **computed** after making the deductions specified under clause *(i)* to *(iv)* thereof.
- o **Section 58(1)** provides that notwithstanding anything to the contrary contained in section 57, the amounts mentioned in clause *(a)* and *(b)* thereof shall not be deductible in **computing** the income chargeable under the head "Income from other sources".
- o Further **section 58(1A) and 58(2)** provides that –
  - ▪ *the provisions of section 40(a)(iia);*
  - ▪ *the provisions of section 40A*

  shall, so far as may be, apply in **computing** the income chargeable under the head "Income from other sources" as they apply in computing the income chargeable under the head "Profits and gains of business of profession".
- o And further **section 59(1)** provides that –
  - ▪ *the provisions of section 41(1)*

  shall apply, so far as may be, in **computing** the income of an assessee under section 56, as they apply in computing the income of an assessee under the head "Profits and gains of business of profession".

6.12. Further, **section 145(1) r/w section 145(2)** provides that the **incomes so computed** shall be required to be **computed <u>also</u> -**

- o in accordance with the regularly employed cash **or** mercantile system of accounting, **and**
- o the **notified 'Income Computation and Disclosure Standards'.**

6.13. Thus, the notified **"income computation and disclosure standards"** are **mandatory** for **computing <u>incomes chargeable</u>** under aforesaid two heads of income in order to charge the same to income-tax u/s 4(1) of the Act.

CONCEPT OF INCOME ACCRUAL

Accrual, what it means?

"Accrue" means 'to increase', to argument, to be added as increase, to arise or spring as a natural growth or result'. In order that income, profits or gains may accrue to a person it is necessary that he must have acquired a right to receive the same or a right to the income, profits or gains has become vested in him though its valuation may be postponed or though its materialization may depend on the contingency that the making up of the accounts would show income, profits or gains [E D Sasson& Co. Ltd. V CIT (1954) 26 ITR 27 (SC); CIT v. Shri Goverdhan Ltd. (1968) 69 ITR 675,680, 681 (SC)].

Thus it is manifest that if an assessee acquires a right to receive income, the income can be said to accrue to him though it may be received later on. Unless and until there is created in favour of an assessee a debt due by somebody, it cannot be said that he has acquired a right to receive the income or that income has accrued to him, a mere claim to income without an enforceable right thereto cannot be regarded as accrued income for the purpose of the Income-tax Act [CIT v Govind Prasad Prabhu Nat (1988) 171 ITR 417, 424, 425 (All)].

An amount can accrue or arise to the assessee, if the assessee acquires a legal right to receive the amount or, conversely, the said amount has become legally due to the assessee from the assessee's debtor. This mere raising of a claim or bill does not create any legally enforceable right to receive the same (CIT v. Bharat Petroleum Corporation Ltd. (1993) 202 ITR 492 500 (Cal)].

Judgements where income was held not to be accrued

(1) Assessee, following mercantile system of accounting and engaged in the business of distribution and marketing of petroleum products in India, made a claim for additional payment, which was not accepted by the Government as it was in violation of the directive of the Ministry of Petroleum-held, amount so claimed did not accrue to the assessee in the assessment year concerned [CIT v. Bharat Petroleum Corporation Ltd. (1993) 202 ITR 492 500 (Cal)].

(2) The assessee, a financial institution, disbursing subsidies to industrial units in backward areas under a Government scheme, was entitled to interest on delayed reimbursement from the Government of such subsidies-subsequently, due to change in the Government Policy, assessee's claim for interest was rejected-held that no interest accrued to the assessee[CIT v. Rajasthan Co. Ltd. V. CIT, (1995) 235 ITR 870, 873-74 (Cal)].

(3) As the sale under the hire purchase agreement takes place only at the time mentioned in the agreement or at the option of the hirer., if so provided in the agreement, the margin of profit of the dealer under the said hire purchase agreement did not accrued to the assessee on the execution of the agreement by the hirer [CIT v. Motor Sales Ltd. 2006) 283 ITR 186 (All)].

(4) It was clear that the assessee had no right to receive the money in the sense that no right had accrued or vested in the assessee in this regard [CIT v. Sarvatra Roadrunners P. Ltd. (2008) 301 ITR 443 (Del)].

(5) the amount retained had not accrued to the assessee in the accounting year relevant to the assessment year 2003-04 [DIT v. Ballast Nedam International, (2013) 355 ITR 300 (Guj)].

"It is clear therefore that income may accrue to an assessee without the actual receipt of the same. If the assessee acquires a right to receive the income, the income can be said to have accrued to him though it may be received later on its being ascertained. The basic conception is that he must have acquired a right to receive the income. There must be a debt owed to solvendum in future: see W.S. Try Ltd. v. Johnson (Inspector of Taxes), and Webb v. Stenton, Garnishes" [E.D Sassoon & Co. Ltd. v. CIT (1954) 26 ITR 27, 51 (SC). Ramaswami Naidu v. CIT (1959) 35 42 (Mad). Also see, Radhey Lal Manni Lal v. CIT (1967) 66 ITR 581 (All)].

"The legal position is that a liability depending upon a contingency is not a debt in presenti or in futuro till the contingency happens. But if it is a debt the fact that the amount has to be ascertained does not make it any the less a debt if the liability is certain and what remains is only a quantification of the amount: debitum is preasenti, solvendum in future." [CIT v. shriGoverdhan Ltd.)1968) 69 ITR 675, 681 (SC)]. The postponement of the date of payment does not affect the accrual of the income. The fact that the amount of the income is not subsequently received by the assessee would not also detract from or efface the accrual of the income. Although non-receipt may, in appropriate cases, be a valid ground for claiming deduction [Morvi Industries Ltd. v. CIT (1971) 82 ITR 835 (SC)].

"When an Income-tax Officer proceeds to include a particular income in the assessment, he should ask himself, inter alia, two questions, namely (i) what is the system of accountancy adopted by the assessee? And (ii) if it is the mercantile system of accountancy, subject to the deemed provisions, when has the right to receive the amount accrued? If he comes to the conclusion that such a right accrued or arose to the assessee in a particular accounting year. No power is conferred on the Income-tax Officer under the Act to relate back an income that accrued or arose in a subsequent year to another earlier year on the ground that the said income arose out of an earlier transaction" [CIT v. A Gajapathy Naidu (1964) 53 ITR 114 119 (SC)].

Certain propositions as to real accrual or arisal of income to the assessee-The following propositions emerge on the question of income which has really accrued or arisen to the assessee that becomes taxable:

(1) It is the income which has really accrued or arisen to the assessee that is taxable. Whether the income has really accrued or arisen to the assessee must be judged in the light of the reality of the situation.

(2) The concept of real income would apply where there has been a surrender of income which in theory may have accrued but in the reality of the situation, no income had resulted because the income did not really accrue.

(3) Where a debt has become bad, deduction in compliance with the provisions of the Act should be claimed and allowed.

(4) Where the Act applies, the concept of real income should not be so read as to defeat the provision of the Act.

(5) If there is any diversion of income at source under any statue or by overriding title, then there is no income to the assessee

(6) The conduct of the parties in treating the income in a particular manner is material evidence of the fact whether income has accrued or not.

(7) Mere importability of recovery, where the conduct of the assessee is unequivocal, cannot be treated as evidence of the fact that has not resulted or accrued to the assessee. After debiting the debtor's account and not reversing that entry- but taking the interest merely to a suspense account cannot be such evidence to show that no real income has accrued to the assessee or has been treated as such by the assessee.

(8) The concept of real income is certainly applicable in judging whether there has been income or not but, in every case , it must be applied with care and within well-recognised limits

[Saraswati Insurance Co. Ltd. v. CIT, (2001) 252 ITR 430 433-34 (Del)].

It was an undisputed and settled principle of law, that only the real income was to be taxed and that the same income could not be taxed twice. It has been found, in the instant case, that the assessee had been following the receipt basis for accounting income of lease rent, even though otherwise it was allowing the mercantile system. The real income was to be considered with reference to the commercial and business realities of the situation and not merely with reference to entries made in the books of account [CIT v. V.T.C. Leasing & Finance Ltd. (2010) 323 ITR 514 (Raj)].

The Supreme Court in southern Technologies Ltd. v. Joint CIT [(2010) 320 ITR 577 (SC)] had approved the 'real income theory' engrained in the Prudential Norms for recognition of revenue by non-banking financial companies [CIT v. VashishChayVyapar Ltd. Ted Co. Investment & Financial Services (P) Ltd. (2011) 330 ITR 440 (Del)].

No power vests in the AO to relate back an income accruing in a later year to an earlier year.-In the mercantile system of accountancy, if the Assessing Officer comes to the conclusion that the right to receive income accrued or arose in a particular accounting year, he shall include the same in the income in the assessment of the succeeding assessment year. But no power is conferred on the Assessing Officer under the Act to relate back an income that accrued or arose in a subsequent year to an earlier year on the ground that the said income arose out of an earlier transaction [B.P.R. Construction v CIT, (1991) 192 ITR 534, 536 (Ori)].

Accrual to be judged on the principles of the real income theory-Whether an accrual has taken place or not must, in appropriate cases, be judged on the principles of the real income theory. After accrual, non-charging of tax on the same because of certain conduct based on the ipse dixit of a particular assessee cannot be accepted. In determining the question whether it is hypothetical income or whether real income has materialized or not, various factors will have to be taken into account. It would upon the ipse dixit of the assesee which would them become a value judgment only. What has really accrued to the assessee has to be found out and what has accrued must be considered from the point of view of real income taking the probability together but once the accrual takes place, on the conduct of the parties subsequent the year of closing, an income which has accrued cannot be made 'no income' [State Bank of Travancore v. CIT, (1986) 158 ITR 102 154 (SC)]. The above proposition of law has been applied by the Bombay High Court in Western India Oil Distributing Co. Ltd. v. CIT [(1994) 206 ITR 359, 365-366 (Bom)].

FREQUENTLY ASKED QUESTIONS ON ICDS

1. How do ICDS as notified by the Central Government get their authority from? How will the adjustments as required by ICDS be carried out?

The Income Tax Act is a legislation to impose a liability to tax upon a person in respect of its income. The total amount of income for a year is computed and the charge of income tax is created on the total income. With “year” determined as the unit of time for the purpose of assessment, the method of computing the income for the year also became relevant. It may be noted that the charge is established by Section 5 of the Act followed by income being classified under one of the five heads of income. The Act itself provides the method of computing income for a year in respect of three heads – (1) Salaries; (2) Income from house property; and (3) Capital Gains. For the other two heads of income – (1) Profits and gains from business or profession; and (2) Income from other sources, the computation of income depends on the method of accounting regularly employed by the assessee.

Accordingly, the provisions of sub-section (1) of Section 145 provide that 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.

The Central Government has been empowered by the provisions of sub-section (2) of Section 145 to notify the Income Computation and Disclosure Standards for any class of assessees or for any class of income. Accordingly, the CG has vide Notification No. SO 892(E), dated 31-3-2015 notified ten Income Computation and Disclosure Standards for assessees following mercantile system of accounting.

Thus the following steps are to be performed to determine the income chargeable under the head “Profits and gains of business or profession” or “Income from other sources”:

- Determine income as per the method of accounting regularly employed by the assessee
- Carry out adjustments as required under the ICDS, in case the assessee follows mercantile system of accounting. ICDS applies only to assessees following mercantile basis of accounting.
- Determine income chargeable after giving to the specific provisions of the Income Tax Act (Sections 30 to 43D in case of “Profits and gains of business or profession” and Sections 56 to 59 in case of “Income from other sources”).

Specimen for computing taxable income under the ICDS framework:

Particulars	**Amount**	**Amount**
Profits and gains of business or profession	xX	
Income from other sources	xX	
Total		**xX**
Add/ (Less): Adjustments as per ICDS		xX
Adjusted Income as per ICDS *		**xX**
Add/ (Less): Adjustments as per the provisions of the Act		xX
Total Income		**XX**

* For any non-compliance with ICDS appropriate disclosure should be made

The Income Tax Return Forms ITR-4, ITR-5, ITR-6 notified for the Assessment Year 2016-17 contain a specific Schedule which requires disclosure of the monetary impact of each ICDS. Further details and disclosure as are required under ICDS shall probably be required to be made in the Tax Audit Report (which may be modified to suit the requirements of ICDS).

The following points are worth mention:

- The notified ICDS apply with effect from assessment year 2016-17, while section 145(2) was amended with effect from assessment year 2015-16. Therefore, for assessment year 2015-16, IT-AS would not apply, since the section provides for ICDS to be followed. Further, since ICDS were not notified till March 2015, ICDS were also not required to be followed for that year. Effectively, for assessment year 2015-16, neither IT-AS nor ICDS would apply. ICDS would apply only with effect from assessment year 2016-17.

- Prior to introduction of ICDS, the taxable profits were computed based on the commercial principles of accountancy subject to express provisions of the Act. Refer **Miss DhunDadabhai Kapadia v CIT [(1967) 63 ITR 651 (SC)] and CIT v U P State Industrial Development Corporation [(1997) 225 ITR 703 (SC)]**. Going forward, for taxation purposes, profits shall be computed as per commercial accounting principles as modified by the provisions of ICDS. To this extent, therefore, the principles laid down by the various judicial decisions slated above shall lose ground and shall give way to the newly pronounced ICDS, yielding to the authority conferred on the CBDT by the parliament.

- The next question that arises is as to whether the provisions of ICDS shall prevail even if they happen to be contrary to the provisions of the Act. The answer to this is a clear 'no'. The preamble to every ICDS clearly states that in case of conflict between the provisions of the Act and the ICDS, the provisions of the Act shall prevail. The above view finds support in the decision of the Supreme Court in **CIT v. Sirpur Paper Mills [(1999) 237 ITR 41 (SC)].**

- From a combined reading of Section 145 read with the Preamble to each ICDS with Section 4 and 5 of the Income Tax Act, it is to be inferred that the provisions of Section 145 cannot override Section 5 of the Act. Income which is otherwise not chargeable to tax u/s 5 of the Act, cannot be brought to tax merely because there has been a book entry recognizing such hypothetical income. Even when the assessee is following the mercantile system of accounting, it is only real income which is chargeable to tax. The view finds support from the judicial precedence in the case of CIT vs. ShoorjiVallabhdas& Co.[1962] 46 ITR 144 wherein it was held that *"Where income has in fact been received and is subsequently given up in such circumstances that it remains the income of the recipient, even though given up, tax may be payable. Where, however, the income cannot be said to have resulted at all, there is obviously neither accrual nor receipt of income, even though an entry to that effect might in certain circumstances have been made in the books of accounts".*

- ICDS is merely a computational and disclosure standard. The computation in accordance with the method of accounting is merely modified by the requirements of ICDS, and not substituted entirely. Although the ICDS notified are based on the Accounting Standards issued by ICAI, what ICDS does not require is maintenance of separate books of accounts for the purpose of calculating tax liability. It requires certain adjustments in the computation of taxable income and certain additional disclosures to be made. This is however easier said than done in a practical scenario since the number of adjustments that may be required pursuant to ICDS will compulsorily require an assessee to maintain a memorandum books of accounts for tax purposes.

2. What are the consequences of non-complying with ICDS?

The provisions of sub-section (3) of Section 145 provide that:

*Where the Assessing Officer is not satisfied 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 **income has not been computed in accordance with the standards notified under sub-section (2)**, the Assessing Officer may make an **assessment in the manner provided in section 144**.*

Thus the AO is empowered to make a best judgement assessment in case income is not computed in accordance with the ICDS framework. Thus ICDS is mandatorily required to be followed. However, on a reading of Section 145(3), it may be inferred that the requirement is only in respect of computation and not in respect of disclosure. Thus if the assessee does not follow the disclosure requirements of ICDS, the AO is not empowered to make a best judgement assessment. The onus is, however, on the assessee to prove that the income has been computed in accordance with the ICDS framework.

3. Can a taxpayer opt to change his method of accounting from mercantile to cash basis, in order to prevent the applicability of ICDS?

Under paragraph 5 of ICDS I, an accounting policy shall not be changed without reasonable cause. Under AS 5, such a change was permissible only if the adoption of a different accounting policy was required by statute or for compliance with an accounting standard or if it was considered that the change would result in a more appropriate presentation of the financial statements of the enterprise. Would a change in law amount to reasonable cause? If such a change is made from assessment year 2016-17, the year from which ICDS comes into effect, an assessee would need to demonstrate that such change was actuated by other commercial considerations, and not merely to bypass the provisions of ICDS. A change in law cannot be the basis for change from one method of accounting to another. Furthermore, provisions of Section 145(1) require a method of accounting to be regularly employed by the assessee. The word regularly implies a consistent practice and a change from mercantile to cash basis will constitute a departure from the existing practice followed by the assessee unless the assessee has cogent reasons for the change.

4. **Do ICDS apply to a taxpayer who is offering his income to tax under a presumptive tax scheme, such as section 44AD?**

The provisions of Section 44AD(1) of the Income Tax Act reads as under:

"Notwithstanding anything to the contrary contained in sections 28 to 43C, in the case of an eligible assessee engaged in an eligible business, a sum equal to eight per cent of the total turnover or gross receipts of the assessee in the previous year on account of such business or, as the case may be, a sum higher than the aforesaid sum claimed to have been earned by the eligible assessee, shall be deemed to be the profits and gains of such business chargeable to tax under the head "Profits and gains of business or profession"."

The provisions of Section 44AD begin with a non-obstante clause and accordingly override the provisions of Section 28 to 43C of the Act. Thus, under the presumptive tax scheme, books of account are not relevant, since the income is computed on the basis of the presumptive tax rate laid down under the Act. It therefore does not involve computation of income on the basis of the method of accounting, or on the basis of adjustments to the accounts. Where the income of the assessee is *deemed* on the basis of presumptive rates provided, the question of computation does not arise.

Therefore, though there is no specific exclusion under the notification for taxpayers following under presumptive tax schemes from the purview of ICDS, logically, ICDS should not apply to such taxpayers. However, where the presumptive tax scheme involves computation of tax on the basis of gross receipts, turnover, etc., it is possible that the tax authorities may take a view that the ICDS on revenue recognition would apply to compute the gross receipts or turnover in such cases.

5. **Whether the notified ICDS apply to non-residents?**

It may be noted that ICDS is applicable to all assessees following mercantile basis of accounting, irrespective of the concept of residence. However, where a non-resident is required to pay tax on gross basis i.e. presumptive basis (e.g. Section 115A), the provisions of ICDS should not apply as per reasoning discussed above.

Also, a non-resident may be entitled to the benefit of a double tax avoidance agreement entered into by India with a country under Section 90 of the Income Tax Act. The provisions of Section 90 provide that the provisions of the Income Tax Act or the DTAA, whichever is more beneficial shall apply to the assessee. Hence in case the assessee opts for the provisions of the DTAA, it can be argued that DTAA shall override the provisions of Section 145 of the Income Tax Act and hence ICDS notified thereunder.

In other cases, which do not fall under presumptive basis or DTAA, the non-residents shall be required to comply with the ICDS.

6. **Can an assessee maintain 2 books of accounts – one under the Companies Act on mercantile basis and other under Income Tax Act under cash basis for determining the income chargeable to tax?**

It may be noted that the provisions of Section 145(1) of the Income Tax Act provide that income under the two heads of income shall be computed in accordance with the method of accounting (cash or mercantile) "regularly employed" by the assessee. The phrase **"regularly employed"** would ordinarily mean consistently applied in the books of accounts of the assessee. The books of accounts here should refer to the books for the purpose of its dealings with the outside world which should be utilised as the starting point for computing the profit or loss for taxation purposes. The books of accounts are those maintained in the regular course of business. Thus it is not feasible for the assessee to maintain two separate books of accounts with different system of accounting for taxation purpose.

7. **Can different methods of accounting be followed for different sources of income?**

It is well settled that the method of accounting is vis-à-vis each source of income, since computation of income is first to be done for each source of income, and then aggregated under each head of income. An assessee can choose to follow one method of accounting for some sources of income, and another method of accounting for other sources of income.

In **J. K. Bankers vs. CIT 94 ITR 107 (All)**, the assessee was following mercantile system of accounting in respect of interest on loans in respect of its moneylending business, and offered lease rent earned by it to tax on a cash basis under the head "Income from Other Sources". The Allahabad High Court held that an assessee could choose to follow a different method of accounting in respect of its moneylending business and in respect of lease rent.

Similarly, in **CIT vs. Smt. Vimla D. Sonwane 212 ITR 489**, the Bombay High Court held that "The assessee is indeed free even to follow different methods of accounting for income from different sources in an appropriate case".

Where an assessee follows cash method of accounting for certain sources of income and mercantile system of accounting for others, ICDS would apply only to those sources of income, where mercantile system of accounting is followed and would not apply to those sources of income, where cash method of accounting is followed.

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

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

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

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

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

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

The assessee is required to maintain the books of accounts in accordance with the Companies Act/ Accounting Standards. ICDS merely provides a computation mechanism for computing the taxable income. Accordingly, ICDS does not impact the preparation of the financial statements. However, the assessee is required to maintain a parallel set of books given the substantial set of differences between the Accounting Standards being followed in the financial statements and the ICDS and to the extent that the provision for tax shall be determined upon computation in accordance with ICDS, the same is required to be incorporated in the financial statements. Thus, provision for tax and deferred tax will be the only two items in the financial statements which shall be impacted.

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

As per the provisions of Section 115JB, the net profit as shown in the profit and loss account as adopted and laid before the company in the annual general meeting in accordance with the provisions the Companies Act shall be used as the starting point for computing the book profits for determining the Minimum Alternate Tax (MAT).

However, the normal tax shall be computed in accordance with profit and loss account as per the financial statements and further adjusted for items specified in the ICDS.

Accordingly, since computation of MAT does not take into account the provisions of ICDS, the mismatch between MAT and normal computation is likely to be widened further. For instance, as per the Accounting Standards on Construction Contracts, where it is probable that the total contract costs will exceed the total contract revenue, the expected loss should be recognised as an expense immediately. Accordingly, the book profit for MAT as is determined in accordance with the profits as per financial statements shall be significantly lower. However, as per the provisions of ICDS, contract revenue and contract costs are required to be recognised as revenue or expenses respectively mandatorily with reference to the stage of completion of the contracting activity at the reporting date. In the absence of any specific provision being carved out by the ICDS provisions for estimated losses in respect of onerous contracts, the same shall be required to be recognised on a proportionate basis with reference to the stage of completion. Accordingly, normal tax determined in accordance with the profits adjusted for the provisions of ICDS shall be higher than MAT.

Also, accelerated income recognition may also result in duplicate levy of tax (i.e. normal tax in year of recognition as per ICDS and MAT in the year of recognition in books): -

Year	Contract	Interest Income	Total Income computation		Remarks
			Taxable Income (ICDS)	Book Profit	
1 (<25% work)	Foreseeable loss of Rs. 50,000	40,000	40,000	(10,000)	Foreseeable loss of Contract is not allowed as deduction in Year 1
2	Contract concludes on Loss of Rs.50,000	40,000	(10,000)	40,000	Actual Loss of Rs. 50,000 of contract will be allowed as deduction in normal computation whereas MAT will apply

In this context, one wonders whether a recent Telangana & Andhra Pradesh High Court decision would be of assistance. In the case of Nagarjuna Fertilizers & Chemicals Limited 373 ITR 252, the High Court held that where an item of income was taxed in an earlier year but was recorded in the books of account of the current year, on the principle that the same income could not be taxed twice, such income had to be excluded from the book profits of the current year.

11. What in case of conflict between SC / HC rulings and ICDS?

As a judicial forum, the Assessing Officers (AOs) are bound not only by the law as legislated by the legislature, but by the judge made law as well. Being a part of the judicial hierarchy the AOs are bound by the interpretation of provisions as is laid down by the judicial courts as well. The AOs are expected to decide the issues in accordance with the provisions of the statute and also rely on the law laid down by the Hon'ble Supreme Court. Accordingly, to the extent the SC/ HC rulings contain an interpretation of the provisions of the Act, the same should prevail over ICDS.

For instance, various judicial rulings have propounded the real income theory. The Delhi High Court, in the case of CIT vs. VashishtChayVyapar 330 ITR 440 has held, based on the real income theory, that interest accrued on non-performing assets of non-banking financial companies cannot be taxed until such time as such interest is actually received. Would the contrary provisions of ICDS IV on revenue recognition change the position? It would appear that the ruling will still continue to hold good even after the introduction of ICDS.

However, there could be earlier judicial rulings which are based on the relevant provisions of the accounting standards, and where the court has interpreted the law on the basis of such accounting standards. These judicial rulings would now have to be considered as being subject to the requirements of ICDS, as the method of accounting is now subject to modification by the provisions of ICDS.

12. In case any of the provisions of ICDS is contrary to the Income Tax Rules, which one would prevail?

The Income Tax rules are a form of delegated legislation, while ICDS is in the form of a notification, which then becomes a part of the legislation. Accordingly, it appears that the provisions of ICDS should prevail in such cases.

13. Whether ICDS applies to real estate developers?

Whether ICDS-III "Construction Contracts" applies to real estate developers?

- Scope of ICDS-III "Construction Contracts" provides as follows:

  "This Income Computation and Disclosure Standard should be applied in determination of income for a construction contract of a contractor".

  The wording of scope of ICDS-III is similar to the way Accounting Standard-7 (2002) is worded:

  "This Standard should be applied in accounting for construction contracts in the financial statements of contractors."

  The above scope as outlined in the AS-7 (Revised) can be distinguished from its earlier version issued in 1985:

  "This Statement deals with accounting for construction contracts in the financial statements of enterprises undertaking such contracts (hereafter referred to as 'contractors'). <u>The Statement also applies to enterprises undertaking construction activities of the type dealt with in this Statement not as contractors but on their own account as a venture of commercial nature where the enterprise has entered into agreements for sale."</u>

  It can be inferred from the above that ICDS-III's application shall be confined only to construction contractors.

- It may be noted that the Committee Report on Tax Accounting Standards (TAS) recommended that TAS covering the following areas may also be considered for notification under the Act:

  (i) Share Based Payments

  (ii) Revenue recognition by Real Estate Developers

  (iii) Service concession arrangements (e.g. Build operate Transfer agreements)

  (iv) Exploration for and evaluation of mineral resources

  The Committee noted that there are certainareas on which the ICAI is yet to issue any accounting standards but where guidance oncomputation of income under the Act is required to reduce litigation and provide certainty. "Revenue recognition by Real Estate Developers" was one of such areas.

- Supreme Court in the case of **M/s Larsen and Toubro Limited (2014 (1) SCC 708)** has held a real estate transaction when flats are sold under construction as works contract for MVAT.

  After considering the aforesaid decision, Gujarat High Court in the case of **Mangala Properties (57 taxmann.com 35)** allowed deduction u/s 80-IB to the developer, who had entered in a JDA with a land owner and specifically stated:

  "While construing the provisions of the Income Tax Act, the ordinary meaning of the expression "works contract" is required to be taken into and resort cannot be had to the meaning of the said expression as envisaged under the relevant Sales Tax Act which are enacted in the context of the provisions of Article 366(29A)(b) of the Constitution."

- Thus considering the above, it is possible to conclude that ICDS-III will not apply to real estate developers.

IMPACT ANALYSIS OF THE INCOME COMPUTATION AND DISCLOSURE STANDARDS

ICDS I
ACCOUNTING POLICIES

	Accounting Standard 1	ICDS I
1	**Refers to prudence and materiality as a consideration for selection of accounting policies**	**Does not recognise the concepts of prudence and materiality for selection of accounting policies**
2	**Disclosure of accounting policy should form part of financial statements**	**Not clear where these accounting policies shall be disclosed**
3	**Change in Accounting Policy allowed if required by statute or for compliance with AS or if considered as resulting in more appropriate presentation**	**Change in Accounting Policy only if there is reasonable cause to do so**

Fundamental accounting assumptions:

- **Going Concern:**
  - "Going concern" refers to the assumption that the person has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation and intends to continue his business, profession or vocation for the foreseeable future.
- **Consistency:**
  - "Consistency" refers to the assumption that accounting policies are consistent from one period to another;
- **Accrual:**
  - "Accrual" refers to the assumption that revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the previous year to which they relate.

The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by a person.

Considerations in selection and change of Accounting Policies

- 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. For this purpose,
  - the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and
  - **marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other ICDS.**
  - **An accounting policy shall not be changed without reasonable cause.**
- **Disclosure**
  - All significant accounting policies adopted by a person shall be disclosed.
  - Any change in an accounting policy which has a material effect shall be disclosed.
    - The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable.
    - Where such amount is not ascertainable, wholly or in part, the fact shall be indicated.

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

- **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

- **Significant Issues**
  - AS-1 refers to prudence as a consideration for selection for accounting policies but the ICDS does not recognize it as criteria for the selection and eliminates the concept of prudence. Based on the concept of prudence, AS-1 precludes recognition of anticipated profit and requires recognition of expected losses. Since this amounts to differential treatment for recognition of income and losses, the ICDS provides that expected losses or mark-to-market losses shall not be recognised unless permitted by any other TAS. ICDS is however silent on the treatment of mark to market gains. This shall result in higher taxable income.
  - AS-1 read with AS-5 provides that accounting policies may be changed if it is considered that the change would result in a more appropriate presentation. ICDS provides that accounting policies shall not be changed without a reasonable cause. Nothing has been stated as to what constitutes reasonable cause.
  - AS-1 recognises the concept of materiality for selection of accounting policies. Since the Act does not recognise the concept of materiality for the purpose of computation of taxable income, the same has not been incorporated in the ICDS. Therefore, any unadjusted audit differences (considered immaterial) may have to be considered in the computation of taxable income. Again capitalisation of items which are immaterial and have been charged to profit and loss in books of accounts will have to be taken in account for computing taxable income.
  - If a change is made in the accounting policies which has no material effect for the current year but which is reasonably expected to have a material effect in later years, the fact of such change should be appropriately disclosed in the year in which the change is adopted and also in the year in which such change has material effect for the first time. However, change in depreciation method, though considered a change in accounting policy, is given retrospective effect.
  - Implications when "Going Concern Assumption" fails – Capital assets revaluations do not affect tax computations – the ICDS decline to recognize losses in the valuation of assets on a mark to market basis – How the absence of this assumption would impact the tax computations?

ICDS II
VALUATION OF INVENTORIES

	Accounting Standard 2	ICDS II
1	**AS-2 does not apply to WIP in the ordinary course of business of service providers**	**ICDS II applies to service providers too**
2	**Allows Standard Costing method for valuation of inventory**	**Does not specifically allow Standard Costing Method**
3	**No specific mention about valuation of inventory at the time of dissolution of firm, AOP or BOI**	**Inventory to be valued at NRV at the time of dissolution of firm, AOP or BOI**
4	**Applies to shares, deb and other fin. Instruments held as stock in trade**	**Specifically excluded from ICDS II and are dealt by ICDS VIII**

- **Inventories defined as assets**
  - Held for sale in ordinary course of business
  - In process of production for such sale
  - In form of materials or supplies to be consumed in production process or rendering of services
- **Scope Exclusions**
  - Work in progress arising in construction contract including directly related service contract
  - Work in progress dealt by other ICDS
  - Shares, debentures and other financial instruments held as stock in trade
  - Producers inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value
  - Machinery spares which can be used only in connection with a tangible fixed asset and their use is expected to be irregular
- **Measurement**
  - Valuation at cost, or net realisable value, whichever is lower
- **Cost of Inventories shall comprise of :**
  - costs of purchase,
  - **costs of services,**
  - costs of conversion,
  - other costs incurred in bringing the inventories to their present location and condition
- **Cost of Purchase shall consist of :**
  - purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition **[AS-2 also includes costs, other than those subsequently recoverable from the taxing authorities]**
  - Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase **[Duty drawbacks (AS-2) is omitted in view of Section 145A]**
- **Cost of Services in the case of Service Provider shall consist of :**
  - labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.
- **Cost of conversion :**
  - The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production. **[In case of allocation of fixed production overhead, AS-2 states that the actual level of production may be used when it approximates to normal capacity, while the ICDS uses the word "shall" instead of "may"]**
- **Other Costs :**
  - shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.
  - Interest and other borrowing costs shall not be included in the costs of inventories,
    - **unless they meet the criteria for recognition of interest as a component of the cost as specified in the ICDS on borrowing costs.**

- **Exclusions from the Cost of Inventories**
  - Abnormal amounts of wasted materials, labour, or other production costs;
  - Storage costs, unless those costs are necessary in the production process prior to a further production stage;
  - Administrative overheads that do not contribute to bringing the inventories to their present location and condition;
  - Selling costs **[(AS-2) also refers to distribution costs in addition to Selling costs]**
- **Cost formulae**
  - Specific identification of cost
  - FIFO or weighted average cost continues to be the prescribed formula as laid down in AS 2

  [The option of standard cost method as a technique for the measurement of cost as per paragraph 18 of AS 2 has not been provided in the ICDS]
- **Net Realisable Value (NRV)**
  - Inventories shall be written down to NRV on an item-by-item basis.
  - Items of inventory relating to the same product line, having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to NRV on an aggregate basis.
  - NRV shall be based on the most reliable evidence available at the time of valuation.
  - The estimates of NRV shall also take into consideration the purpose for which the inventory is held.
  - The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.
  - Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.
- **Value of Opening Inventory**

  As on the beginning of the previous year shall be :
  - The cost of inventory available, if any, on the day of the commencement of the business (when the business has commenced during the previous year); and
  - the value of the inventory as on the close of the immediately preceding previous year, in any other case.

    Change of Method of Valuation of Inventory

    The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.
- **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
- **Disclosure**
  - the accounting policies adopted in measuring inventories including the cost formulae used; and
  - the total carrying amount of inventories and its classification appropriate to a person.

- ☐ **Significant Issues**
  - ☐ ICDS stipulates inventories valuation in the case of Service Providers. AS-2 has not prescribed any method of valuation of inventories in the case of a service provider.
  - ☐ The option of Retail method as a technique for the measurement of cost as per paragraph 19 of AS 2 has been permitted subject to the conditions that it is to be used only when it is impracticable to use the other prescribed methods. The option of department-wise average percentage is not permitted.
  - ☐ AS-2 is silent on change of method of valuation of inventories. The ICDS is not clear on what could constitute to be a change in the method, in the absence of any alternative method available-whether this could include a change in the Cost Formula.
  - ☐ ICDS does not recommend Standard cost method as a cost formula for measurement of cost unlike AS-2.
  - ☐ The value of the inventory of a business as on the beginning of a previous year shall be the same as the value of inventory at the end of the immediately preceding previous year. This is a well established principle and this principle has specifically been incorporated in the ICDS.
  - ☐ In case of partnership firm, AOP or BOI inventory on the date of dissolution shall be valued at the net realisable value, whether or not business is discontinued. The rule does not take companies within its sweep, whether on amalgamation or otherwise. AS 2 is silent on this rule.

ICDS – III
CONSTRUCTION CONTRACTS

	Accounting Standard 7	ICDS III
1	**AS-7 is silent on retentions i.e. amounts of progressive billings which are not paid until the satisfaction of specified conditions**	**Retentions shall be included in contract revenue**
2	**Expected losses from contract to be recognised in full**	**Expected losses from contract to be recognised in proportion to percentage of completion**
3	**Incidental income allowed to be set off against contract cost subject to certain conditions**	**Incidental income in the nature of interest, dividends or capital gains not allowed to be set off against contract cost.**
4	**No definition of what % of completion up to which a contract can be considered as at early stage**	**The early stage of a contract shall not extend beyond 25% of the stage of completion**

- ☐ Scope - Determination of income for a construction contract of a contractor
- ☐ Construction contract – a contract negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent
- ☐ Applicable to fixed price, cost plus or a hybrid of fixed & cost plus contract
- ☐ Calculation will be separate for each contract - where necessary, can be for a component of a contract or group of contracts together
- ☐ Mandates recognition of revenue under Percentage of Completion Method (POCM)
  - ☐ Mandatory to recognise profit / loss on POCM basis beyond 25%
  - ☐ Contract revenue to be recognised only if there is reasonable certainty of ultimate collection
  - ☐ Contract revenue comprise of initial amount of revenue agreed in the contract, retentions, variations in contract work, claims and incentive payments to the extent it is probable that they will result in revenue and capable of being measured
  - ☐ Where contract revenue already recognised as income is subsequently written off in the books, it shall be recognised as an expense and not an adjustment of contract revenue

- Retention money to be included as part of contract revenue
  - **CIT v. Associated Cables P. Ltd. 286 ITR 596 (Bom)** - Right to receive retention money accrues only after obligations under contract fulfilled - not income in year of retention
  - **DIT (IT) v. Ballast Nedam International 215 Taxman 254 (Gujarat)** - Retention money could not be said to be accrued to assessee till completion of work
  - Contract cost shall include direct cost, allocated cost, contract or customer specific cost and allocated borrowing cost
  - Borrowing cost – part of contract cost if permitted by ICDS IX Borrowing Cost
  - Cost for securing contract part of contract cost provided it is separately identified and it is probable that the contract shall be obtained
- Contract Cost to be reduced by incidental income, except income in the nature of interest, dividend or capital gains
  - Bokaro Steel 236 ITR 315 (SC) - any receipts inextricably linked with the process of setting up plant and machinery would go to reduce the cost of assets
  - Karnal Cooperative Sugar Mills Ltd. (SC) - deposit of money directly linked with the purchase of plant and machinery is a capital receipt which would go to reduce the cost of asset
- Contract cost relatable to proportion of work completed is allowed
- Contract Costs relating to future activity to be recognised as an asset
- Foreseeable losses
  - Future / anticipated losses are not allowed
  - Mazgaon Dock Ltd. v. Jt. CIT [2009] 29 SOT 356 (Mum.), Dredging International N.V. v. ADIT 48 SOT 430 (Mum.) – negated
  - Estimated loss to be taken on POCM basis – not in full
- Stage of completion of a contract to be determined with reference to:
  - Proportion of contract costs incurred upto date to estimated total contract costs
  - Surveys of work performed
  - Completion of a physical proportion of contract work
  - Progress payments/advances from customers – not determinative of the stage of completion
- Change in estimates
  - POCM applied on a cumulative basis in each year
  - Where there is a change is estimates, the changed estimates to be used for determining amount of revenue and expenses
- Transitional Provisions
  - Contract commenced prior to 31.3.15 and not completed by 1.4.15 – contract revenue and costs to be recognised as per this ICDS
  - If contract revenue or costs pertaining to such contract already recognised in earlier years – such amount to be taken into account
    - Problem if following completed contract – now following POCM results in taxation of profit of earlier years as well
    - If entire anticipated loss accounted in earlier year, and work still in progress, result in reversal of part loss of earlier year
- Disclosure Requirements
  - Amount of contract revenue recognised

- ☐ Methods used to determine the stage of completion of contracts in progress
- ☐ Contracts in progress
  - ❖ Amount of costs incurred and recognised profits (less recognised losses)
  - ❖ Amount of advances received and amount of retentions

ICDS IV
REVENUE RECOGNITION

	Accounting Standard 9	ICDS IV
1	**Recognises completed service contract method for revenue recognition**	**Does not recognise completed service contract method**
2	**Dividends are recognised when owners right to receive payment is established**	**Dividends are recognised in accordance with the provisions of the ITA**
3	**Revenue to be recognised only if it is reliably measurable**	**Does not require reliable measurability of revenue**

☐ **Definitions**

- ☐ "Revenue" is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

Sale of Goods

- ☐ In a transaction involving the sale of goods, the revenue shall be recognised when 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 the seller retains no effective control of the goods transferred to a degree usually associated with ownership. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.
- ☐ Revenue shall be recognised when there is reasonable certainty of its ultimate collection.
- ☐ Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

Rendering of Services

- ☐ Revenue from service transactions shall be recognised by the percentage completion method. Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed.

The Use of Resources by Others Yielding Interest, Royalties or Dividends

- ☐ Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable. Discount or premium on debt securities held is treated as though it were accruing over the period to maturity. **[This may conflict with the interest income recognition criteria applicable to NBFCs as per the Prudential Norms prescribed by the RBI.]**
- ☐ Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise **revenue on some other systematic and rational basis.**
- ☐ Dividends are recognised in accordance with the provisions of the Act. **[Under AS-9, Dividends are recognised when the owner's right to receive the payment is established.]**

Disclosures

- ☐ Following disclosures shall be made in respect of revenue recognition, namely:—

  a) in a transaction involving sale of good, total amount not recognised 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 recognised 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 costs incurred and recognised profits less recognised losses upto end of previous year;

     ii. the amount of advances received; and

     iii. the amount of retentions.

Significant issues

- ☐ AS-9 recognises both the "proportionate completion method" and "completed service contract method" for recognition of revenue from service transactions. ICDS provides that revenue from service transactions shall only be recognised by following the "percentage completion method". This may signifaicantly impact taxable income of service providers.

- ☐ Where the ability to assess the ultimate collection with reasonable certainty is lacking, AS-9 provides for postponement of recognition of revenue only in relation to any claim and export incentives. In view of the specific provisions in the Act for bad debts, the postponement of revenue due to uncertainty is restricted to claims for price escalation and export incentives.

- ☐ As per AS-9, Interest accrues, in most circumstances, on the time basis determined by the amount outstanding and the rate applicable. Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity. Under the ICDS, interest and discount or premium on debt securities will be taxed annually in the hands of the holder before maturity.

ICDS V
TANGIBLE FIXED ASSETS

	Accounting Standard 10	ICDS V
1	**Deals with tangible as well as intangible fixed assets**	**Deals only with tangible fixed assets**
2	**Deals with revaluation of fixed assets**	**Does not deal with revaluation of fixed assets, since revaluation ignored for tax purposes**
3	**In case of acquisition of a fixed asset in exchange of another asset, the cost shall be determined by reference to either to the asset given up or asset acquired whichever is more clearly evident**	**Where asset acquired in exchange of another asset, the fair value of the asset so acquired shall be its actual cost**
4	**Also deals with retirement & disposal of fixed assets – gains on disposal in P & L Account**	**Does not deal with retirement & disposal of assets**

- ☐ **Definitions**

  - ☐ "Tangible fixed asset" is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business. **[AS-10 deals with accounting for all fixed assets subject to certain exceptions such as forest, wasting assets and livestock. The applicability of ICDS is restricted to tangible fixed assets being land, building, machinery, plant or furniture to make the same consistent with the definition of "block of assets" as provided in the Act.]**

- “Fair value” of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

- **Key principles**
  - Stand-by equipment and servicing equipment are to be capitalised. Machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.
  - The actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost. **[Section 43(1) of the Income Tax Act, 1961, defines “actual cost” to mean the actual cost of the assets to the assessee, reduced by that portion of the cost thereof, if any, as has been met directly or indirectly by any other person or authority. What shall comprise of the cost has now been stated in the ICDS and is in line with Accounting Standard, As-10]**
  - When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired shall be its actual cost. When a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost. **[In the case of acquisition of an asset in exchange for another asset, shares or other securities, AS-10 provides that the fair value of the asset/securities given up or fair value of the asset acquired, whichever is more clearly evident, should be recorded as actual cost.]**
  - Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such **jointly owned tangible fixed assets** shall be indicated separately in the tangible fixed assets register.
  - Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis. **[AS-10 requires that the consideration shall be apportioned to the various assets on a fair basis as determined by competent valuers]**

  Transitional Provisions:

  The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

  Significant Issues:

  - AS-10 provides guidance for revaluation of assets. As the Act does not recognise the concept of revaluation of assets, the portion of AS-10 relating to revaluation of assets is omitted in the ICDS.
  - AS -10 provides guidance on retirement and disposal of assets. As the Act contains specific provisions relating to retirement and disposal of tangible fixed assets, the same are not incorporated in the ICDS.

ICDS VI
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES

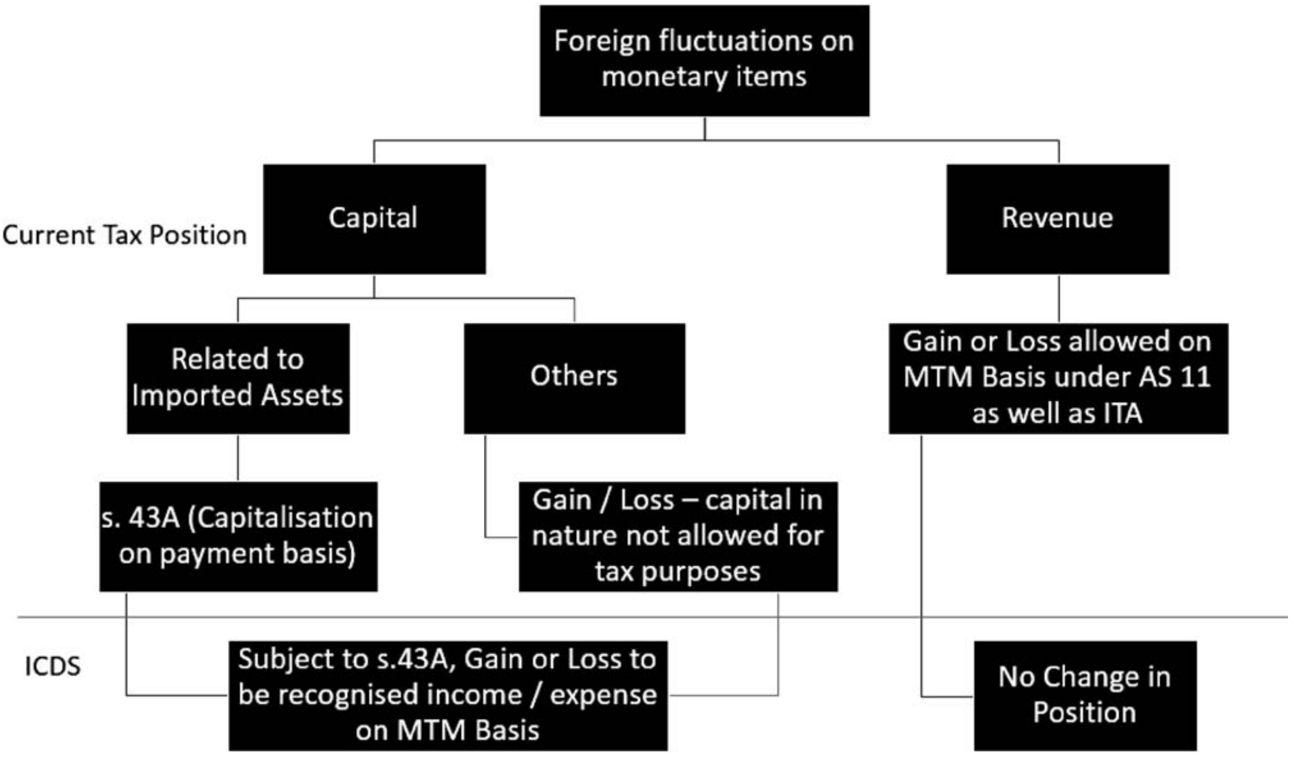
	Accounting Standard 11	ICDS VI
1	**Exchange differences resulting from translating financial statements of a non integral foreign operation to be accumulated in a foreign currency translation reserve**	**Exchange differences resulting from translating financial statements of a non integral foreign operation to be recognised as income or expense**

Scope of the Standard

- Treatment of foreign currency transactions
- Translating financial statements of foreign operations.
- Treatment of forward exchange contracts.

Sr No	Relevant Parts	Key Aspects
1	Foreign Currency Transactions	• Monetary Items (Cash, receivables, payables) • Non-Monetary Items (FA, Investments)
2	Foreign Operations	• Integral Foreign Operations (LO, warehouse) • Non Integral Foreign Operations (Branch)
3	Forward Exchange Contracts	• Forward Contract • Currency operations • Currency Futures • Currency swap, interest rate swap etc.

Foreign fluctuations on monetary items



Foreign fluctuations on non-monetary items

Nature	Position under AS-11	Position under ICDS	Impact in ICDS
Non-monetary items carried at historical cost (eg. Fixed Assets, Long-term Invt)	**Date of transaction**	**Date of transaction**	**No change**
Non-monetary items carried at fair value, etc. (eg. Inventory)	**Closing rate**	**Date of transaction**	**Forex diff. as per books to be adjusted while computing taxable income**

Foreign operations

Foreign Operations

Integral Operations
(eg. Liaison Office)

1. ICDS applies same principles as own assets and liabilities subject to section 43A and Rule 115
2. No distinction between capital and revenue

Non-Integral Operations
(eg. Independent Branch)

1. ICDS Requires translation on MTM to be recognised as income / expense subject to s. 43A and Rule 115 (whereas AS 11 requires accumulation in reserve)
2. No distinction between capital and revenue items

Foreign exchange derivatives

Forex derivatives not covered by ICDS

↓

Forex derivatives like cross currency swaps, interest rate swaps

↓

Committee had recommended formulation of separate ICDS

↓

ICDS is silent

↓

ICDS on accounting policies prohibits MTM or expected loss

Transitional Provisions

1. All foreign currency transactions undertaken on or after 1.4.2015 to be recognised in accordance with the provisions of this ICDS.
2. Exchange differences arising in respect of monetary items or non-monetary items, on settlement thereof during previous year commencing on 1.4.2015 or on conversion at the last day of the previous year commencing on 1.4.2015, to be recognised in accordance with the provisions of this ICDS after taking into account amount recognised on the last day of the previous year ending on 31.3.2015 for an item, if any, which is carried forward from said previous year
3. Financial statements of foreign operations for previous year commencing on 1.4.2015 to be translated using principles and procedures specified in this ICDS after taking into account amount recognised on last day of the previous year ending on 31.3.2015 for an item which is carried forward from said previous year. This would create Difficulty in case of non-integral operations set up long ago.
4. All forward exchange contracts existing on 1.4.2015 or entered on or after 1.4.2015 to be dealt with in accordance with the provisions of this ICDS after taking into account income or expenses recognised in respect of said contracts for previous year ending on or before 31.3.2015.

ICDS VII
GOVERNMENT GRANTS

Scope of the Standard

- Deals with the treatment of Government Grants
- Subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements etc

Exclusions from the Scope

- Government assistance which is not in the form of Government Grants
- Government participation in the ownership of the enterprise

Definitions

- "Government" refers to the Central Government, State Government, agencies and similar bodies, whether local, national or international
- "Government Grants" are assistance by government
  - In cash or kind
  - For past or future compliance with certain conditions

  Excludes
  - the assistance in a form which cannot be valued
  - Normal trading transactions with government
- **Recognition of Government Grants**
  - It is subject to reasonable assurance as to compliance with conditions attached to the grant and that the grants shall be received
  - However, recognition shall not be postponed beyond the date of actual receipt
- **Treatment of Government Grants**

  ASSET APPROACH
  - In the case of depreciable fixed assets (Para 5)
    - Deduct from the WDV of Block of Assets to which the asset belonged
    - Impliedly, recognized as income in the same pattern as depreciation claimed

- In the case of non depreciable fixed assets (subject to obligations to be fulfilled) (Para 6)
  - Recognized as income over the same period over which the cost of meeting such obligations is charged to income. [**The ICDS is silent in the case of non depreciable fixed asset which is not subject to obligations]**
  - In the case of a grant which is not directly relatable to the asset acquired, proportionate adjustment prescribed (Para 7)
- In the case of grant: (Para 8)
  - received as compensation for expenses or losses incurred in Previous Financial Year or
  - for giving immediate financial support to person with no further related costs

  To be recognized as income of the period in which it is receivable
- The Government Grants not dealt with in Para 5-8 of the ICDS
  - Recognized as income over the period necessary to match them with related costs which they are intended to compensate.

  [Impliedly, the ICDS suggest that a non depreciable asset (with no obligations attached) should be recognized as income in the year of recognisition of the Grant]
- In the case of non-monetary assets given at a concessional rate :
  - To be accounted for on the basis of acquisition cost.

  [IDCS is silent in the treatment in case a non-monetary asset, such as land is given at a zero cost.]

Refund of Government Grants

- Refund of Government Grant referred in Para 6,8 and 9
  - First apply against any unamortized deferred credit
  - Refund in excess of the above to be charged to Statement of Profit & Loss
- Refund of Government Grant related to a depreciable fixed asset
  - Increase the WDV of block of assets
  - Depreciation prospectively on the revised WDV of the block of assets
- **Transitional Provisions**

  All the Government grants that meets with the recognition criteria of the ICDS on or after 1st day of April and relates to any period ending 31st March 2015 or before
  - shall be recognized for the financial year commencing on or after 1st April 2015 after taking into account the said Government grant recognized for any period ending on or before 31st March 2015.

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
- **Significant Issues**
  - Grants related to non depreciable assets (without requiring fulfillment of obligations) are credited to capital reserve. The ICDS does not recognize this principle.

- Government Grants of the nature of promoters contribution are credited to capital reserve and treated as part of shareholders fund. The ICDS is silent on this.

- AS-12 has adopted two broad approaches for the accounting treatment of Government grants. The first approach is the "Capital Approach" under which, a Government grant is treated as a part of shareholders' funds and the second approach is the "Income approach' under which, a government grant is taken to income over one or more periods. The ICDS provides that government grants should be treated either as revenue receipt or they should be reduced from the cost of fixed assets based on the purpose for which such grant or subsidy is given.

- AS-12 provides that mere receipt of a grant is not necessarily conclusive evidence that the conditions attached to the grant have been or will be fulfilled. ICDS provides that recognition of Government grant shall not be postponed beyond the date of actual receipt

- Section 145(2) is a computation provision – ICDS a delegated legislation – cannot override the concept of income.

ICDS VIII
SECURITIES

	Accounting Standard 13	ICDS VIII
1	**Covers long-term, current investments but excludes securities held as stock-in-trade**	**Deals only with securities held as stock-in-trade**
2	**Individual security approach for year end valuation**	**Portfolio approach for year end valuation**
3	**Weighted Average Method to be used to determine the cost where specific identification not possible**	**FIFO Method to be used to determine the cost where specific identification not possible**

- **Scope**
  - This Income Computation and Disclosure Standard deals with securities held as stock-in-trade.
  - This ICDS does not deal with securities held by an entity engaged in the business of insurance and securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013 .

- **Definitions**
  - "Fair value" is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.
  - "Securities" shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956, 42 of 1956, other than Derivatives referred to in sub-clause (1a) of that clause.

- **Recognition and Initial Measurement of Securities**
  - A security on acquisition shall be recognised at actual cost.
  - The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.
  - Where a security is acquired in exchange for other securities, the fair value of the security so acquired shall be its actual cost. Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost. **[AS-13 permits the fair value of the investment acquired/given up, whichever is more clearly evident, to be taken as actual cost.]**
  - At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower. **The comparison of actual cost initially recognised and net realisable value shall be done category-wise and not for each individual security.** For this purpose, securities shall be classified into the following categories, namely:

    a) shares;
    b) debt securities;
    c) convertible securities; and
    d) any other securities not covered above.

- At the end of any previous year, 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. **[However, what constitutes regularity is not stated.]**

- 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.

Opening Stock

- The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be:

  (a) the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

  (b) the value of the securities of the business as on the close of the immediately preceding previous year, in any other case.

- **Significant Issues**

  - Securities held as stock-in-trade are outside the scope of AS 13. However, provisions of AS-13 relating to current investments are applicable to securities held as stock-in-trade with suitable modifications.

  - Unlike the ICDS, AS-13 states that if an investment is acquired in exchange, or part exchange, for another asset, it may be appropriate to determine the acquisition cost of the investment by reference **the fair value of the investment acquired/given up, whichever is more clearly evident.**

  - The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year.

  - Shares not to be valued scripwise, instead they are to be valued category-wise. This will impact valuation of securities and may lead to higher taxable income. This provision of the Standard however runs contrary to Section 145A which provides that-Notwithstanding anything to the contrary contained in section 145, the valuation of purchase and sale of goods and inventory for the purposes of determining the income chargeable under the head "Profits and gains of business or profession" shall be in accordance with the method of accounting regularly employed by the assessee;

  - For securities of private and unlisted public companies, thinly traded listed companies, reinstatement to cost initially recognised will be required.

  - 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. Therefore, both specific identification and first-in first-out is permitted. First-in first-out need not be demat account wise, it has to be according to the portfolio of the assessee.

  - In case of securities acquired pursuance to merger and demerger, held as stock-in-trade, there is no exchange of assets and therefore, fair value of securities acquired cannot be taken as their actual cost.

ICDS IX
BORROWING COSTS

	Accounting Standard 16	ICDS IX
1	**Qualifying asset not defined to cover intangible assets**	**Qualifying asset to include intangible assets**
2	**Qualifying asset – asset that takes substantial time period, usually 12 months to get ready for intended use**	**No time period prescribed to treat an asset as a 'Qualifying Asset', other than stock-in-trade**
3	**Exchange differences arising from foreign currency borrowings to extent of interest to be treated as borrowing costs**	**No provision for treatment of exchange differences arising from foreign currency borrowings in respect of interest as borrowing costs**
4	**Income on temporary investment of borrowed funds, specifically borrowed to obtain a qualifying asset, to be netted off from borrowing costs and capitalised**	**Income on temporary investment not to be netted off; will be taxed as income**

5	**Capitalisation to be suspended during extended period in which active development is interrupted**	**No suspension of capitalisation under any circumstances**
6	**Capitalisation to commence when following conditions are fulfilled-** **(i) Expenses for acquisition of qualifying asset is being incurred** **(ii) Borrowing cost being incurred** **(iii) Activities necessary to prepare the asset of its intended use are in progress**	**Capitalisation to commence:** **Specific borrowing-from date of borrowing** **General borrowing-from date of utilisation**
7	**Capitalisation to cease when substantially all activities necessary to prepare the asset for its intended use or sale are complete**	**Capitalisation to cease when asset is first put to use in case of asset other than inventory**

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

    i) commitment charges on borrowings;

    ii) amortised amount of discounts or premiums relating to borrowings; iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings

    iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.
  - "Qualifying asset" means:

    i. land, building, machinery, plant or furniture, being tangible assets;

    ii. know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;

    iii. inventories that require a period of twelve months or more to bring them to a saleable condition.
- **Recognition**
  - Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. Other borrowing costs shall be recognised in accordance with the provisions of the Act.
  - To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed. The capitalization shall commence from the date on which funds were borrowed. [Therefore, ICDS requires commencement of capitalisation of borrowing costs to be earlier as compared to the AS.]
  - To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

    $$A \times \frac{B}{C}$$

    Where 'A' - borrowing costs incurred during the previous year except on borrowings directly relatable to specific purposes;

    Where 'B' - i. the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year;

    ii. in case the qualifying asset does not appear in the balance sheet of a person on the first day or both on the first day and the last day of previous year, half of the cost of qualifying asset;

iii. in case the qualifying asset does not appear in the balance sheet of a person on the last day of previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be, other than those qualifying assets which are directly funded out of specific borrowings; or

Where 'C'- the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those assets which are directly funded out of specific borrowings;

The capitalization shall commence from the date on which funds were utilised.

- ☐ For Tangible and Intangible assets, the capitalisation of borrowing costs shall cease when such asset is first put to use. For construction completed in parts, capitalisation shall cease when such part is first put to use.

- ☐ For inventories, the capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare such inventory for its intended sale are complete. For construction completed in parts, capitalisation shall cease when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

Significant Issues

- ☐ Unlike AS-16 on borrowing cost, the ICDS on borrowing cost does not provide any minimum period criteria for classification as a qualifying asset except for Inventories. Thus, capitalization of borrowing cost under ICDS would increase as larger number of assets would now come under the ambit of a qualifying asset, thereby reducing current year charge to the Statement of Profit & Loss.

- ☐ Borrowing costs under AS-16 include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. This concept is absent in ICDS.

- ☐ AS-16 states that borrowing costs are capitalized as part of the cost of a qualifying asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. There is no such condition under the ICDS.

- ☐ For specific borrowings, the AS-16 permits the capitalization of actual borrowing cost during the period less any income on the temporary investment on those borrowings. ICDS does not permit this deduction from the actual borrowing cost. Rather, these will be treated as income.

- ☐ AS provides that judgment should be used for determining whether general borrowings have been utilised to fund Qualifying Assets. ICDS provides a specific formula for capitalising borrowing costs relating to general borrowings.

- ☐ ICDS on borrowing cost requires commencement of capitalisation of borrowing costs to be earlier as compared to the AS. The AS calls for the following conditions to be satisfied to commence capitalization:

  - expenditure for acquisition, construction or production of a qualifying asset is being incurred;

  - borrowing costs are being incurred; and

  - activities that are necessary to prepare the asset for its intended use of sale are in progress.

- ☐ The AS-16 states that capitalization of borrowing costs should be suspended during extended periods in which active development is interrupted. ICDS requires capitalisation even if active deployment of the qualifying asset is interrupted

- ☐ The AS-16 states that borrowing costs incurred while land acquired for building purposes is held without any associated development activity does not qualify capitalization. ICDS does not prohibit such capitalization to land.

  For Tangible and Intangible assets or part thereof, the capitalisation of borrowing costs shall cease when such asset/ part of the asset, is first put to use. The AS provides that capitalization should cease for any qualifying asset when all activities necessary to prepare the qualifying asset for its intended use or sale are complete.

ICDS X
PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Accounting Standard 29	ICDS X
1	**Recognition of provision – if it is probable that an outflow of resources will be required**	**Recognition of provision – if it is reasonably certain that an outflow of resources will be required**
2	**Recognition of contingent asset – virtual certainty of inflow of economic benefits**	**Recognition of contingent asset – reasonable certainty of inflow of economic benefits**
3	**Provides guidance on restructuring provisions**	**Does not contain any provision in regard to restructuring costs**
4	**AS 29 requires provision for an onerous contract**	**ICDS silent on onerous contracts**

- **Scope**
  - This Income Computation and Disclosure Standard 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 policyholders; and
    d) covered by another Income Computation and Disclosure Standard.

- **Definitions**
  - "Contingent liability" is:

    i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the person; or

    ii) a present obligation that arises from past events but is not recognised because:

      A. it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or
      B. a reliable estimate of the amount of the obligation cannot be made.

  - "Present obligation" is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

- **Recognition**
  - A provision shall be recognised when:

    a. a person has a present obligation as a result of a past event;
    b. it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and
    c. a reliable estimate can be made of the amount of the obligation.

    If these conditions are not met, no provision shall be recognised.

  - No provision shall be recognised for costs that need to be incurred to operate in the future. It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions.
  - Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.
  - A person shall not recognise a contingent liability.
  - A person shall not recognise a contingent asset. Contingent assets are 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.

Measurement

- ☐ The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.
- ☐ The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.
- ☐ Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the entity settles the obligation.

Significant Issues

- ☐ AS-29 inter-alia stipulates recognition of a provision when it is probable that an outflow of economic resources will be required to settle an obligation. ICDS replaces the condition of 'probable' with 'reasonably certain'. The term 'reasonably certain' has not been defined in the ICDSs, the Act or the Rules. Revenue authorities may contend that 'reasonably certain' is a lower threshold than 'virtually certain'. Further, provision for warranty is allowed as an expenditure upholding the test of 'probable' warranty obligation. Provisions made on obligations recognized out of customary business practices or voluntary obligations may not be allowed.
- ☐ AS-29 is not applicable to "executory contracts" except where contract is onerous. ICDS is not applicable to "executory contracts" but does not specifically exclude onerous contracts. Hence, deduction for the accrued liabilities on onerous contracts in books will be allowed in a year in which liability to pay arises.
- ☐ AS-29 provides for recognition of a contingent asset when the realisation of related income is virtually certain. ICDS replaces the condition of 'virtually certain' with "reasonably certain" Contingent assets thus would be recognised earlier for tax purposes. All contingent assets would be need to be analysed closely to see if it meets the reasonable certain criteria. It is not made clear whether transitional provision requires recognition of all past accumulated contingent assets in F.Y. 2015-16.
- ☐ As there are specific provisions in the Act for restructuring expenses, the provisions of AS-29 relating to restructuring costs is not incorporated in the ICDS.

Impact of ICDS

- ☐ Taxes will be levied on income which may not have been actually earned.
- ☐ ICDS applies to a "person" and not necessarily an "assessee".
- ☐ Deduction for expenses/losses to be denied contrary to the age old accounting principles of prudence.
- ☐ Increased gap between book profits and taxable profits may cause deferred tax assets or reduce deferred tax liabilities
- ☐ Though ICDS does not mandate separate books of account, detailed reconciliations between the book profit and taxable income will have to be maintained increasing the compliance cost and at times leakage of revenue for the tax department
- ☐ The concept of MAT is based on book profits. Therefore, MAT liability will not be affected directly but the MAT credit will be impacted.
- ☐ ICDS provides standards in various areas for computation of taxable income. In case of conflicts between the provisions of the Act and ICDS, Act would prevail. However, in case the Act is silent or ambiguous, the interplay between ICDS and existing jurisprudence needs to be evaluated. Also, while ICDS applies to prospective income computation for tax purposes, it is not clear whether ICDS impacts even existing litigation.
- ☐ All the ICDS, except ICDS on Securities, have incorporated transitional provisions according to which the provisions of ICDS may apply retrospectively in certain cases and prospectively in some other cases.
- ☐ The ICDS should also entail appropriate modifications in the return of income and Form No. 3CD.
- ☐ The ICDS seem to be based on the current AS issued by ICAI. However, listed companies are required to adopt IND AS from 1st April, 2016. Thus, the accounting policies for these companies under IND AS could be significantly different from ICDS. Thus, providing clarity on the tax position in ICDS in alignment with the IND AS is also essential.

COMPARISION OF ICDS, AS AND IND AS

Topic	ICDS	AS	Ind AS
Accounting Policies, Changes in Accounting Estimates and Errors – primary literature	**ICDS I relating to accounting policies**	**AS 1 – Disclosure of Accounting Policies** **AS 5 – Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies**	**Ind AS 1 Presentation of Financial Statements** **Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors**
Accounting Policies, Changes in Accounting Estimates and Errors – consideration in selection of accounting policies	To represent a true and fair view of the state of affairs and income of the business, profession or vocation, the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form.	The major considerations governing the selection and application of accounting policies are:- a. Prudence b. Substance over Form c. Materiality	When an Ind AS specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Ind AS.
Accounting Policies, Changes in Accounting Estimates and Errors – mark to market losses and expected losses	There is a specific provision that marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. For example, ICDS II provides for valuation of inventories at cost or net realisable value, whichever is lower. However, no guidance is included on expected or marked to market gains.	In the absence of specific guidance in Indian GAAP, mark to market losses will be provided for in view of prudence concept. Expected losses will be provided for in accordance with relevant Indian GAAP standards.	In the absence of an Ind AS that specifically applies to a transaction, other event or condition management shall use its judgement in developing and applying an accounting policy that results in information that is: a. relevant to the economic decision-making needs of users b. and reliable, in that the financial statements: i. represent faithfully the financial position, financial performance and cash flows of the entity ii. reflect the economic substance of transactions, other events and conditions, and not merely the legal form; iii. are neutral, i.e. free from bias; iv. are prudent; and v. are complete in all material respects
	If a change is made in the accounting policies which has no material effect for the current year but which is reasonably expected to have a material effect in later years, the fact of such change should be appropriately disclosed in the *year in which the change* is adopted and also in the year in which such change has material effect for the first time.	If a change in the accounting policy has no material effect on the financial statements for the current period, but is expected to have a material effect in the later periods, the same should be appropriately disclosed. However, change in depreciation method, though considered a change in accounting policy, is given retrospective effect. (See discussion on Property, Plant and Equipment below).	
Accounting Policies, Changes in Accounting Estimates and Errors – errors	Not covered by ICDS	Prior period items are included in determination of net profit or loss of the period in which the error pertaining to a prior period is discovered and are separately disclosed in the statement of profit and loss in a manner that the impact on current profit or loss can be perceived	Material prior period errors are corrected retrospectively by restating the comparative amounts for prior periods presented in which the error occurred or if the error occurred before the earliest period presented, by restating the opening balance sheet.
Accounting Policies, Changes in Accounting Estimates and Errors – absence of standard or interpretation that specifically applies to a transaction	Not covered by ICDS	No guidance included	In the absence of an Ind AS that specifically applies to a transaction, other event or condition, the management, while using judgment in developing and applying an accounting policy, should first consider the most recent pronouncements of the International Accounting Standards Board (IASB) and in absence thereof those of the other standard setting bodies that use a similar conceptual framework to develop accounting standards.

Inventories – Primary Literature	ICDS II relating to valuation of inventories	AS 2 – Valuation of Inventories	Ind AS 2 Inventories
Inventories – scope	This Standard shall be applied for valuation of inventories, except: a. Work-in-progress arising under 'construction contract' including directly related service contract which is dealt with by the ICDS relating to construction contracts; b. Work-in-progress which is dealt with by other ICDS; c. Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the ICDS relating to securities; d. Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value; Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, shall be dealt with in accordance with the ICDS relating to tangible fixed assets	here is no scope exemption in AS 2 for any inventories held by commodity traders. Further, AS 2 totally excludes from its scope (and not just measurement requirements) producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. Work in progress arising under construction contracts, including directly related service contracts and work in progress arising in the ordinary course of business of service providers have been scoped out of AS 2.	Measurement requirements of Ind AS 2 do not apply to inventories held by commodity broker-traders who measure their inventories at fair value less costs to sell and producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. The standard also scopes out the biological assets related to agricultural activity and agricultural produce at the point of harvest. Changes in fair value less costs to sell/ changes in net realisable value are recognized in profit or loss in the period of the change.
Inventories – deferred settlement terms	Not covered by ICDS.	Inventories purchased on deferred settlement terms are not explicitly dealt with in the accounting standard on inventories. The cost of inventories generally will be the purchase price for deferred credit terms unless the contract states the interest payable for deferred terms.	Difference between the purchase price of inventories for normal credit terms and the amount paid for deferred settlement terms is recognized as interest expense
Inventories – cost formula	The Cost of inventories of items (i) that are not ordinarily interchangeable; and (ii) goods or services produced and segregated for specific projects shall be assigned by specific identification of their individual costs. Cost of inventories, other than the inventory dealt with above, shall be assigned by using the First-in First-out (FIFO), or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. Retail method is permitted as technique for measurement of cost if it is impracticable to use 'FIFO' or 'Weighted Average Cost Formula'.	It is not expressly mandated to use the same cost formula consistently for all inventories that have a similar nature and use to the entity. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. Techniques such as standard cost or retail method may be used for convenience, if the results approximate the actual cost.	Requires an entity to use the same cost formula for all inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified. Techniques for the measurement of cost is similar to Indian GAAP.
Inventories – writedown of materials	When materials held for use in production are written down to net realisable value because there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, replacement cost of such materials should be treated as their net realisable value.	In such circumstances, replacement cost of the materials may be the best available measure of their net realizable value.	Similar to Indian GAAP

Inventories – reversal of write-down of inventory	Not covered by ICDS.	No specific guidance in AS 2 for reversal of write-down of inventories. However, reversals may be permitted as AS 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies requires this to be disclosed as a separate line item in the statement of profit and loss.	Write-down of inventory is reversed if circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in the net realisable value because of changes in economic circumstances. The amount of reversal is limited to the amount of the original write-down.
Inventories – retail method	General approach of adjusting sale value by appropriate percentage gross margin is permitted. No specific mentioning of use of average percentage for each retail department.	Adjusting sale value by appropriate percentage gross margin is the general approach permitted. An average percentage for each retail department is often used.	Similar to Indian GAAP.
Inventories – allocation of fixed production overheads	Allocation of fixed production overheads is based on normal capacity of production facilities. The actual level of production *should* be used, if it approximates normal capacity.	Allocation of fixed production overheads is based on normal capacity of production facilities. The actual level of production *may* be used, if it approximates normal capacity	Similar to Indian GAAP
Inventories – change in method of valuation	Method of valuation shall not be changed without reasonable cause. This is also in accordance with ICDS I. However, 'reasonable cause' is not defined. The guidance for the same will need to be taken from judicial precedents.	Change from one cost formula to another constitutes a change in an accounting policy. As such, pursuant to AS 5, a change in method of valuation of inventories should be made only if it is required by statute or for compliance with an AS or if it is considered that the change would result in a more appropriate presentation of the financial statements of the enterprise	Change from one cost formula to another constitutes a change in an accounting policy. A change in an accounting policy can only be made if the change is required by an Ind AS, or results in the financial statements providing reliable and more relevant information.
Inventories – in case of Dissolution	In case of dissolution of partnership, Association of Persons, Body of Individuals irrespective of dissolution of business, inventory will be valued at net realisable value. This may pose a challenge in cases where going concern is not impacted	Because of going concern assumption, these situations are not dealt with in AS 2.	Similar to Indian GAAP.
Inventories – cost of purchases	Purchase price includes duties and taxes Under ICDS, duties and taxes, even if subsequently recoverable from taxing authorities, will form part of costs of purchase, and hence, will be included in the cost of inventories. This is in line with section 145A of the Act. Whether the effect will be nullified by the accounting entries under the 'inclusive method' depends on the view taken by the Assessing Officer.	The costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase	Similar to Indian GAAP
Revenue from Contracts with Customers – primary literature	**ICDS III relating to construction contracts** **ICDS IV relating to revenue recognition**	**AS 7 – Construction Contracts** **AS 9 – Revenue Recognition**	**Ind AS 115 Revenue from Contracts with Customers** **Ind AS 109 Financial Instruments**
Revenue from Contracts with Customers – scope	ICDS III and ICDS IV are similar to AS 7 and AS 9 respectively.	AS 7 deals with construction contracts and AS 9 deals with the recognition of revenue arising in the course of ordinary activities of the entity – sale of goods, rendering of services and use by others of entity resources yielding interest, royalties and dividend. AS 9 scopes out revenue from lease agreements, insurance contracts, revenue arising from government grants, and other similar subsidies	Ind AS 115 applies to contract with a customer and establishes principles on reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with customer. A contract is an agreement between two or more parties that creates enforceable rights and obligations, and can be either written, oral or implied by an entity's customary business practices. Ind AS 109 applies to dividend income recognized in profit or loss.

Revenue from Contracts with Customers – definition	Similar to Indian GAAP	Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities from the sale of goods, from the rendering of services, and from the use by others of resources yielding interest, royalties and dividends. Further, it is specified that in an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.	Revenue is defined as income arising in the course of an entity's ordinary activities. Income is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in an increase in equity, other than those relating to contributions from equity participants.
Revenue from Contracts with Customers – recognition	Similar to Indian GAAP however completed service method to recognize revenue is not permitted under ICDS IV Under ICDS III, percentage of completion method is applicable, except during early stages of a contract when the outcome of the contract cannot be estimated reliably. In this case, revenue is recognized to the extent of costs incurred. This is possible only when up to 25% of the work is completed otherwise proportionate method will apply. Thus, profit recognition has to start compulsorily once 25% stage is completed. Contract costs are to be recognized as an expense in the period in which they are incurred. Expected loss should be recognized in proportion of work completed	AS 9 requires recognition of revenue when (i) there is a transfer of significant risks and rewards of ownership (ii) no significant uncertainty exists regarding the amount of consideration and (iii) at the time of performance, it is not unreasonable to expect ultimate collection. Revenue from service transactions is usually recognized as the services are performed either by the proportionate completion method or by the completed service contract method. Under AS 7, contract revenue and contract costs are recognized by reference to the percentage of completion method if the outcome of the contract can be estimated reliably; else, revenue is recognized only to the extent of costs incurred if recovery is probable. When it is probable that contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately	The core principle under Ind AS 115 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, the following steps are applied: 1) Identify the contract(s) with a customer. 2) Identify the performance obligations in the contract (account for a 'distinct' good or service). 3) Determine the transaction price. 4) Allocate the transaction price to the performance obligations in the contract. 5) Recognize revenue when (or as) the entity satisfies a performance obligation.
Revenue from Contracts with Customers – certainty of ultimate collection	Contract revenue should be recognized when there is reasonable certainty of its ultimate collection	Under AS 7, no guidance included. Under AS 9, revenue is recognized when it is not unreasonable to expect ultimate collection.	Revenue is recorded when it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer
Revenue from Contracts with Customers – incidental income	All types of contract costs should be reduced by any incidental income not being in the nature of interest, dividends and capital gains, that is not included in contract revenue.	Costs that relate directly to a specific contract may be reduced by any incidental income that is not included in contract revenue.	No guidance included
Revenue from Contracts with Customers – identification of contracts	ICDS III is similar to Indian GAAP	Under AS 7, a construction contract is a contract which is specifically negotiated for the construction of the asset or a combination of assets that are closely interrelated or interdependent in terms of design,technology,and function of their ultimate purpose or use AS 9 does not have similar guidance.	A contract falls within the scope of Ind AS 115, when all the following conditions are met: a) The contract has commercial substance (that is, the risk, timing, or amount of future cash flows is expected to change as a result of the contract) b) The parties to the contract have approved the contract c) Each party's rights regarding the goods or services to be transferred can be identified d) Payment terms can be identified for the goods or services to be transferred e) The parties are committed to perform their respective obligations and they intend to enforce their respective contractual rights It is probable that the entity will collect the consideration to which it expects to be entitled

Revenue from Contracts with Customers – contract combination	ICDS III is similar to Indian GAAP	Under AS 7, a group of contracts (whether with a single customer or group of customers) are treated as a single construction contract when these are negotiated together, contracts are closely interrelated and contracts are performed concurrently or in a continuous sequence. No similar guidance is available in AS 9.	Guidance provided as part of the standard for combining the contract entered into, at or around the same time with the same customer (negotiated as a package, consideration to be paid in one contract depends on the price and performance of the other contract, the goods or services promised in the contracts are a single performance obligation).
Revenue from Contracts with Customers – contract modification	ICDS III is similar to Indian GAAP. Variations, claims and incentives are included in the contract revenue only to the extent it is probable that they will result in revenue and they are capable of being reliably measured. Thus, revenue accrues as soon as there is a probability unlike in case of AS where acceptance by customer is established.	Under AS 7, construction of an additional asset is treated as a separate contract if the asset differs significantly in design, technology, or function, or the price of the asset is negotiated without regard to the original contract price. Variation and claims are part of the original contract revenue, unless the above treatment of construction of the additional asset as a separate contract applies. Claims, variations are included in contract revenue only when the probability of customer accepting/ approving the claim or variation is established and amount of revenue can be reliably measured. Similar guidance not available in AS 9.	Contract modification is treated as a separate contract if the modification results in 1) addition of 'distinct goods or services' and 2) a change in consideration that reflects the entity's stand-alone selling price for such additional promised goods or services. If modification does not meet the criteria to be accounted for as a separate contract, determination needs to be made on whether to account for modification as 1) termination of the original contract and creation of a new contract (i.e. allocate the amount of consideration not yet recognized to the remaining performance obligation) or 2) as if it were part of the original contract (i.e. update the transaction price, measure progress toward complete satisfaction of the performance obligation, and record a cumulative catch-up adjustment to revenue). Accordingly, change orders and claims (price adjustments, or changes in scope) need to be assessed if 1) the customer has approved any change in scope or price, or 2) it has enforceable rights to considerations, and accordingly apply contract modification guidance
Revenue from Contracts with Customers – unilateral right of termination	Not covered by ICDS	No guidance included.	A contract does not exist if the contract provides for a unilateral enforceable right to terminate a wholly unperformed contract without compensating the other party (or parties). Any considerations received on such arrangements from the customer are recorded as a liability and recognized as revenue only when there is no remaining obligation to the customer and the amount is not refundable or the contract has been terminated and the consideration received from the customer is non-refundable
Revenue from Contracts with Customers – identify the performance obligation	ICDS III is similar to Indian GAAP	Under AS 7, if a contract covers a number of assets, the construction of each asset is treated as a separate construction contract when separate proposals have been submitted, each asset is subject to separate negotiations and costs and revenues of each asset can be identified. Similar guidance does not exist in AS 9.	Ind AS 115 requires evaluation of performance obligations – to account for 'distinct' goods or services (or a bundle of distinct goods or services, or a series of distinct goods or services – i.e. a separate unit of account) based on the following criteria: a) The customer can benefit from the goods or services either on its own or together with other resources that are readily available to the customer, b) Promise to transfer the good or services to the customer is separately identifiable from other promises in the contract (that is, the goods or services is distinct within the context of the contract).

			A good or service that does not meet these criteria would be combined with other goods or services in the contract until the criteria are met.
Revenue from Contracts with Customers – variable considerations, contingent considerations	Under ICDS III, contract revenue shall comprise of variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue and their capable of being reliably measured. Further, retention money is included as part of contract revenue. However, as per practice for computing Income-tax payable, in certain cases, retention is considered as part of revenue while in others, it is deferred till receipt.	Under AS 7, incentive payments are included in contract revenue when the contract is sufficiently advanced that it is probable the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. No similar guidance in AS 9.	Variable considerations (including potentially contingent considerations) are only included in the transaction price to the extent that it is probable that the amount of cumulative revenue recognized would not be subject to a significant future revenue reversal when such estimates are revised Variable considerations are estimated using either 1) an expected value which is a sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be appropriate if there are a large number of contracts with similar characteristics, or 2) most likely amount in a range of possible consideration amounts. Most likely amount is appropriate when contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not). Penalties should be accounted for as per the substance of the contract. Where the penalty is inherent in the determination of transaction price, it should form part of variable consideration, otherwise the same should not be considered for determining the consideration and the transaction price should be considered as fixed.
Revenue from Contracts with Customers – time value of money	Similar to Indian GAAP	Revenue is not adjusted for the time value of money.	Transaction price is adjusted for the time value of money when a significant value of money financing component exists.
Revenue from Contracts with Customers – allocating the transaction price	Not covered by ICDS	No guidance included	The transaction price is allocated to each performance obligation identified in the contract on the basis of a relative standalone selling price determined at contract inception. The stand-alone selling price is the price at which an entity would sell a promised good or service separately to a customer (the best evidence being the observable price at which the good or service is separately sold in similar circumstances and to similar customers. If not directly observable, estimation methods are used e.g. cost plus margin method, residual approach, competitor pricing).
Revenue from Contracts with Customers – satisfaction of performance obligation	ICDS IV is similar to Indian GAAP however completed service method to recognize revenue is not permitted under ICDS IV for revenue from service transaction. Under ICDS III, during early stages, where outcome of the contract cannot be reliably estimated, revenue is recognized to the extent of costs incurred. This is possible only when up to 25% of the work is completed otherwise proportionate method will apply. Thus, profit recognition has to start compulsorily once 25% stage is completed.	Under AS 9, revenue from sale of goods is recognized when seller has transferred the property in goods to the buyer for a consideration – which in most cases coincides with transfer of significant risks and rewards of ownership. Revenue from service transactions is usually recognized as the services are performed either by the proportionate completion method or by the completed service contract method.	Revenue is recognized as 'control' of the goods or services underlying the performance obligation is transferred to the customer. The control-based model differs from the risk-and-rewards model. Entities need to determine whether control is transferred over time. If not, it is transferred at a point in time.

		Under AS 7, contract revenue and contract costs to be recognized as revenue or expenses by reference to the percentage of completion method if the outcome of the contract can be estimated reliably; else, revenue should be recognized only to the extent of contract costs incurred of which recovery is probable.	For each performance obligation satisfied over time, revenue is recognized by measuring the progress towards complete satisfaction (by using either output or input methods) and only if it can reasonably measure its progress towards completion; else, revenue should be recognized only to the extent of contract costs incurred of which recovery is probable.
Revenue from Contracts with Customers – contract costs	Not covered by ICDS.	Capitalisation of contract cost is not permitted	Ind AS 115 contains criteria for determining when to capitalise costs associated with obtaining and fulfilling a contract. Specifically entities are required to capitalise recoverable incremental costs of obtaining a contract (e.g. sales commissions). Such costs capitalised would be amortised in a manner consistent with the pattern of transfer of the goods or services to which the asset is related (i.e. as the related revenue is recognized). All capitalised costs assets would be subject to impairment testing if any impairment indicator exists.
Revenue from Contracts with Customers – dividends	Dividends are recognized in accordance with the provisions of the Act.	Dividends are recognized when the owner's right to receive the payment is established. When dividends on equity shares are declared from pre-acquisition profits, the same is deducted from cost. If it is difficult to make an allocation of source of dividend between pre-acquisition profits and post-acquisition profits except on an arbitrary basis, the cost of the equity shares is normally reduced by dividends receivable only if they clearly represent a recovery of a part of the cost.	Dividends are recognized in profit or loss only when: (a) the entity's right to receive payment of the dividend is established; (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and the amount of the dividend can be measured reliably
Revenue from Contracts with Customers – non-cash considerations	Not covered by ICDS	No guidance included.	If a customer promises consideration in a form other than cash, the non-cash consideration is measured at fair value; if fair value cannot be estimated, by reference to the stand-alone selling price of the goods or services.
Revenue from Contracts with Customers – application guidance	Not covered by ICDS.	No guidance included	The standard includes application guidance for specific transactions such as: i. sale with a right of return, ii. warranties, iii. principal versus agent considerations, iv. customer options for additional goods or services, v. non-refundable upfront fees, vi. bill and hold arrangements, vii. customer unexercised rights, viii.Licensing, and ix. Repurchase agreements
Revenue from Contracts with Customers – Interest, discount and premium on debt securities	Interest shall accrue on time basis. Discount or premium on debt securities held should be accrued over the period to maturity. Thus, interest and discount or premium on debt securities will be taxed annually in the hands of the holder before maturity	Interest accrues, in most circumstances, on the time basis determined by the amount outstanding and the rate applicable Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity.	Interest shall be calculated by using the effective interest rate method

Property, Plant and Equipment – primary literature	ICDS V relating to tangible fixed assets	AS 10 – Accounting for Fixed Assets AS 6 – Depreciation Accounting	Ind AS 16 Property, Plant and Equipment
Property, Plant and Equipment – Identification of Fixed Assets	The tangible fixed asset is any asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing goods or services and is not held for sale in the normal course of business. There is no option of expensing off of immaterial assets resulting in onerous compliances and record keeping.	Fixed asset is an asset held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business. However an enterprise may decide to expense an item which could otherwise have been included as fixed asset, because the amount of the expenditure is not material	Similar to Indian GAAP. However Ind AS does not prescribe expensing any immaterial item.
Property, Plant and Equipment – Major spare parts	Machinery spares which can be used only in connection with a Tangible fixed asset and where use is irregular, have to be capitalised.	Machinery spares are usually charged to profit and loss as and when consumed. However, if such spares can be used only in connection with an item of fixed asset and their use is expected to be irregular, it may be appropriate to allocate total cost on a systematic basis over a period not exceeding the useful life of the principal item.	Spare parts are recognized in accordance with Ind AS 16 when they meet the definition of PPE. Otherwise such items are classified as inventory.
Property, Plant and Equipment – estimated costs of dismantling, removing or restoring items of property, plant and equipment	Not covered by ICDS.	No such specific requirement	The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is required to be included in the cost of the respective item of property, plant and equipment.
Property, Plant and Equipment – Costs to be capitalised	Similar to Indian GAAP. However, expenses incurred in the interval when the project is ready to commence commercial production and when it actually commences production may also be required to be capitalised	The expenditure incurred on start-up and commissioning of the project ,including the expenditure incurred on test runs and experimental production, shall be capitalised as an indirect element of the construction cost. If the interval between the date a project is ready to commence commercial production and the date at which commercial production actually begins is prolonged, all expenses incurred during this period are charged to the profit and loss statement. However, the expenditure incurred during this period is also sometimes treated as deferred revenue expenditure to be amortised over a period not exceeding 3 to 5 years after the commencement of commercial production.	Directly attributable costs may be capitalised only until the asset is "*capable of operating in the manner intended by management*". If an asset is purchased or constructed and can operate in that manner immediately, costs incurred whilst the asset is standing idle may not be capitalised.
Property, Plant and Equipment – Non-monetary consideration	When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired shall be its actual cost.	When a fixed asset is acquired in exchange or part exchange for another asset, the cost of the asset acquired should be recorded either at the fair market value or at the net book value of the asset given up, adjusted for any balancing payment of receipt of cash or other consideration. For this purpose, fair market value may be determined by reference either to the asset given up or to the asset acquired, whichever is more clearly evident.	Similar to Indian GAAP
	When a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.	Fixed asset acquired in exchange for shares or other securities in the enterprise should be recorded at its fair market value, or the fair market value of the securities issued, whichever is more clearly evident.	Similar to Indian GAAP

Property, Plant and Equipment – Replacement costs	Similar to Indian GAAP	Replacement cost of an item of property, plant and equipment is generally expensed when incurred Only expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is capitalised. From financial years commencing on or after 1 April 2015, Schedule II mandates fixed assets to be componentised for the purposes of depreciation and therefore, the position will be similar to that under Ind AS.	Replacement cost of an item of property, plant and equipment is capitalized if replacement meets the recognition criteria. Carrying amount of items replaced is derecognized
Property, Plant and Equipment – Cost of major inspections	Not covered by ICDS	Costs of major inspections are generally expensed when incurred.	Cost of major inspections is recognized in the carrying amount of property, plant and equipment as a replacement, if recognition criteria are satisfied and any remaining carrying amount of the cost of previous inspection is derecognized.
Property, Plant and Equipment – Revaluation	Not covered by ICDS. However, under the Act, income / expense recognized only on actual realisation.	No specific requirement on frequency of revaluation.	If an entity adopts the revaluation model, revaluations are required to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period
Property, Plant and Equipment – Depreciation	Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of the Act and the Rules thereunder	AS 10 does are not require assets to be componentised and depreciated separately, although it states that such an approach may improve the accounting for an item of fixed asset. Schedule II to the Companies Act, 2013 sets out the useful lives based on the nature of assets and the useful life should not ordinarily be different from the life specified in the Schedule. However, a different useful life may be used if such difference is disclosed and a justification, backed by technical advice, is provided in this behalf. Schedule II also mandates fixed assets to be componentised for depreciation purposes (componentisation is mandatory in respect of financial years commencing on or after 1 April 2015).	Property, plant and equipment are componentised and are depreciated separately. There is no concept of minimum statutory depreciation under Ind AS
Property, Plant and Equipment – Compensation for impairment	Not covered by ICDS. However, reliance can be placed on existing judicial precedents for taxability	No specific requirement. In practice, compensation is offset against replaced items of property, plant and equipment.	Compensation from third parties for impairment or loss of items of property, plant and equipment are included in profit or loss when the compensation becomes receivable.
Property, Plant and Equipment – Residual value	Not covered by ICDS.	Estimates of residual value are not required to be updated.	Estimates of residual value need to be reviewed at least at each year end.
Property, Plant and Equipment – Reassessment of useful life and depreciation method	Not covered by ICDS.	Not specifically stated in Indian GAAP.	Requires annual reassessment of useful life and depreciation method.
Property, Plant and Equipment – Acceptable methods of depreciation	Not covered by ICDS. However, under the Act depreciation methods include written down value and straight line method	Depreciation methods include the straight-line method, the diminishing balance method and the units of production method.	A variety of depreciation methods can be used to allocate based on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Depreciation method that is based on revenue is not appropriate.

Property, Plant and Equipment – Change in method of depreciation	Not covered by ICDS. However, change in accounting policy such as change in method of depreciation can be made only when there is a reasonable cause under ICDS I.	Requires retrospective re-computation of depreciation and any excess or deficit on such re-computation is required to be adjusted in the period in which such change is effected. Such a change is treated as a change in accounting policy and its effect is quantified and disclosed	Changes in depreciation method are considered as change in accounting estimate and applied prospectively.
Property, Plant and Routine sale of some properties	Not covered by ICDS.	No guidance included	The proceeds from the sale of such assets should be recognized as revenue
Property, Plant and Equipment – Changes in decommissioning, restoration and similar liabilities.	Not covered by ICDS. However, as per ICDS X, the amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the year. The amount of a provision shall not be discounted to its present value.	No guidance included	Provisions for decommissioning, restoration and similar liabilities that have previously been recognised as part of the cost of an item of property, plant and equipment are adjusted for changes in the amount or timing of future costs and for changes in market-based discount rates
Foreign Exchange– primary literature	**ICDS VI relating to the effects of changes in foreign exchange rates**	**AS 11 – The Effects of Changes in Foreign Exchange Rates**	**Ind AS 21 The Effects of Changes in Foreign Exchange Rates Ind AS 109 Financial Instruments**
Effects of Changes in Foreign Exchange Rates – Scope exception	There is no scope exception for exchange differences arising from foreign currency borrowings which may be regarded as an adjustment to interest costs	There is exception for exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs.	Similar to Indian GAAP
Effects of Changes in Foreign Exchange Rates – functional and Presentation Currency	"Foreign currency" is a currency other than the reporting currency. "Reporting currency" means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.	Foreign currency is a currency other than the reporting currency which is the currency in which financial statements are presented. There is no concept of functional currency	Functional currency is the currency of the primary economic environment in which the entity operates. Foreign currency is a currency other than the functional currency. Presentation currency is the currency in which the financial statements are presented.
Effects of Changes in Foreign Exchange Rates – definition of foreign operation	Foreign operation is a branch, by whatever name called, the activities of which are based or conducted in a country other than India.	Foreign operation is a subsidiary, associate, joint venture or branch of the reporting enterprise, the activities of which are based or conducted in a country other than the country of the reporting enterprise.	Foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.
Effects of Changes in Foreign Exchange Rates – conversion at periodend for non-monetary foreign currency items	Non-monetary foreign currency items shall be converted into reporting currency by using the exchange rate at the date of the transaction. Exchange differences arising shall not be recognised as income or expense in that year. Recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of the Rules, as the case may be	Non-monetary foreign currency items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and Those which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.	Similar to Indian GAAP
Effects of Changes in Foreign Exchange Rates – exchange differences – monetary items	Monetary items shall be converted into reporting currency by applying the closing rate. Exchange differences arising on the settlement of monetary items or on conversion thereof at last day of the year shall be recognised as income or as expense in that year. Recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of the Rules, as the case may be.	Same as ICDS. Exchange differences arising on translation or settlement of foreign currency monetary items are recognised in profit or loss in the period in which they arise (subject to below). There is an exception to the above that there is a limited period irrevocable option for corporate entities to capitalise exchange differences on long-term foreign currency monetary items incurred for	Same as ICDS. Exchange differences arising on translation or settlement of foreign currency monetary items are recognised in profit or loss in the period in which they arise (subject to below). However, an entity may continue the policy adopted for exchange differences arising from translation of long-term foreign currency monetary items recognised in the financial statements for the period ending

		acquisition of depreciable capital assets and to amortise exchange differences on other long-term foreign currency monetary items over the life of such items but not beyond the stipulated date. Exchange differences on monetary items, that in substance, form part of net investment in a foreign operation, are accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognised as income or as expenses.	immediately before the beginning of the first Ind AS financial reporting period as per previous GAAP. Exchange differences on monetary items, that in substance, form part of net investment in a foreign operation, are recognised in profit or loss in the period in which they arise in the separate financial statements and in other comprehensive income in the consolidated financial statements and reclassified from equity to profit or loss on disposal of the net investment.
Effects of Changes in Foreign Exchange Rates – translation of the financial statements of foreign operations	Translation of financial statements of a foreign operation to the reporting currency of the parent/investor depends on the classification of that operation as integral or non-integral. In case of an integral foreign operation, the financial statements shall be translated using the principles and procedures as if the transactions of the foreign operation had been those of the entity itself. Monetary assets are translated at closing rate and the exchange differences are recognised as income or expense. Non-monetary shall be converted into reporting currency by using the exchange rate at the date of the transaction. For non-integral foreign operations, closing rate method should be followed (i.e. all assets and liabilities are to be translated at closing rate while income and expense items are translated at actual rates). All resulting exchange differences shall be recognised as income or as expenses in that year. Above provisions are subject to section 43A of the Act and rule 115 of the Rules.	Translation of financial statements of a foreign operation to the reporting currency of the parent/investor depends on the classification of that operation as integral or non-integral. In the case of an integral foreign operation, monetary assets are translated at closing rate. Non-monetary items are translated at historical rate if they are valued at cost. Non-monetary items which are carried at fair value or other similar valuation are reported using the exchange rates that existed when the values were determined. Income and expense items are translated at historical/average rate. Exchange differences are taken to the statement of profit and loss. Assets and liabilities should be translated from functional currency to presentation currency at the closing rate at the date of the balance sheet; income and expenses at actual/average rates for the period; exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. These are reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised. Treatment of disposal depends on whether control is lost or not. Thus, if control is lost, the exchange difference attributable to the parent is reclassified to profit or loss from foreign currency translation reserve in other comprehensive income. For non-integral foreign operations, closing rate method should be followed (i.e. all assets and liabilities are to be translated at closing rate while profit and loss account items are translated at actual/average rates). The resulting exchange difference is taken to reserve and is recycled to profit and loss on the disposal of the non-integral foreign operation. Treatment for disposal does not depend on whether control over a foreign subsidiary is lost or not. Even if control is lost, only proportionate amount of the reserve is recycled to statement of profit and loss	Assets and liabilities should be translated from functional currency to presentation currency at the closing rate at the date of the balance sheet; income and expenses at actual/average rates for the period; exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. These are reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised. Treatment of disposal depends on whether control is lost or not. Thus, if control is lost, the exchange difference attributable to the parent is reclassified to profit or loss from foreign currency translation reserve in other comprehensive income.

Effects of Changes in Foreign Exchange Rates – scoping for derivatives	Treatment of foreign currency transactions in the nature of forward exchange contracts are covered by this ICDS. “Forward exchange contract” includes a foreign currency option contract or another financial instrument of a similar nature.	AS 11 is applicable to exchange differences on all forward exchange contracts including those entered into to hedge the foreign currency risk of existing assets and liabilities and is not applicable to the exchange difference arising on forward exchange contracts entered into to hedge the foreign currency risks of future transactions in respect of which firm commitments are made or which are highly probable forecast transactions.	Foreign currency derivatives that are not within the scope of Ind AS 109 (e.g. some foreign currency derivatives that are embedded in other contracts) are within the scope of Ind AS 21. In addition, Ind AS 21 applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.
Effects of Changes in Foreign Exchange Rates – Accounting for forward exchange contracts	Similar to Indian GAAP in respect of forward exchange contracts not intended for trading or speculation purposes. For other forward exchange contracts that are intended for trading or speculation purposes or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction, premium, discount or exchange difference, shall be recognised at the time of settlement.	Forward exchange contracts not intended for trading or speculation purposes: i) Any premium or discount arising at the inception of a forward exchange contract is amortised as expense or income over the life of the contract. ii) Exchange differences on such a contract are recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Exchange difference on a forward exchange contract is the difference between (a) the foreign currency amount of the contract translated at the exchange rate at the reporting date, or the settlement date where the transaction is settled during the reporting period, and (b) the same foreign currency amount translated at the latter of the date of inception of the forward exchange contract and the last reporting date. Forward exchange contract intended for trading or speculation purposes: - The premium or discount on the contract is ignored and at each balance sheet date, the value of the contract is marked to its current market value and the gain or loss on the contract is recognised.	Accounted for as a derivative under Ind AS 109.
Effects of Changes in Foreign Exchange Rates – change in functional currency or classification of foreign operations	Not covered by ICDS	Change in reporting currency is not dealt with in AS 11, though reason for change is required to be disclosed.	Change in functional currency is applied prospectively. The fact of change in functional currency and the reason for the change in functional currency should be disclosed. Additionally, the date of change in functional currency is also required to be disclosed
Government Grants – primary literature	**ICDS VII relating to government grants**	**AS 12 – Accounting for Government Grants**	**Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance**
Government Grants – government assistance	Similar to Indian GAAP	Does not deal with disclosure of government assistance other than in the form of government grants.	Deals with both government grants and disclosure of government assistance
Government Grants – forgivable loans	Not covered by ICDS. However, waiver is included in the scope of grants.	No guidance included.	Forgivable loans are treated as government grants when there is a reasonable assurance that the entity will meet the terms for forgiveness of the loan.
Government Grants – government loans with below market rate of interest	Not covered by ICDS. However, concessions are included in the scope of grants.	No guidance included.	Benefit of government loans with below market rate of interest should be accounted for as government grant-measured as the difference between the initial carrying amount of the loan determined in accordance with Ind AS 109 and the proceeds received

Government Grants – general recognition principle	Government grants should not be recognised until there is reasonable assurance that (i) the entity shall comply with the conditions attached to them, and (ii) the grants shall be received. However, recognition of Government grant shall not be postponed beyond the date of actual receipt.	Government grants available to the enterprise are considered for inclusion in accounts: (i) where there is reasonable assurance that the enterprise will comply with the conditions attached to them; and (ii) where such benefits have been earned by the enterprise and it is reasonably certain that the ultimate collection will be made. Mere receipt of a grant is not necessarily a conclusive evidence that conditions attaching to the grant have been or will be fulfilled.	Similar to Indian GAAP
Government Grants – approach to recognition	Not covered by ICDS. Government grants other than those mentioned below should be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate. Where the Government grant relates to a depreciable fixed asset, the grant shall be deducted from the actual cost of the asset/ written down value of block of assets to which concerned asset belonged to. 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, should be deducted from the actual cost of the asset or should be reduced from the written down value of block of assets to which the asset or assets belonged to. Where the Government grant relates to a non-depreciable asset or assets requiring fulfillment of certain obligations, the grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.	Two broad approaches may be followed – the capital approach or the income approach. Government grants in the nature of promoters' contribution i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected, are credited directly to shareholders' funds. Grants related to revenue are recognised in the statement of profit and loss on a systematic and rational basis over the periods necessary to match them with the related costs. Grants related to depreciable assets are either treated as deferred income and transferred to the statement of profit and loss in proportion to depreciation, or deducted from the cost of the asset. Grants relating to non-depreciable assets are credited to capital reserve. If such grants require fulfilment of some obligation, such grants should be credited to income over the period over which the cost of meeting the obligation is charged to income.	Government grants are recognised as income to match them with expenses in respect of the related costs for which they are intended to compensate on a systematic basis. Government grants are not directly credited to shareholders' interests. Grants related to assets, including non-monetary grants at fair value, should be presented in the balance sheet only by setting up the grant as deferred income.
Government Grants – non-monetary government grants	Similar to Indian GAAP but no guidance included for non-monetary grants free of cost	If the asset is given by the Government at a discounted price, the asset and the grant is accounted at the discounted purchase price. Non-monetary grants free of cost are accounted for at nominal values	The asset and the grant should be accounted at fair value
Government Grants – refund of grant – relating to fixed assets	The amount refundable in respect of a Government grant related to a fixed asset or assets shall be recorded by increasing the actual cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.	The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset.	Repayment of a grant related to a fixed asset shall be recognised by reducing the deferred income balance by the amount repayable.

Government Grants – refund of grant – other than those relating to fixed assets	The amount refundable in respect of other government grants should be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount should be charged to profit and loss statement.	The amount refundable in respect of a government grant related to revenue is applied first against any unamortised deferred credit remaining in respect of the grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount is charged immediately to profit and loss statement. Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfillment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.	Repayment of a grant related to income shall be applied first against any unmortised deferred credit recognised in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or when no deferred credit exists, the repayment shall be recognised immediately in profit or loss. Repayment of a grant related to an asset (other than a fixed asset) shall be recognised by reducing the deferred income balance by the amount repayable.
Securities – primary literature	**ICDS VIII relating to securities**	**AS 13 – Accounting for Investments**	**Ind AS 109 Financial Instruments – Recognition, measurement and classification of financial assets**
Securities – Scope	This ICDS deals only with securities held as stock-in-trade. This ICDS does not deal with securities held by an entity engaged in the business of insurance and securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 or the Companies Act, 2013. Securities shall have the same meaning as assigned in Section 2(h) of the Securities Contract (Regulation) Act, 1956, other than derivatives referred to in subclause (1a) of that clause.	Securities held as stock-in-trade are outside the scope of AS 13. However, provisions of AS 13 relating to current investments are applicable to securities held as stock in-trade with suitable modifications. AS 13 does not apply to investments of retirement benefit plans and life insurance enterprises; and mutual funds and venture capital funds and/ or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 1956.	Ind AS 109 includes the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items by all entities; and is broader in scope as compared to AS 13 and ICDS VIII.
Securities – general recognition principle	Not covered by ICDS	No guidance included	An entity should recognise a financial asset or a financial liability in its balance sheet when, and only when, the entity becomes party to the contractual provisions of the instrument. A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
Securities – initial measurement Securities – subsequent measurement	A security on acquisition shall be recognised at actual cost which shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess. Where 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. Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the treatment is similar to Indian GAAP i.e. the preacquisition portion is deducted from cost.	The cost of an investment includes acquisition charges such as brokerage, fees and duties. If an investment is acquired, or partly acquired, by the issue of shares or other securities, the acquisition cost is the fair value of the securities issued (which, in appropriate cases, may be indicated by the issue price as determined by statutory authorities). The fair value may not necessarily be equal to the nominal or par value of the securities issued. If an investment is acquired in exchange, or part exchange, for another asset, the acquisition cost of the investment is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the investment acquired if it is more clearly evident. When unpaid interest has accrued before the acquisition of an interestbearing investment and is therefore included in the price paid for the investment, the	All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Trade receivables that do not have a significant financing component should initially be measured at transaction price as defined in Ind AS 115.

		subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion is deducted from cost.	
Securities – subsequent measurement	This ICDS deals with securities held as stock-in-trade. At the end of the year, 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 initial cost. At the end of the year, securities other than those considered above shall be valued at lower of initial cost or net realisable value. The comparison of cost and net realisable value shall be done category wise and not for each individual security. For this purpose, securities shall be classified into following categories: Shares, debt securities, convertible securities, and any other securities. In case where initial cost cannot be specifically identified (for securities other than unlisted securities or listed but not regularly quoted securities), cost shall be determined on first-in first- out basis.	Per AS 13, investments are classified as long-term or current. A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year from the date on which such investment is made. A long-term investment is an investment other than a current investment. Accordingly, the assessment of whether an investment is long-term has to be made on the date the investment is made. Long-term investments are carried at cost less provision for diminution in value, which is other than temporary. Current investments are carried at lower of cost and fair value. Valuation of current investments on overall (or global) basis is not considered appropriate. Sometimes, the concern of an enterprise may be with the value of a category of related current investments and not with each individual investment, and accordingly the investments may be carried at the lower of cost and fair value computed categorywise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.	All financial assets are classified as measured at amortised cost or measure at fair value. Where assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (FVTPL), or recognised in other comprehensive income (FVTOCI). A debt instrument that is held within a business model to collect contractual cash flows and the contractual terms of which give rise on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost. However if the debt instrument is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, it must be measured at FVTOCI. Ind AS 109 provides an option to irrevocably designate, at initial recognition, financial assets as measured at FVTPL if doing so eliminates an accounting mismatch. Equity instruments should be classified as FVTPL. Ind AS 109 provides an option to irrevocably designate, at initial recognition, equity instruments which are neither held for trading nor are contingent consideration arising from business combination, to measure subsequent changes in fair value in other comprehensive income. The dividend from such investments is recognised in profit or loss.
Borrowing Costs – primary literature	**ICDS IX relating to borrowing costs**	**AS 16 – Borrowing Costs**	**Ind AS 23 Borrowing Costs**
Borrowing Costs – exception in scope	No such scope exception similar to Ind AS	No such scope exception similar to Ind AS	This Ind AS need not be applied in respect of borrowing costs directly attributable to the acquisition, construction or production of i) qualifying assets measured at fair value (e.g. biological assets) ii) inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis. This is an option.
Borrowing Costs – meaning of Borrowing Costs	Similar to Indian GAAP except that exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost are not covered under this ICDS	Borrowing costs are interest and other costs incurred by an enterprise in connection with the borrowing of funds. Borrowing costs may include: (a) interest and commitment charges on bank borrowings and other short-term and long-term borrowings; (b) amortisation of discounts or premiums relating to borrowings; (c) amortisation of ancillary costs incurred in connection with the arrangement of borrowings;	Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs may include: (a) interest expense calculated using the effective interest method as described in Ind AS 109, Financial Instruments; (b) finance charges in respect of finance leases recognised in accordance with Ind AS 17, Leases; and

		(d) finance charges in respect of assets acquired under finance leases or under other similar arrangements; and (e) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.	(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.
Borrowing Costs – meaning of qualifying asset	Qualifying asset means: (i) land, building, machinery, plant or furniture, being tangible assets; (ii) know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets; (iii) inventories that require a period of twelve months or more to bring them to a saleable condition. Therefore, all assets other than inventories regardless of the time, will be considered for capitalisation of borrowing costs. Until now, the Act required capitalisation of borrowing costs only when there was an extension of business. This condition of extension is proposed to be removed vide Finance Bill 2015 as passed by Lok Sabha. Thus, ICDS will be in line with the Act to this extent	Qualifying asset is one which takes substantial period of time to get ready for its intended use or sale.	Similar to Indian GAAP.
Borrowing Costs – treatment of borrowings costs not eligible for capitalisation	These shall be recognised in accordance with the provisions of the Act.	These are recognised as an expense in the period in which they are incurred.	Similar to Indian GAAP.
Borrowing Costs – borrowing costs eligible for capitalisation – Specific borrowings	Similar to Indian GAAP however the income from temporary investments of those borrowings is not reduced from the amount of borrowing costs incurred.	To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings.	Similar to Indian GAAP.
Borrowing Costs – borrowing costs eligible for capitalisation – general borrowings	To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula i.e. Borrowing cost (except on borrowings directly relatable to specific purposes) * Average cost of qualifying assets (other than those qualifying assets which are directly funded out of specific borrowings) / average of total assets (other than assets that are directly funded out of specific borrowings) The "average cost" is defined as: (i) the average of cost of the qualifying asset as appearing in the balance sheet on the first and last day of the year; (ii) in case the qualifying asset does not appear in the balance sheet on the first day or both on the first day and the last day of year, half of the cost of qualifying asset;	Borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditure on that asset. i.e. weighted average rate of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period.	Similar to Indian GAAP.

	(iii) in case the qualifying asset does not appear in the balance sheet on the last day of year, the average of the costs of qualifying asset as appearing in the balance sheet on the first day of the year and on the date of put to use or completion, as the case may be, other than those qualifying assets which are directly funded out of specific borrowings		
Borrowing Costs – commencement of capitalisation	The capitalisation of borrowing costs shall commence: (a) in a case where there are specific borrowings for qualifying asset, from the date on which funds were borrowed; (b) in a case where there are general borrowings, from the date on which funds were utilised.	The capitalisation of borrowing costs as part of the cost of a qualifying asset should commence *when all the following conditions are satisfied*: (a) expenditure for the acquisition, construction or production of a qualifying asset is being incurred; (b) borrowing costs are being incurred; and (c) activities that are necessary to prepare the asset for its intended use or sale are in progress	Similar to Indian GAAP
Borrowing Costs – cessation of capitalisation	Capitalisation of borrowing costs shall cease: (a) in case of inventory, when substantially all the activities necessary to prepare such inventory for its intended sale are complete; and (b) in case of other qualifying assets, *when such asset is first put to use.*	Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.	Similar to Indian GAAP.
Borrowing Costs – suspension of capitalisation	Not covered by ICDS	Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted.	Similar to Indian GAAP.
Borrowing Costs – write down	There is no similar guidance since there is no ICDS on impairment of assets. However, in case of inventories which are qualifying assets, the write-down is achieved by the measurement principle of lower of cost and net realizable value contained in ICDS II relating to valuation of inventories	When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realizable value, the carrying amount is written down or written off in accordance with the requirements of other Standards. In certain circumstances, the amount of the write-down or write-off is written back in accordance with those other Standards.	Similar to Indian GAAP.
Provisions, Contingent Liabilities and Contingent Assets – primary literature	**ICDS X relating to provisions, contingent liabilities and contingent assets**	**AS 29 – Provisions, Contingent Liabilities and Contingent Assets**	**Ind AS 37 Provisions, Contingent Liabilities and Contingent Assets**
Provisions, Contingent Liabilities and Contingent Assets – 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 policyholders; and (d) Covered by another ICDS.	This Standard should be applied in accounting for provisions and contingent liabilities and in dealing with contingent assets, except: (a) those resulting from financial instruments that are carried at fair value; (b) those resulting from executory contracts, except where the contract is onerous; (c) those arising in insurance enterprises from contracts with policy-holders; and (d) those covered by another Accounting Standard.	This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except: (a) those resulting from executor contracts, except where the contract is onerous; and (b) those covered by another Standard.
Provisions, Contingent Liabilities and Contingent Assets – recognition of provisions	A provision shall be recognised when all of the following conditions are met: (a) there is a present obligation as a result of a past event;	A provision shall be recognised when all of the following conditions are met: (a) an enterprise has a present obligation as a result of a past event;	A provision is recognised only when a past event has created a legal or constructive obligation, an outflow of resources is probable, and the amount of the obligation can be estimated reliably.

	(b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. The term 'reasonably certain' has not been defined in the ICDSs, the Act or the Rules	(b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. Provisions are not recognised based on constructive obligations though some provisions may be needed in respect of obligations arising from normal practice, custom and a desire to maintain good business relations or to act in an equitable manner	A constructive obligation is an obligation that derives from an entity's actions where, by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.
Provisions, Contingent Liabilities and Contingent Assets – provisions discounting	Similar to Indian GAAP.	Discounting of liabilities is not permitted and provisions are carried at their full values.	When the effect of time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects the current market assessment of the time value of money and risks specific to the liability.
Provisions, Contingent Liabilities and Contingent Assets – contingent assets - assessment	Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the year in which the change occurs. Therefore, the term "virtually certain" under Indian GAAP and Ind AS is replaced with "reasonably certain".	Contingent assets are assessed continually and if it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs.	Similar to Indian GAAP
Provisions, Contingent Liabilities and Contingent Assets –contingent assets – measurement	The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the year. The amount and related income shall not be discounted to its present value. An asset and related income recognised shall be reviewed at the end of each year and adjusted to reflect the current best estimate.	No guidance included	No guidance included
Provisions, Contingent Liabilities and Contingent Assets – Reimbursement	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the entity settles the obligation. Therefore, the term "virtually certain" under Indian GAAP and Ind AS is replaced with "reasonably certain".	Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation.	Similar to Indian GAAP

[**TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART-II, SECTION 3, SUB-SECTION (ii)]**

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)
(CENTRAL BOARD OF DIRECT TAXES)

NOTIFICATION

New Delhi, the 31st March, 2015

INCOME-TAX

S.O. 892 (E) In exercise of the powers conferred by sub-section (2) of section 145 of the Income- tax Act, 1961 (43 of 1961) and in supersession of the notification of the Government of India in the Ministry of Finance, Department of Revenue, published in the Gazette of India, Part II, Section 3, Sub-section (ii), vide number S.O 69(E) dated the 25th January, 1996, except as respects things done or omitted to be done before such supersession, the Central Government hereby notifies the income computation and disclosure standards as specified in the Annexure to be followed by all assessees, following the mercantile system of accounting, for the purposes of computation of income chargeable to income- tax under the head "Profit and gains of business or profession" or " Income from other sources". This notification shall come into force with effect from 1st day of April, 2015, and shall accordingly apply to the assessment year 2016-17 and subsequent assessment years.

Annexure

See notification No.32/2015, F. No. 134/48/2010-TPL, dated 31st March, 2015

A. Income Computation and Disclosure Standard I relating to accounting policies

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 'the Act' and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with significant accounting policies.

Fundamental Accounting Assumptions

2. The following are fundamental accounting assumptions, namely:—

   a Going Concern

   "Going concern" refers to the assumption that the person has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation and intends to continue his business, profession or vocation for the foreseeable future.

   b Consistency

   "Consistency" refers to the assumption that accounting policies are consistent from one period to another;

   c Accrual

   "Accrual" refers to the assumption that revenues and costs are accrued, that is, recognised as they are earned or incurred and not as money is received or paid and recorded in the previous year to which they relate.

Accounting Policies

3. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by a person.

Considerations in the Selection and Change of Accounting Policies

4. 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. For this purpose,

   i the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and

   ii marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

5. An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies

6. All significant accounting policies adopted by a person shall be disclosed.

7. Any change in an accounting policy which has a material effect shall be disclosed. The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact shall be indicated. If a change is made in the accounting policies which has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted and also in the previous year in which such change has material effect for the first time.

8. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

9. If the fundamental accounting assumptions of Going Concern, Consistency and Accrual are followed, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact shall be disclosed.

Transitional Provisions

10. All contract or transaction existing on the 1st day of April, 2015 or entered into on or after the 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income, expense or loss, if any, recognised in respect of the said contract or transaction for the previous year ending on or before the 31st March, 2015.

B. Income Computation and Disclosure Standard II relating to valuation of inventories

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of Business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of Income Tax Act, 1961 ‘the Act’ and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard shall be applied for valuation of inventories, except :

   a Work-in-progress arising under ‘construction contract’ including directly related service contract which is dealt with by the Income Computation and Disclosure Standard on construction contracts;

   b Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;

   c Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;

   d Producers’ inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value;

   e Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, shall be dealt with in accordance with the Income Computation and Disclosure Standard on tangible fixed assets.

Definitions

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

   a “Inventories” are assets:

      i held for sale in the ordinary course of business;

      ii in the process of production for such sale;

      iii in the form of materials or supplies to be consumed in the production process or in the rendering of services.

   b “Net realisable value” is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2 2 Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

Measurement

3. Inventories shall be valued at cost, or net realisable value, whichever is lower.

Cost of Inventories

4. Cost of inventories shall comprise of all costs of purchase, costs of services, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of Purchase

5. The costs of purchase shall consist of purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.

Costs of Services

6. 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.

Costs of Conversion

7. The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.

8. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion shall be based on the normal capacity of the production facilities. Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant. Unallocated overheads shall be recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above the cost. Variable production overheads shall be assigned to each unit of production on the basis of the actual use of the production facilities.

9. Where a production process results in more than one product being produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis. Where by-products, scrap or waste material are immaterial, they shall be measured at net realisable value and this value shall be deducted from the cost of the main product.

Other Costs

10. Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

11. Interest and other borrowing costs shall not be included in the costs of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in the Income Computation and Disclosure Standard on borrowing costs.

Exclusions from the Cost of Inventories

12. In determining the cost of inventories in accordance with paragraphs 4 to paragraphs 11, the following costs shall be excluded and recognised as expenses of the period in which they are incurred, namely:—

    a Abnormal amounts of wasted materials, labour, or other production costs;

    b Storage costs, unless those costs are necessary in the production process prior to a further production stage;

    c Administrative overheads that do not contribute to bringing the inventories to their present location and condition;

    d Selling costs.

Cost Formulae

13. The Cost of inventories of items

    i that are not ordinarily interchangeable; and

    ii goods or services produced and segregated for specific projects shall be assigned by specific identification of their individual costs.

14. 'Specific identification of cost' means specific costs are attributed to identified items of inventory.

15. Where there are a large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.

First-in First-out and Weighted Average Cost Formula

16. Cost of inventories, other than the inventory dealt with in paragraph 13, shall be assigned by using the First-in First-out FIFO , or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

17. The FIFO formula assumes that the items of inventory which were purchased or produced first are consumed or sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average shall be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances.

Retail Method

18. Where it is impracticable to use the costing methods referred to in paragraph 16, the retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins. The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin. The percentage used takes into consideration inventory, which has been marked down to below its original selling price.

Net Realisable Value

19. Inventories shall be written down to net realisable value on an item-by-item basis. Where ‘items of inventory’ relating to the same product line having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to net realisable value on an aggregate basis.

20. Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.

21. Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.

Value of Opening Inventory

22. The value of the inventory as on the beginning of the previous year shall be

    i the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

    ii the value of the inventory as on the close of the immediately preceding previous year, in any other case.

Change of Method of Valuation of Inventory

23. The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.

Valuation of Inventory in Case of Certain Dissolutions

24. 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 realisable value.

Transitional Provisions

25. Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1st day of April, 2015, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginning on or after 1st day of April, 2015 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1st day of April, 2015.

Disclosure

26. The following aspects shall be disclosed, namely:—

    a the accounting policies adopted in measuring inventories including the cost formulae used; and

    b the total carrying amount of inventories and its classification appropriate to a person.

C. Income Computation and Disclosure Standard III relating to construction contracts

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 'the Act' and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard should be applied in determination of income for a construction contract of a contractor.

Definitions

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

a "Construction contract" is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes :

i contract for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects;

ii contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

b "Fixed price contract" is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which may be subject to cost escalation clauses.

c "Cost plus contract" is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark up on these costs or a fixed fee.

d "Retentions" are amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

e "Progress billings" are amounts billed for work performed on a contract whether or not they have been paid by the customer.

f "Advances" are amounts received by the contractor before the related work is performed.

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

3. A construction contract may be negotiated for the construction of a single asset. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

4. Construction contracts are formulated in a number of ways which, for the purposes of this Income Computation and Disclosure Standard, are classified as fixed price contracts and cost plus contracts. Some construction contracts may contain characteristics of both a fixed price contract and a cost plus contract, for example, in the case of a cost plus contract with an agreed maximum price.

Combining and Segmenting Construction Contracts

5. The requirements of this Income Computation and Disclosure Standard shall be applied separately to each construction contract except as provided for in paragraphs 6, 7 and 8 herein. For reflecting the substance of a contract or a group of contracts, where it is necessary, the Income Computation and Disclosure Standard should be applied to the separately identifiable components of a single contract or to a group of contracts together.

6. Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

a separate proposals have been submitted for each asset;

b each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

c the costs and revenues of each asset can be identified.

7. A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

   a the group of contracts is negotiated as a single package;

   b the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

   c the contracts are performed concurrently or in a continuous sequence.

8. Where a contract provides for the construction of an additional asset at the option of the customer or is amended to include the construction of an additional asset, the construction of the additional asset should be treated as a separate construction contract when:

   a the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

   b the price of the asset is negotiated without having regard to the original contract price.

Contract Revenue

9. Contract revenue shall be recognised when there is reasonable certainty of its ultimate collection.

10. Contract revenue shall comprise of:

    a the initial amount of revenue agreed in the contract, including retentions; and

    b variations in contract work, claims and incentive payments:

       i to the extent that it is probable that they will result in revenue; and

       ii they are capable of being reliably measured.

11. Where contract revenue already recognised as income is subsequently written off in the books of accounts as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.

Contract Costs

12. Contract costs shall comprise of :

    a costs that relate directly to the specific contract;

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

    c such other costs as are specifically chargeable to the customer under the terms of the contract; and

    d allocated borrowing costs in accordance with the Income Computation and Disclosure Standard on Borrowing Costs.

    These costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue.

13. Costs that cannot be attributed to any contract activity or cannot be allocated to a contract shall be excluded from the costs of a construction contract.

14. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that are incurred in securing the contract are also included as part of the contract costs, provided

    a they can be separately identified; and

    b it is probable that the contract shall be obtained.

    When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

15. Contract costs that relate to future activity on the contract are recognised as an asset. Such costs represent an amount due from the customer and are classified as contract work in progress.

Recognition of Contract Revenue and Expenses

16. Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

17. The recognition of revenue and expenses by reference to the stage of completion of a contract is referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

18. The stage of completion of a contract shall be determined with reference to:

    a the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or

    b surveys of work performed; or

    c completion of a physical proportion of the contract work.

    Progress payments and advances received from customers are not determinative of the stage of completion of a contract.

19. When the stage of completion is determined by reference to the contract costs incurred upto the reporting date, only those contract costs that reflect work performed are included in costs incurred upto the reporting date. Contract costs which are excluded are:

    a contract costs that relate to future activity on the contract; and

    b payments made to subcontractors in advance of work performed under the subcontract.

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

Changes in Estimates

21. The percentage of completion method is applied on a cumulative basis in each previous year to the current estimates of contract revenue and contract costs. Where there is change in estimates, the changed estimates shall be used in determination of the amount of revenue and expenses in the period in which the change is made and in subsequent periods.

Transitional Provisions

22. Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised as revenue and costs respectively in accordance with the provisions of this standard. The amount of contract revenue, contract costs or expected loss, if any, recognised for the said contract for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue and costs of the said contract for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

Disclosure

23. A person shall disclose:

    a the amount of contract revenue recognised as revenue in the period; and

    b the methods used to determine the stage of completion of contracts in progress.

24. A person shall disclose the following for contracts in progress at the reporting date, namely:—

    a amount of costs incurred and recognised profits less recognised losses upto the reporting date;

    b the amount of advances received; and

    c the amount of retentions.

D. Income Computation and Disclosure Standard IV relating to revenue recognition

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 'the Act' and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1 1 This Income Computation and Disclosure Standard deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from

i the sale of goods;

ii the rendering of services;

iii the use by others of the person's resources yielding interest, royalties or dividends.

1 2 This Income Computation and Disclosure Standard does not deal with the aspects of revenue recognition which are dealt with by other Income Computation and Disclosure Standards.

Definitions

2 1 The following term is used in this Income Computation and Disclosure Standard with the meanings specified:

a "Revenue" is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

2 2 Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

Sale of Goods

3. In a transaction involving the sale of goods, the revenue shall be recognised when 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 the seller retains no effective control of the goods transferred to a degree usually associated with ownership. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.

4. Revenue shall be recognised when there is reasonable certainty of its ultimate collection.

5. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

Rendering of Services

6. Revenue from service transactions shall be recognised by the percentage completion method. Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed. Income Computation and Disclosure Standard on construction contract also requires the recognition of revenue on this basis. The requirements of that Standard shall *mutatis mutandis* apply to the recognition of revenue and the associated expenses for a service transaction.

The Use of Resources by Others Yielding Interest, Royalties or Dividends

7. Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable. Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

8. Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis.

9. Dividends are recognised in accordance with the provisions of the Act.

Transitional Provisions

10. The transitional provisions of Income Computation and Disclosure Standard on construction contract shall *mutatis mutandis* apply to the recognition of revenue and the associated costs for a service transaction undertaken on or before the 31st day of March, 2015 but not completed by the said date.

11. Revenue for a transaction, other than a service transaction referred to in Para 10, undertaken on or before the 31st day of March, 2015 but not completed by the said date shall be recognised 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, recognised for the said transaction for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue for the said transaction for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

Disclosure

12. Following disclosures shall be made in respect of revenue recognition, namely:—

    a in a transaction involving sale of good, total amount not recognised 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 recognised 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 costs incurred and recognised profits less recognised losses upto end of previous year;

    ii the amount of advances received; and

    iii the amount of retentions.

E. Income Computation and Disclosure Standard V relating to tangible fixed assets

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 'the Act' and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with the treatment of tangible fixed assets.

Definitions

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

    a "Tangible fixed asset" is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

    b "Fair value" of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

2 2 Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

Identification of Tangible Fixed Assets

3. The definition in clause a of sub-paragraph 1 of paragraph 2 provides criteria for determining whether an item is to be classified as a tangible fixed asset.

4. Stand-by equipment and servicing equipment are to be capitalised. Machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.

Components of Actual Cost

5. The actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.

6. The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of

    i price adjustment, changes in duties or similar factors; or ii exchange fluctuation as specified in Income Computation and Disclosure Standard on the effects of changes in foreign exchange rates.

7. Administration and other general overhead expenses are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset. Expenses which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset.

8. The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. The expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure.

Self- constructed Tangible Fixed Assets

9. In arriving at the actual cost of self-constructed tangible fixed assets, the same principles shall apply as those described in paragraphs 5 to 8. Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any internal profits shall be eliminated in arriving at such costs.

Non- monetary Consideration

10. When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired shall be its actual cost.

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

Improvements and Repairs

12. An Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.

13. The cost of an addition or extension to an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

Valuation of Tangible Fixed Assets in Special Cases

14. Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the tangible fixed assets register.

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

Transitional Provisions

16. The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

Depreciation

17. Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of the Act.

Transfers

18. Income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of the Act.

Disclosures

19. Following disclosure 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;

e depreciation Allowable; and

f written down value at the end of year.

F. Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 'the Act' and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with:

a treatment of transactions in foreign currencies;

b translating the financial statements of foreign operations;

c treatment of foreign currency transactions in the nature of forward exchange contracts.

Definitions

2. 1 The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

a "Average rate" is the mean of the exchange rates in force during a period.

b "Closing rate" is the exchange rate at the last day of the previous year.

c "Exchange difference" is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates.

d "Exchange rate" is the ratio for exchange of two currencies.

e "Foreign currency" is a currency other than the reporting currency of a person.

f "Foreign operations of a person" is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India.

g "Foreign currency transaction" is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person:—

i buys or sells goods or services whose price is denominated in a foreign currency; or

ii borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or

iii becomes a party to an unperformed forward exchange contract; or

iv otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

h "Forward exchange contract" means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature;

i "Forward rate" is the specified exchange rate for exchange of two Currencies at a specified future date;

j "Indian currency" shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999 42 of 1999 ;

k "Integral foreign operation" is a foreign operation, the activities of which are an integral part of the operation of the person;

l "Monetary items" are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Cash, receivables, and payables are examples of monetary items;

m “Non-integral foreign operation” is a foreign operation that is not an integral foreign operation;

n “Non-monetary items” are assets and liabilities other than monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items;

o “Reporting currency” means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.

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

Foreign Currency Transactions

Initial Recognition

3 1 A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

3 2 An average rate for a week or a month that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.

Conversion at Last Date of Previous Year

4. At last day of each previous year:—

a foreign currency monetary items shall be converted into reporting currency by applying the closing rate;

b where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and

c non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.

Recognition of Exchange Differences

5. i In respect of monetary items, exchange differences arising on the settlement thereof or on conversion thereof at last day of the previous year shall be recognised as income or as expense in that previous year.

ii In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or as expense in that previous year.

Exceptions to Paragraphs 3, 4 and 5

6. Notwithstanding anything contained in paragraph 3, 4 and 5; initial recognition, conversion and recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of Income-tax Rules, 1962, as the case may be.

Financial Statements of Foreign Operations

Classification of Foreign Operations

7. 1 The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to a person. For this purpose, foreign operations are classified as either “integral foreign operations” or “non-integral foreign operations”.

2 The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:—

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

b transactions with the person are not a high proportion of the foreign operation’s activities;

c the activities of the foreign operation are financed mainly from its own operations or local borrowings;

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

e the foreign operation’s sales are mainly in currencies other than Indian currency;

f cash flows of the person are insulated from the day-to-day activities of the foreign operation;

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

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

Integral Foreign Operations

8. The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.

Non-integral Foreign Operations

9. 1 In translating the financial statements of a non-integral foreign operation for a previous year, the person shall apply the following, namely:—

a the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation shall be translated at the closing rate;

b income and expense items of the non-integral foreign operation shall be translated at exchange rates at the dates of the transactions; and

c all resulting exchange differences shall be recognised as income or as expenses in that previous year.

2 Notwithstanding anything stated in sub-paragraph 1, translation and recognition of exchange difference in cases referred to in section 43A of the Act or Rule 115 of Income-tax Rules, 1962 shall be carried out in accordance with the provisions contained in that section or that Rule, as the case may be.

Change in the Classification of a Foreign Operation

10 1 When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

2 The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the person may lead to a change in the classification of that foreign operation.

Forward Exchange Contracts

11. 1 Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognised as income or as expense for the previous year.

2 The provisions of sub-para 1 shall apply provided that the contract:

a is not intended for trading or speculation purposes; and

b is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.

3 The provisions of sub-para 1 shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year.

4 The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between:

a the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year; and

b the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.

5 Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement.

Transitional Provisions

12. 1 All foreign currency transactions undertaken on or after 1st day of April, 2015 shall be recognised in accordance with the provisions of this standard.

2 Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2015 or on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2015, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March,2015 for an item, if any, which is carried forward from said previous year.

3 The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2015 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2015 for an item, if any, which is carried forward from said previous year.

4 All forward exchange contracts existing on the 1st day of April, 2015 or entered on or after 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March, 2015.

G. Income Computation and Disclosure Standard VII relating to government grants

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account.

In case of conflict between the provisions of the Income Tax Act, 1961 ‘the Act’ and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with the treatment of Government grants. The Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc.

2. This Income Computation and Disclosure Standard does not deal with:—

   a Government assistance other than in the form of Government grants; and

   b Government participation in the ownership of the enterprise.

Definitions

3 1 The following terms are used in the Income Computation and Disclosure Standard with the meanings specified:

   a “Government” refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international.

   b “Government grants” are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.

3 2 Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

Recognition of Government Grants

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

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

Treatment of Government Grants

5. Where the Government grant relates to a depreciable fixed asset 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 belonged to.

6. Where the Government grant relates to a non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.

7. 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.

8. The Government grant that is receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs, shall be recognised as income of the period in which it is receivable.

9. The Government grants other than covered by paragraph 5, 6, 7, and 8 shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

10. The Government grants in the form of non-monetary assets, given at a concessional rate, shall be accounted for on the basis of their acquisition cost.

Refund of Government Grants

11. The amount refundable in respect of a Government grant referred to in paragraphs 6, 8 and 9 shall be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.

12. The amount refundable in respect of a Government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.

Transitional Provisions

13. All the Government grants which meet the recognition criteria of para 4 on or after 1st day of April, 2015 shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31st day of March, 2015.

Disclosures

14. Following disclosure shall be made in respect of Government grants, namely:—

    a 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;

    b nature and extent of Government grants recognised during the previous year as income;

    c 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

    d nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

H. Income Computation and Disclosure Standard VIII relating to securities

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961 ‘the Act’ and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with securities held as stock- in-trade.

2. This Income Computation and Disclosure Standard does not deal with:

    a the bases for recognition of interest and dividends on securities which are covered by the Income Computation and Disclosure Standard on revenue recognition;

    b securities held by a person engaged in the business of insurance;

c securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 1 of 1956 or the Companies Act, 2013 18 of 2013.

Definitions

3 1 The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

a "Fair value" is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

b "Securities" shall have the meaning assigned to it in clause h of Section 2 of the Securities Contract Regulation Act, 1956 42 of 1956 , other than Derivatives referred to in sub-clause 1a of that clause.

3 2 Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition and Initial Measurement of Securities

4. A security on acquisition shall be recognised at actual cost.

5. The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.

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

7. Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost.

8. Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

Subsequent Measurement of Securities

9. At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower.

10. For the purpose of para 9, the comparison of actual cost initially recognised and net realisable value shall be done categorywise and not for each individual security. For this purpose, securities shall be classified into the following categories, namely:-

a shares;

b debt securities;

c convertible securities; and

d any other securities not covered above.

11. The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be:

a the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

b the value of the securities of the business as on the close of the immediately preceding previous year, in any other case.

12. Notwithstanding anything contained in para 9, 10 and 11, at the end of any previous year, 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.

13. For the purposes of para 9, 10 and 11 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.

I. Income Computation and Disclosure Standard IX relating to borrowing costs

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961 'the Act' and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

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

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

Definitions

2. 1 The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

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

      i commitment charges on borrowings;

      ii amortised amount of discounts or premiums relating to borrowings;

      iii amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;

      iv finance charges in respect of assets acquired under finance leases or under other similar arrangements.

   b "Qualifying asset" means:

      i land, building, machinery, plant or furniture, being tangible assets;

      ii know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;

      iii inventories that require a period of twelve months or more to bring them to a saleable condition.

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

Recognition

3. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Income Computation and Disclosure Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.

4. For the purposes of this Income Computation and Disclosure Standard, "capitalisation" in the context of inventory referred to in item iii of clause b of sub-paragraph 1 of paragraph 2means addition of borrowing cost to the cost of inventory.

Borrowing Costs Eligible for Capitalisation

5. To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.

6. To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

   A X B / C

   Where A borrowing costs incurred during the previous year except on borrowings directly relatable to specific purposes;

   B i the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year;

   ii in case the qualifying asset does not appear in the balance sheet of a person on the first day or both on the first day and the last day of previous year, half of the cost of qualifying asset;

   iii in case the qualifying asset does not appear in the balance sheet of a person on the last day of previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be, other than those qualifying assets which are directly funded out of specific borrowings;or

   C the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those assets which are directly funded out of specific borrowings;

Commencement of Capitalisation

7. The capitalisation of borrowing costs shall commence:

   a in a case referred to in paragraph 5, from the date on which funds were borrowed;

   b in a case referred to in paragraph 6, from the date on which funds were utilised.

Cessation of Capitalisation

8. Capitalisation of borrowing costs shall cease:

   a in case of a qualifying asset referred to in item i and ii of clause b of sub-paragraph 1 of paragraph 2, when such asset is first put to use;

   b in case of inventory referred to in item iii of clause b of sub-paragraph 1 of paragraph 2, when substantially all the activities necessary to prepare such inventory for its intended sale are complete.

9. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part shall cease:—

   a in case of part of a qualifying asset referred to in item i and ii of clause b of sub-paragraph 1 of paragraph 2, when such part of a qualifying asset is first put to use;

   b in case of part of inventory referred to in item iii of clause b of sub-paragraph 1 of paragraph 2, when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

Transitional Provisions

10. All the borrowing costs incurred on or after 1st day of April, 2015 shall be capitalised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31st day of March, 2015.

Disclosure

11. The following disclosure shall be made in respect of borrowing costs, namely:—

   a the accounting policy adopted for borrowing costs; and

   b the amount of borrowing costs capitalised during the previous year.

J. Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ‘the Act’ and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard 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 policyholders; and

   d covered by another Income Computation and Disclosure Standard.

2. This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure Standard - Revenue Recognition.

3. The term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this Income Computation and Disclosure Standard.

Definitions

4 1 The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

a "Provision" is a liability which can be measured only by using a substantial degree of estimation.

b "Liability" is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.

c "Obligating event" is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.

d "Contingent liability" is:

i a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; or

ii a present obligation that arises from past events but is not recognised because:

A it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or

B a reliable estimate of the amount of the obligation cannot be made.

e "Contingent asset" is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.

f "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.

g "Present obligation" is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

4 2 Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition

Provisions

5. A provision shall be recognised when:

a a person has a present obligation as a result of a past event;

b it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

6. No provision shall be recognised for costs that need to be incurred to operate in the future.

7. It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions

8. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.

Contingent Liabilities

9. A person shall not recognise a contingent liability.

Contingent Assets

10. A person shall not recognise a contingent asset.

11. Contingent assets are 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.

Measurement

Best Estimate

12. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.

13. The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.

Reimbursements

14. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

15. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.

16. An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Review

17. Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

18. An asset and related income recognised as provided in para 11 shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an inflow of economic benefits will arise, the asset and related income shall be reversed.

Use of Provisions

19. A provision shall be used only for expenditures for which the provision was originally recognised.

Transitional Provisions

20. All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31st day of March, 2015.

Disclosure

21 1 Following disclosure 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 recognised for that expected reimbursement.

21 2 Following disclosure shall be made in respect of each class of asset and related income recognised as provided in para 11, namely:—

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

b the carrying amount of asset at the beginning and end of the previous year;

c additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and

d amount of asset and related income reversed during the previous year.

[Notification No.32/2015, F. No. 134/48/2010-TPL]

(RAJESH KUMAR BHOOT)
DIRECTOR (TAX POLICY AND LEGISLATION)

NOTES

NOTES

NOTES

EASTERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA, KOLKATA

Russell Street Office: ICAI Bhawan 7, Anandilal Poddar Sarani (Russell Street), Kolkata- 700071
Kasba Office : ICAI Bhawan, 382/A, Prantik Pally, Kasba, Kolkata – 700 107

Name & Designation	Responsibility	Kasba Office	Russell Street Office	EMAIL
Dr. Alok Ray, Jt. Secretary (9330001192)	Overall Administration In Charge of Decentralized offices, EIRC & Kolkata Computer Centre	30840277	30211102	alokray@icai.in
Mr. Abhijit Basu, Dy. Secretary (98306 64225)	In charge of Members & Articles, Administration, Infrastructure	30840271		abhijit.basu@icai.in
	MEMBERS SECTION			
Mr. Pradip Sarkar, Consultant	Convocation, Disputes, Fees Enquiry, Election	30840296		eromem@icai.in
Mr. Arun Kumar Santra, Asst. Secretary	Fellow COP, Cancellation & Restoration of COP, Script Certificate and Fees enquiry, CA. Main Exam	30840287		erofellow@icai.in; eroexam@icai.in
Ms. Nandini Guha, Executive Officer	Enrollment of Associate Membership, Identity Card, Script Certificate and fees enquiry	30840299		eroenroll@icai.in
Mr. Somnath De, Executive Officer	Merger, Networking, Reconstitution of Firms	30840288		erofirm@icai.in,
Mr. Soumen Mondal, DEO (UDC)	Restoration of Name, Registration of Firms	30840289		erorestore@icai.in
	ARTICLES SECTION			
Ms. Anindita Kundu, Sr. Executive Officer	Article Re-registration, termination, Other Courses, Exam eligibility	30840265		eroart@icai.in; anindita.kundu@icai.in
Mr. Soubhanendu Paul, DEO (Gr. UDC)	Registration alongwith other courses, Supplementary Registration	30840262		eroreg@icai.in
Ms. Sutapa Das, Executive Officer	Article Completion & Secondment	30840263		erocompl@icai.in
Ms. Moushumi Bhadra Chatterjee, DEO (UDC)	Article Re-registration, termination & Other Course	30840266		eroterm@icai.in
Mr. Swarup Karmarar, LDC	Registration, Industrial Training, ATC	30840259		eroreg@icai.in
	BOARD OF STUDIES			
Ms. Susmita Sen, Student Counsellor (Gr. Assistant Secretary)	In Charge of BOS Section, Campus Placement	30840239		erobos@icai.in
CA Shreya Agarwal, Executive Officer	Final Registration, Post Qualification Course Exam RTI	30840242		shreya@icai.in
Ms. Sarmistha Biswas, Section Officer (SU)	Orientation Course, Mock Test	30840237		eircorient@icai.in
Ms. Piyali Chatterjee, DEO (UDC)	CPT, IPCC	30840238		erocpt@icai.in
Mr. Kaushik Bhattacharjee, DEO (UDC)	IPCC, CPT, Revalidation	30840241		eroipcc@icai.in
	Post Qualification Courses (PQC) CELL			
CA Debasish Sen, Asst. Secretary	Co-ordinator and Nodal Officer of all Post Qualification & Certificate Courses, Computer Centres		30211117	ero@icai.in
	CALCUTTA COMPUTER CENTRE			
CA Debasish Sen, Asst. Secretary	In Charge of Computer Centers.		30211142	ero@icai.in
Mr. Avijit Roy, LDC	ITT Classes and online registration of the same		30211143	
	REGIONAL COUNCIL			
Mr. Kabir Ghosh, Consultant	Seminar information		30211134	eircpubn@icai.in
Mr. Pradyut Chakraborty, Consultant	Seminar information		30211104	Pradyut.chakraborty@icai.in
Mr. Saibal Krishna Chakraborty, Asst. Secretary	Seminar information		30211104	schakraborty@icai.in
Mr. Amit Paul, Assistant Secretary	Seminar information		30211133	eirc@icai.in, amit.paul@icai.in,
CA Manish Agarwal, Executive Officer	GMCS		30211260	eircgmcs@icai.in, manish.agarwal@icai.in
CA Jyoti Luharuka, Executive Officer	Website(eirc-icai.org), Seminar information		30211108	jyoti.luharuka@icai.in
Mr. Santanu Bose, DEO (UDC)	Seminar information, CPE Hrs.		30211108	eircevents@icai.in; eirccpe@icai.in
	LIBRARY			
Ms. Swati Banerjee, Librarian (Gr. A.S.)	In Charge of Library Section		30211103	eirc.library@icai.in, swati.banerjee@icai.in
	SALES COUNTER / PUBLICATIONS/STUDY MATERIAL			
Mrs. Mita Sengupta, Assistant Secretary	In Charge of Sales, Publication & Study Material		30211120	msengupta@icai.in
Mr. Balmukund Singh, Sr. Daftari	Sale of Books		30211101/47	psc_ero@icai.in

EIRC TOLL FREE NO.
FOR MEMBERS & STUDENTS

We Care

EIRC has introduced a toll free no.

operational from Monday to Friday, from 10.00am to 5.30pm.

Members/ Students can call to the above toll free no. for any type of queries.

An initiative of TEAM EIRC to serve its esteemed Members & Students

CALL US AT : 1800-3000-1019