

# Basics of Tax Audit and ICDS I, II & IV



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**FCA, FCS, FCMA, LL.B, MIMA, DISA**

**Shared at**

**East Delhi Study Circle of NIRC of ICAI**

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# LEGISLATION FOR AY 2017-18

## S. 44AB

- Business – exceeds Rs. 1 Crore
- Profession – exceeds Rs. 50 L
- Business u/s 44AE /44BB /44BBB; income < deemed profits;
- Profession u/s 44ADA; deemed profit < 50% & TI > ANCT
- Business u/s 44AD (4)

## Rule 6G

- Prescribing the Forms for Report u/s 44AB

## Form 3CA

- Report in case of a person who is required to get his A/cs audited under any law

## Form 3CB

- Report in any other case

## Form 3CD

- Particulars as required u/F 3CA or 3CB

## S. 271B

- Penalty  $\frac{1}{2}\%$  maximum Rs. 1.50 L

# FORM 3CA

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- ✖ **Total 3Paras**
- ✖ **Reporting period for PL amended from 31<sup>st</sup> March to period wise.**
- ✖ **Examination of books by auditor included before giving opinion**
- ✖ **Opinion now to be given subject to observations / qualifications, no annexures ... Para 3**
- ✖ **Name of signatory to be given. FRN??**
- ✖ **To be signed by person eligible as per s. 44AB (earlier CA, auditor as per Companies Act, other person entitled to audit**

# **FORM 3CB**

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- ✖ **Total 5 Paras**
- ✖ **Same as Form 3CA except examination of books**
- ✖ **Opinion subject to observations / qualifications to be given:**
  - + **Financial Statements – 3(a)**
  - + **Form 3CD – 5**
- ✖ **SA 700?**

# SA 700

- ✦ **Assessee's Responsibility for the Financial Statements and the Statement of Particulars in Form 3CD**
  1. The **assessee is responsible for the preparation of the aforesaid financial statements** that give a true and fair view of the financial position and financial performance (if applicable) in accordance with the applicable Accounting Standards issued by the Institute of Chartered Accountants of India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

# SA 700

2. **The assessee is also responsible for the preparation of the statement of particulars required to be furnished under section 44AB of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G(1)(b) of Income Tax Rules, 1962 that give true and correct particulars as per the provisions of the Income-tax Act, 1961 read with Rules, Notifications , circulars etc that are to be included in the Statement.**

# SA 700

## ✖ Tax Auditor's Responsibility

3. **Our responsibility is to express an opinion on these financial statements** based on our audit.

**We have conducted this audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.**



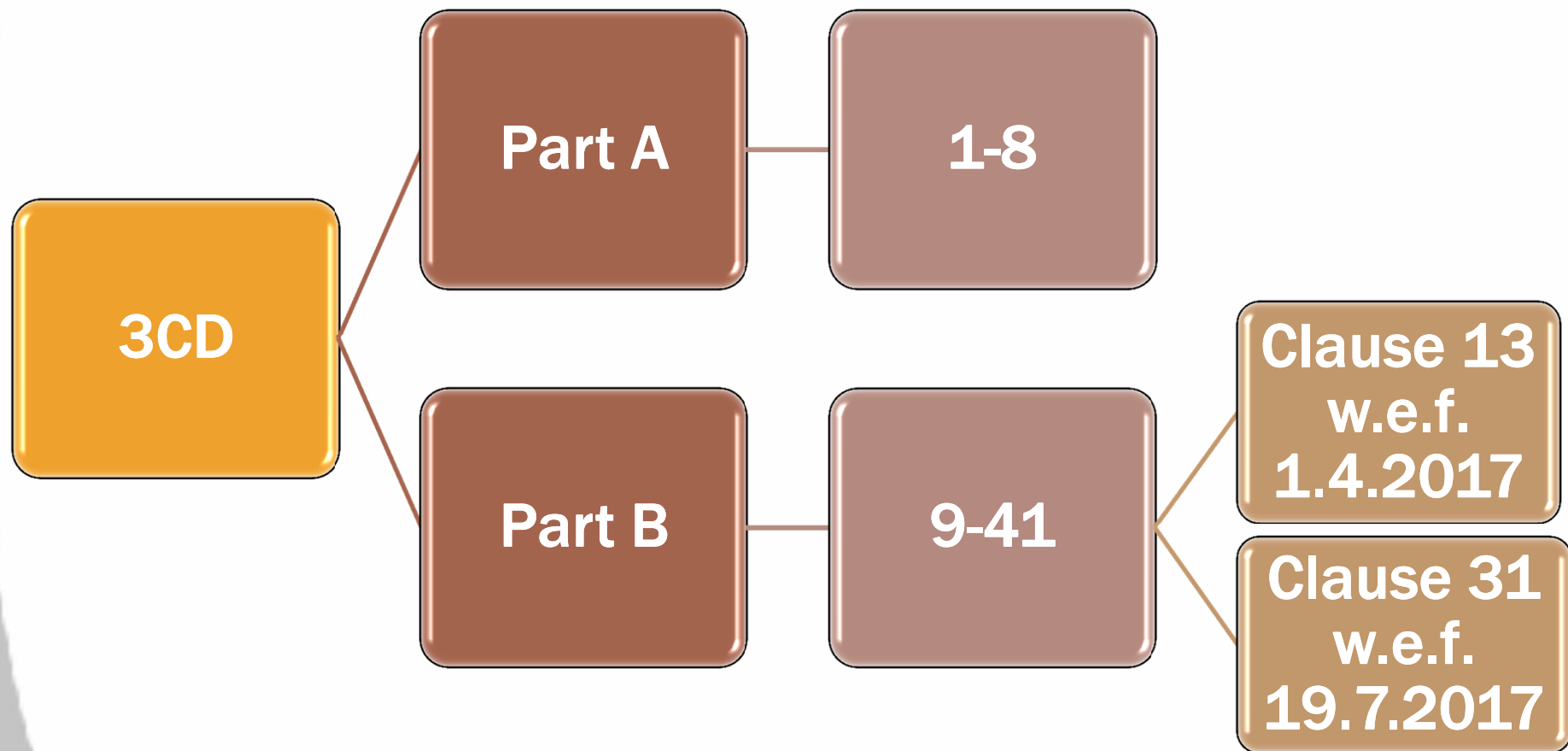
# SA 700

4. **An audit involves performing procedures to obtain audit evidence** about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

# SA 700

5. We believe that the **audit evidence we have obtained is sufficient and appropriate** to provide a basis for our audit opinion.
6. We are also **responsible for verifying the statement of particulars required to be furnished under section 44AB** of the Income-tax Act, 1961 annexed herewith in Form No. 3CD read with Rule 6G (1) (b) of Income-tax Rules, 1962. We have **conducted my/our verification of the statement in accordance with Guidance Note on Tax Audit** under section 44AB of the Income-tax Act, 1961, issued by the Institute of Chartered Accountants of India.

# FORM 3CD – OVERVIEW



## **CL. 31 - AMENDED W.E.F. 19.7.17**

- ✖ (a) Particulars of each loan or deposit in an amount exceeding limit specified in s. 269SS taken/accepted during the previous year –
  - + (i) to (iv) - same
  - + Old (v) – whether the loan was taken or accepted otherwise than by a/c payee cheque / bank draft?
  - + New (v) - whether the loan or deposit was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
  - + New (vi) - in case the loan or deposit was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

## **CL. 31 - AMENDED W.E.F. 19.7.17**

- ✘ **New (b) - Particulars of each specified sum in an amount exceeding the limit specified in section 269SS taken or accepted during the previous year**
  - + name, address and PAN (if available with the assessee) of the person from whom specified sum is received;
  - + amount of specified sum taken or accepted;
  - + whether the specified sum was taken or accepted by cheque or bank draft or use of electronic clearing system through a bank account;
  - + in case the specified sum was taken or accepted by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.
- ✘ **(a) & (b) need not be given in case of Govt. Co., bank or a corp. established by Central, State or Provincial Act**

## **CL. 31 – AMENDED W.E.F. 19.7.17**

- ✖ (c) - Particulars of each repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T made during the previous year – (Old b)
  - + (i) to (iii) – same
  - + Old (iv) – whether the repayment was made otherwise than by a/c payee cheque / bank draft ?
  - + New (iv) - whether the repayment was made by cheque or bank draft or use of electronic clearing system through a bank account;
  - + New (v) - in case the repayment was made by cheque or bank draft, whether the same was taken or accepted by an account payee cheque or an account payee bank draft.

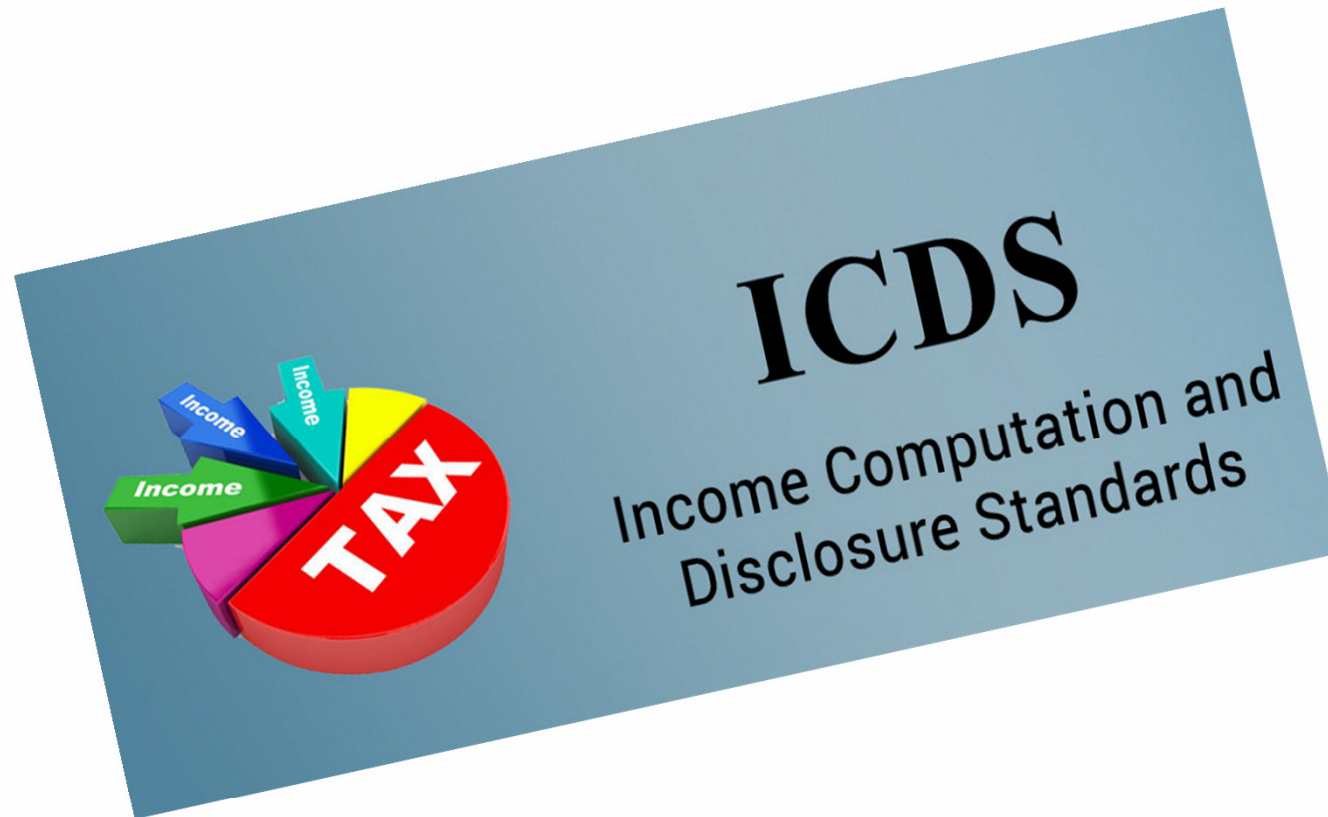
## CL. 31- AMENDED W.E.F. 19.7.17

- ✖ New (d) - Particulars of repayment of loan or deposit or any specified advance in an amount exceeding the limit specified in section 269T **received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account** during the previous year
  - + name, address and PAN (if available with the assessee) of the **payer**;
  - + amount of loan or deposit or any specified advance received otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account during the previous year.

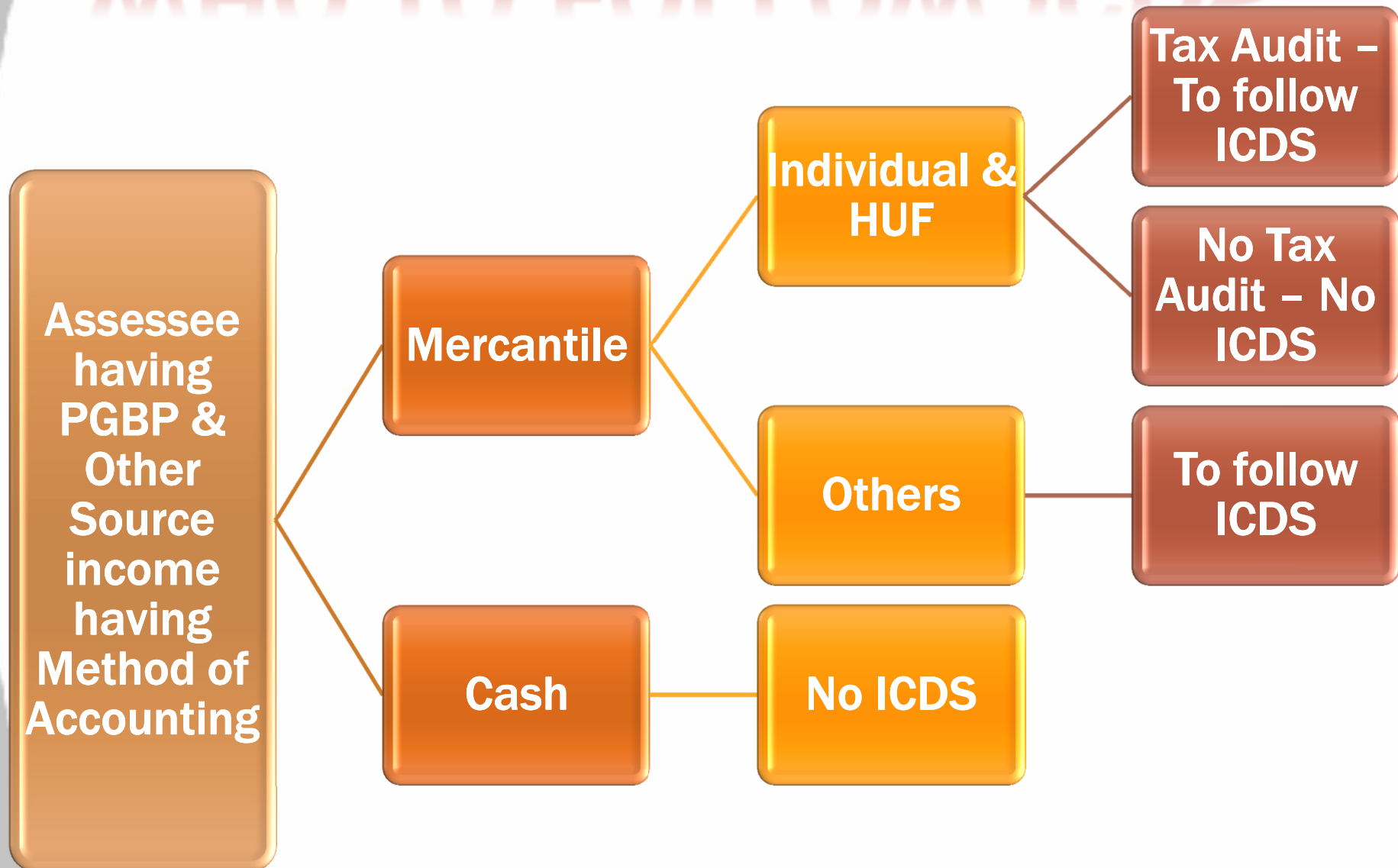
## **CL. 31– AMENDED W.E.F. 19.7.17**

- ✖ **New (e) -Particulars of repayment of loan/deposit or any specified advance in an amt. exceeding limit specified in s. 269T **received by cheque / bank draft which is not an account payee cheque / bank draft during PY****
  - + name, address & PAN (if available with assessee) of payer;
  - + amount of loan or deposit or any specified advance received by a cheque or a bank draft which is not an a/c payee cheque / bank draft during the previous year
- ✖ **(c), (d) & (e) need not be given in case of repayment of any loan or deposit or any specified advance taken or accepted from the Govt., Govt. Co., bank or a corporation established by Central, State or Provincial Act**





# WHO TO FOLLOW ICDS



# SUMMARY

## Source

- **Section 145(2)**

## Effective Date

- **W.e.f. AY 2017-18**

## Heads of Income

- **Only on PGBP & Other Source**
- **If accounts on mercantile basis**

## No. of Standards

- **10 vide Not. Dt. 29.09.2016**

## Disclosure

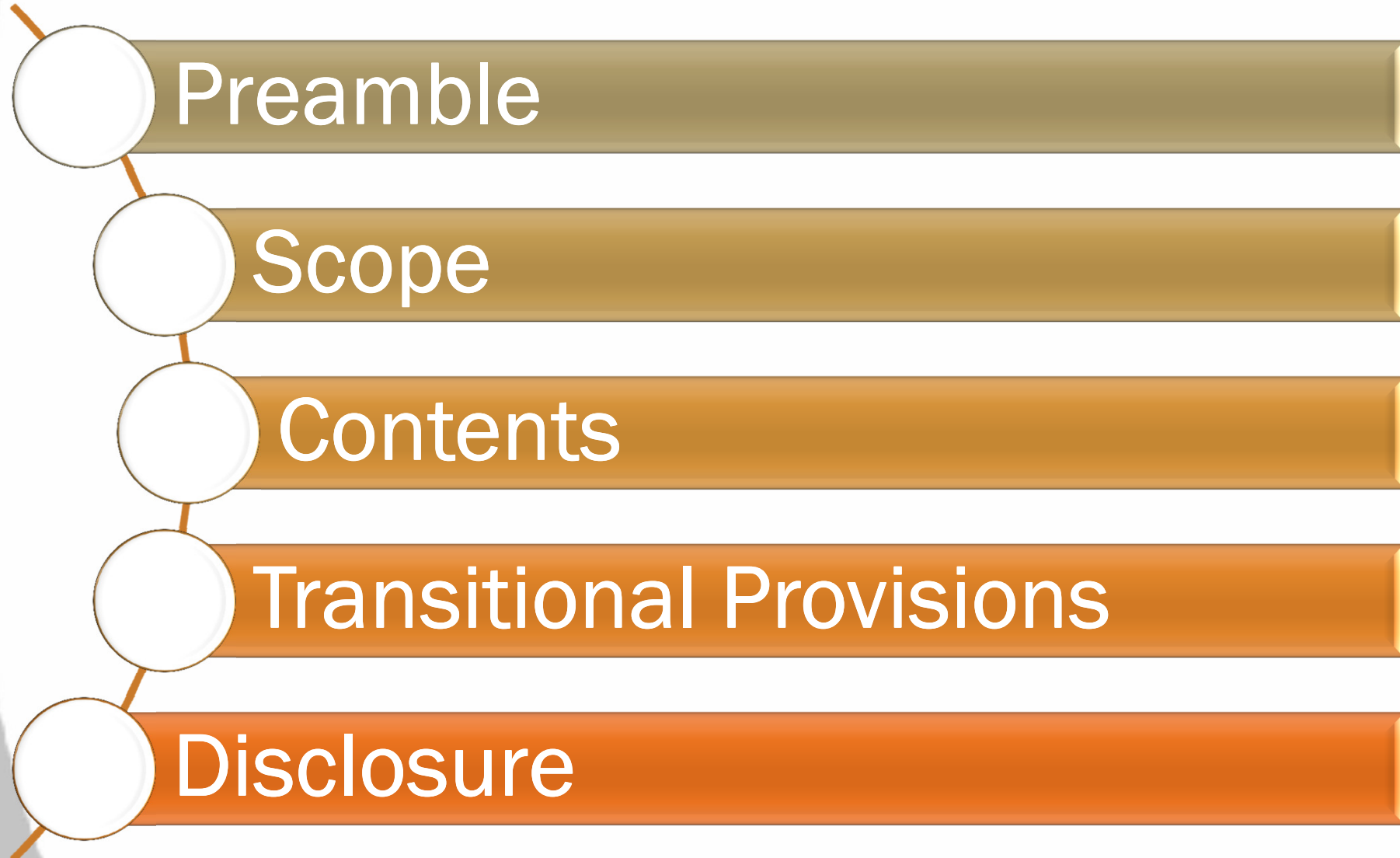
- **Para 13 of Form 3CD & ITR**

# CORRESPONDING AS / IND AS

ICD S	Name of ICDS	Correspondi ng AS	Corresponding Ind AS
I	Accounting Policies	1 & 5	1 & 8
II	Valuation of Inventories	2	2
III	Construction Contracts	7	11
IV	Revenue Recognition	9	11
V	Tangible Fixed Assets	10	16
VI	Changes in Foreign Exchange Rates	11	21
VII	Government Grants	12	20
VIII	Securities	13	109
IX	Borrowing Costs	16	23
X	Provisions, Contingent Liabilities & Contingent Assets	29	37

# STRUCTURE

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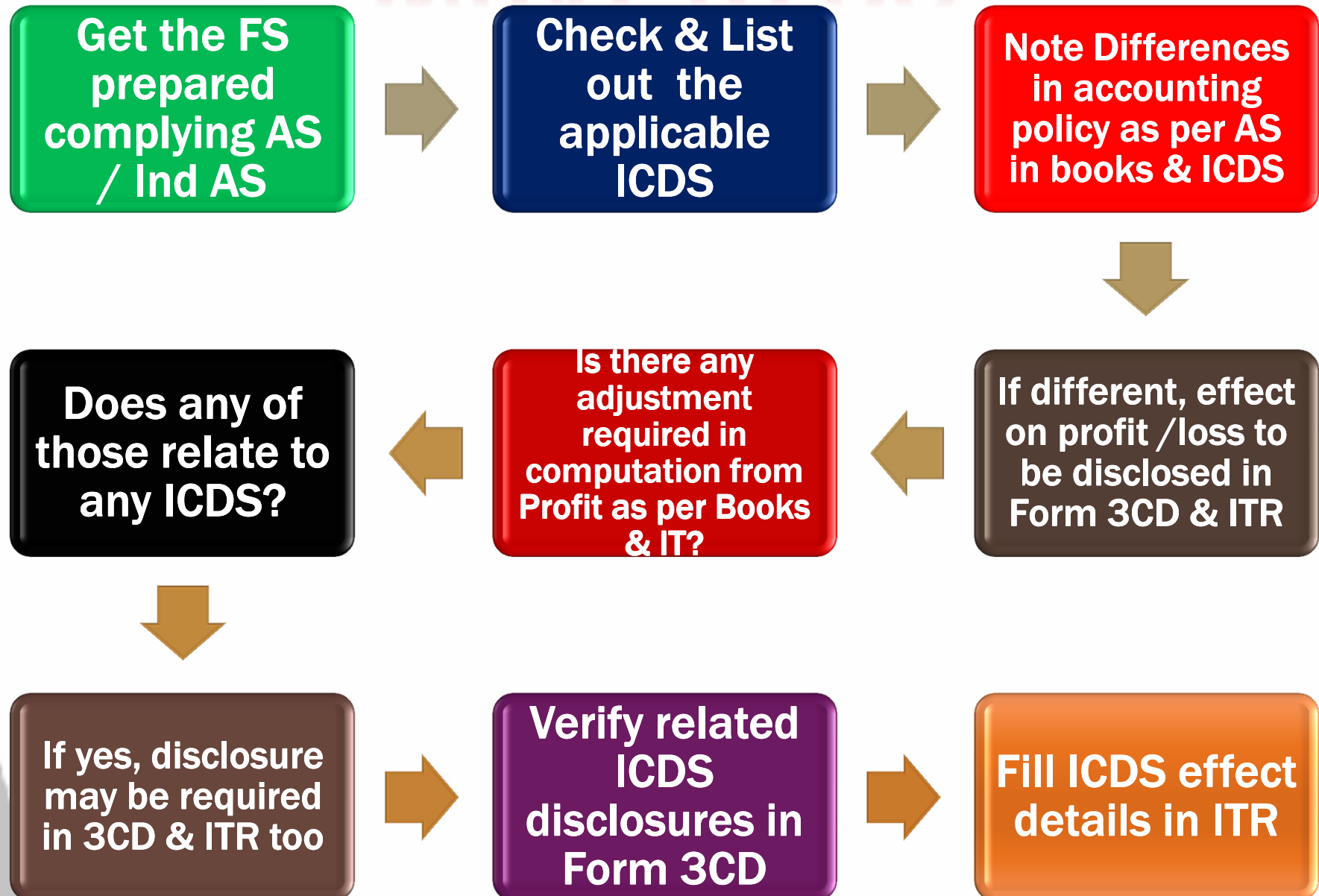


# **PREAMBLE**

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- 1. This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of account.**
- 2. In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.**

# WHAT TO DO



# ACCOUNTING POLICIES

If in books as per  
AS / Ind AS



Effect and  
disclosure in  
Form 3CD

If in books as  
per ICDS



Qualify in  
Audit Report



Disclosure in  
Form 3CD



# ICDS CHECKLIST

ICDS	Name of ICDS	Whether Applicable	Amounts in ITR & 3CD	Disclosures in 3CD	Remarks
I	Accounting Policies	Yes			
II	Valuation of Inventories				
III	Construction Contracts				
IV	Revenue Recognition	Yes			
V	Tangible Fixed Assets				
VI	Changes in Foreign Exchange Rates				
VII	Government Grants				
VIII	Securities				
IX	Borrowing Costs				
X	Provisions, Contingent Liabilities & Contingent Assets				

# FORM 3CD – CLAUSE - 13

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- ✖ (a) Method of accounting employed in previous year – Mercantile / cash
- ✖ (b) Change in method of accounting applied
- ✖ (c) If, yes, effect thereof on profit / loss
- ✖ (Old d) Deviation in method of accounting from accounting standards prescribed u/s 145 and effect thereof on P/L
- ✖ ICDS reporting brought in w.e.f. 1.4.2017

# FORM 3CD – CLAUSE - 13

- ✗ (d) – whether any adjustment is required to be made to the profits or loss for complying with the ICDS notified u/s 145(2)
- ✗ (e) – Is, yes, give details
- ✗ (f) – Disclosure as per ICDS
  - + For 8 standards
  - + Two omitted as no disclosure required as per the standard:
    - ✗ Changes in Foreign Exchange Rates
    - ✗ Securities

# FORM 3CD – CLAUSE – 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Descripti on
I	Accounting Policies	14 Ch			
II	Valuation of Inventories				
III	Construction Contracts				
IV	Revenue Recognition				
V	Tangible Fixed Assets				
VI	Changes in Foreign Exchange Rates				
VII	Government Grants				
VIII	Securities				
IX	Borrowing Costs				
X	Provisions, Contingent Liab & Assets				
	Total				

# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures	Descrip.
I	Accounting Policies	500 Character	
II	Valuation of Inventories		
III	Construction Contracts		
IV	Revenue Recognition		
V	Tangible Fixed Assets		
VII	Government Grants		
IX	Borrowing Costs		
X	Provisions, Contingent Liab & Assets		

# ITR

<b>Schedule ICDS    Effect of Income Computation Disclosure Standards on profit</b>		
<b>Sl. No.</b>	<b>ICDS</b>	<b>Amount</b>
<b>(i)</b>	<b>(ii)</b>	<b>(iii)</b>
<b>I</b>	<b>Accounting Policies</b>	
<b>II</b>	<b>Valuation of Inventories</b>	
<b>III</b>	<b>Construction Contracts</b>	
<b>IV</b>	<b>Revenue Recognition</b>	
<b>V</b>	<b>Tangible Fixed Assets</b>	
<b>VI</b>	<b>Changes in Foreign Exchange Rates</b>	
<b>VII</b>	<b>Government Grants</b>	
<b>VIII</b>	<b>Securities</b>	
<b>IX</b>	<b>Borrowing Costs</b>	
<b>X</b>	<b>Provisions, Contingent Liabilities and Contingent Assets</b>	
<b>XI</b>	<b>Total Net effect (I+II+III+IV+V+VI+VII+VIII+IX+X)</b>	<b>0</b>

✗ **Is there any impact of this disclosure on Computation in ITR automatically?**

# WHAT IF ICDS NOT FOLLOWED

- ✗ **Section 145(3) - AO has the power to make best judgment assessment u/s. 144 if he is not satisfied about the :-**
  - + **Correctness or completeness of the accounts of the assessee ; or**
  - + **Method of accounting is not regularly followed ;or**
  - + **Income not computed as per ICDS**
- ✗ **Hence ICDS has to be mandatorily followed or else best judgement assessment can be done by Assessing Officer.**

# **CBDT FAQs DT. 25<sup>TH</sup> MARCH 2017**

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- ✖ **Total 25 FAQs**
- ✖ **ICDS to apply on Ind AS FS too**
- ✖ **Applicable to all including bank etc unless specified – like ICDS VIII (securities) for certain financial institutions & ICDS I for Insurance business**
- ✖ **No specific ICDS yet for real estate developers & BOT projects and leases. Normal Act & ICDS applicable**



# **CBDT FAQs DT. 25<sup>TH</sup> MARCH 2017**

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- ✗ **For Derivative contracts :**
  - + **Forward contracts and similar - ICDS VI [Foreign Exchange] subject to para 3 of ICDS VIII [securities]**
  - + **For others ICDS I**
- ✗ **Disclosure where to be made – Q 25**
  - + **Net effect of ICDS to be disclosed in ITR**
  - + **Form 3CD**
  - + **No separate disclosures persons who are not liable for tax audit**

## 1 - ACCOUNTING LOGIC12



# **ICDS I – ACCOUNTING POLICIES**

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- ✖ **Materiality and Prudence not followed. Only substance over form. No prudence as:**
  - + **ICDS III - Non recognition of expected loss from construction contract & provisioning for loss on onerous contract**
  - + **ICDS IV - Reasonable certainty of ultimate collection is ignored for recognition of revenue through rendering of service and on Rent, interest, royalty and dividend**
  - + **ICDS VII – Govt. grants to be recognized not later than its actual receipt even if condition w.r.t to such grant has not met.**

# ICDS I – ACCOUNTING POLICIES

- ✗ No deduction of expected losses or marked to market loss unless as per other ICDS
- ✗ Judicial Precedents:
  - + *DCIT (International Taxation) v. Bank of Bahrain & Kuwait [2010] 41 SOT 290 (Mum) (SB)* - Loss incurred on a/c of evaluation of contract on last date of B/S is allowable.
  - + Anticipated losses allowed as deductions - *ABN Amro Securities Ind (P.) Ltd. v. ITO [2011] 15 taxmann.com 177 (Mum)*
  - + Mark-to-market loss on derivatives held as stock-in-trade allowed - *DCIT v. Kotak Mahindra [2013] 35 taxmann.com 225 (Mumbai - Trib.)*
- ✗ FAQ - Marked to Market loss or expected loss as well as Marked to Market gain or expected gain not to be recognised unless as per ICDS

# ICDS I – DISCLOSURES

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- ✖ All significant accounting policies
- ✖ Change in accounting policy which has material effect including amount to the extent ascertainable
- ✖ If change in accounting policy to have material effect in later years, then disclosure to be made:
  - + In year of adoption as well as
  - + In 1st year of material effect - not as per AS
- ✖ Disclosure or change in accounting policy cannot remedy a wrong or inappropriate treatment of item
- ✖ If fundamental accounting assumptions of going concern, consistency and accrual not followed.

# **ICDS I – PRACTICAL IMPLICATIONS**

- ✖ **Disclosure of all significant accounting policies in Clause 13 (f) of Form 3CD, wherever applicable:**
  - + Give complete
  - + Where similar may refer of policies in notes to FS
- ✖ **Disallowances or deductions to be disclosed in ICDS schedule in Form 3CD as well as ITR (other than those covered by other ICDS):**
  - + Marked to market loss / gain
  - + Expected losses
- ✖ **Take care of change in accounting policies having material effect in the year of effect too.**

# FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
I	Accounting Policies	2000		2000	Mark to Market Loss on Derivatives
	Total			2000	

# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
I	Accounting Policies	<ul style="list-style-type: none"><li>Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements</li></ul>



*CA. Pramod Jain*

# II – VALUATION OF INVENTORIES



## **ICDS II – VALUATION OF INVENTORIES**

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- ✖ **Inventory to be valued at cost or NRV whichever is lower.**
- ✖ **By-products, scrap or waste material are immaterial, they shall be measured at NRV and this value shall be deducted from the cost of the main product.**
- ✖ **Does not include WIP dealt by other ICDS.**
- ✖ **Cost of inventories to include:**
  - + **Cost of purchases;**
    - ✖ **Includes all duties & taxes . AS 2 excludes refundable from taxing authorities**

# **ICDS II – VALUATION OF INVENTORIES**

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- + **Costs of services; (earlier for service provider, now deleted)**

- × Includes labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads

- + **Costs of conversion; and**

- + **Other costs incurred in bringing the inventories to their present location and condition**

- × **Cost Formulae**

- + **Specific identification of cost**

- + **FIFO**

- + **Weighted Average**

## **ICDS II – VALUATION OF INVENTORIES**

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- ✖ **Techniques for measurement of cost:**
  - + **Standard Cost**
  - + **Retail method (An average percentage for each retail department is to be used )**
- ✖ **ICDS - Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, to be dealt with in accordance with the ICDS V (Tangible fixed assets)**
- ✖ **The New AS 10 PPE read with new AS 2 – FA if expected to be used for more than 12 months**

## ICDS II – TAX DUTIES

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- ✗ **AS**: The costs of purchase shall consist of purchase price including duties & taxes (**other than those subsequently recoverable by the enterprise from the taxing authorities**), freight inwards & other expenditure directly attributable to the acquisition. (Exclusive method).
- ✗ **ICDS**: The costs of purchase shall consist of purchase price including duties and taxes, freight inwards & other expenditure directly attributable to the acquisition. (Inclusive method)
- ✗ **Already under S. 145A since 1.4.1999**

## ICDS II – TAX DUTIES

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

## ICDS II – TAX DUTIES

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



## ICDS II – PARTNERSHIP FIRMS

- ✖ In case of dissolution of a partnership firm or AOP / BOI, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the NRV.
- ✖ Judicial Precedents:
  - + In cases of dissolution of firm, the stock-in-trade will have to be valued at the prevailing market price while preparing a/cs if the business of firm is discontinued- *A.L.A. Firm v. CIT [1991] 55 Taxman 497(SC)*
  - + Where firm got dissolved due to death of a partner & business was reconstituted with remaining partners & business continued without any interruption, closing stock was to be valued at cost or MP, whichever was lower, & not at market value -*Sakthi Trading Co. v. CIT [2001] 118 Taxman 301 (SC)*



## ICDS II – VALUATION OF INVENTORIES

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- ✖ **No Interest /borrowing cost unless as per ICDS IX**
  - + **Where inventories require a period of 12 months or more to bring them to a saleable condition**
- ✖ **Value of the inventory as on beginning of PY shall be:**
  - + **Cost of inventory available, if any, on day of commencement of business when the business has commenced during the PY;**
  - + **Value of the inventory as on the close of the immediately preceding PY, in any other case.**

## ICDS II – DISCLOSURES

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- ✖ Accounting policies adopted in measuring inventories including the cost formulae used. Where Standard Costing has been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost approximates the actual cost;
- ✖ The total carrying amount of inventories and its classification appropriate to a person.
- ✖ AS – same as above except underlined content

# **ICDS II – PRACTICAL IMPLICATION**

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## **✖ Disclosures**

- + Same as per AS 2, but if standard cost used..  
State whether it approximates the actual cost**
- + Carrying amount??**
- ✖ If there is change in method of valuation of inventory its change in accounting policy...  
follow AS 1 disclosure**
- ✖ Take care at time of dissolution of partnership firm**

## **ICDS II – PRACTICAL IMPLICATION**

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- ✖ **Disclosure for not following inclusive method of valuation of inventory – non-compliance of s. 145A – already reporting at Para 14(b) of Form 3CD– refer Para 23 of ICAI Tax Audit Guidance Note**
- ✖ **Borrowing costs for inventories only if they require a period of 12 months or more to bring them to a saleable condition**

# FORM 3CD – CLAUSE – 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
II	Valuation of Inventories	10000		10000	<ul style="list-style-type: none"> <li>Difference over cost to NRV in case of dissolution of firm. Valued at lower in books</li> </ul>
	<b>Total</b>			<b>10000</b>	

# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
II	Valuation of Inventories	<ul style="list-style-type: none"><li>• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements</li><li>• For carrying amount and classification refer Note No. _ of Balance Sheet</li><li>• Inventories are not inclusive of duties and taxes, yet there is no effect on profits, refer to Para 14(b) of Form 3CD</li><li>• The assessee is following Standard Costing as a measurement of cost, and that approximates the actual cost</li></ul>

# IA - REALITY RECEPTION

# **ICDS IV – REVENUE RECOGNITION**

- ✖ **Both AS & ICDS deals with recognition of revenue from:**
  - + **Sale of goods;**
  - + **Rendering of services;**
  - + **Use by others of the person's resources yielding interest, royalties or dividends.**
- ✖ **Does not deal with aspects of revenue dealt with other ICDS**
- ✖ **Main issue is the timing of recognition of revenue.**



# **ICDS IV – REVENUE RECOGNITION**

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- ✖ Revenue for sale of goods –**
  - + AS 9 – ..... when no significant uncertainty exists regarding amount of consideration that will be derived ..**
  - + ICDS IV - when there is reasonable certainty of its ultimate collection .....**
  - + In AS & ICDS - 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**

## **ICDS IV – REVENUE RECOGNITION**

- ✖ **For Service Contracts, AS allows both methods:**
  - + **Percentage completion method; and**
  - + **Completed Contract method**
- ✖ **ICDS requires mandatorily compliance of percentage completion method & Requirements of ICDS – III, shall mutatis mutandis apply**
- ✖ **However, if revenue from service contracts is duration of not more than 90 days, then revenue may be recognized under completed contract method. AS 9 – no such duration**

## ICDS IV – REVENUE RECOGNITION

- ✗ Interest income to accrue on time basis by the amount outstanding and the rate applicable . Same as AS 9
- ✗ However, as per AS 9 - interest, royalties & dividends to be recognized when no significant uncertainty as to measurability or collectability exists
- + Judicial Pronouncements
  - ✗ Right to receive - *E.D. Sassoon & Co. Ltd. v. CIT (SC) (26 ITR 27)*
  - ✗ Interest income to accrue on coupon date - *DIT v. Credit Suisse First Boston (Cyprus) Ltd 351 ITR 323 (Bom.)*
- ✗ Interest on security – 30/6 & 31/12. Sells security on 30th April. Accounts interest on accrual basis till 31st March. Deduction of amount already taxed but not received to be allowed as deduction. FAO – 0 18

## **ICDS IV – REVENUE RECOGNITION**

- ✖ Reasonable certainty of ultimate collection of interest & royalty not given. Recognize and if not realised claim bad debts u/s 36(1)(vii) . S. 43D (Banks, PFIs etc) would prevail over ICDS – FAQ – Q 13
- ✖ Interest on NPAs other than Banks, PFIs etc?
- ✖ Interest on Debtors, Telecom companies, Electricity distribution companies, RWAs??
- ✖ ICDS applicable on tax on gross basis on interest, royalty & FTS for non-residents u/s 115A. FAQ – Q 14
- ✖ Interest on Income-tax, Service Tax, etc. shall now be taxable on receipt basis instead of accrual basis as contemplated under earlier ICDS

## **RECOGNIZED INCOME – BAD DEBTD**

- ✖ **What happens when income is recognised in computation but not in books as per ICDS, and later becomes bad?**
- ✖ **S. 36(1)(vii) -for deduction of bad debt, the debt should be written of irrevocably in the books of account??**
- ✖ **S. 36(1) (vii) amended by Finance Act 2015 - if income has been offered to tax but has not been recognized in books of accounts, the same is deemed to have been recognized in the books for the purpose of s. 36(1) (vii)**

## **ICDS IV – REVENUE RECOGNITION**

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- ✖ **AS 9 Para 8.5 – When interest, royalties & dividends from foreign countries require exchange permission & uncertainty in remittance is anticipated, recognition may need to be postponed.**
- ✖ **No similar provision in ICDS**
- ✖ **Dividend to be recognised as per Act. AS 9 - owner's right to receive is established**
- ✖ **Royalty to be recognized with the terms of agreement unless having regard to the substance of transaction, it is more appropriate to recognize revenue on some other systematic & rational basis. Same as AS**

## ICDS IV – DISCLOSURES

- ✖ In a transaction involving sale of good, total amount not recognised as revenue during PY due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty;
- ✖ Amount of revenue from service transaction recognised as revenue during the PY;
- ✖ Method used to determine the stage of completion of service transactions in progress; and
- ✖ For service transactions in progress at end of PY:
  - + Amount of costs incurred and recognised profits (less recognised losses) upto end of PY;
  - + Amount of advances received; and
  - + Amount of retentions.
- ✖ AS – none except 1<sup>st</sup>

# **ICDS IV – PRACTICAL IMPLICATIONS**

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- ✖ **Increased Disclosures**
- ✖ **Interest income on accrual basis if not recognised being doubt of collection exists.  
other than 43D (banks, etc) others may have to disclose adjustments in ICDS**
- ✖ **If service contract beyond 90 days and recognised on completed contract method, need to adjust and disclosure as per ICDS**



# FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
IV	Revenue Recognition	2000		2000	<ul style="list-style-type: none"> <li>• Interest not provided in books Rs. 1000</li> <li>• Service contract exceeding 90 days recognised on completed method as per AS 9 - 1000</li> </ul>
	Total			2000	

# FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
IV	Revenue Recognition	<ul style="list-style-type: none"><li>• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements</li><li>• For amount of revenue from service transaction recognised as revenue during the PY refer Note _ PL</li><li>• Percentage Completion Method is being used to determine the stage of completion of service transactions in progress;</li><li>• For service transactions in progress at end of PY:<ul style="list-style-type: none"><li>• Amount of costs incurred and recognised profits (less recognised losses) upto end of PY;</li><li>• Amount of advances received; and</li><li>• Amount of retentions.</li></ul></li></ul>

Thank You!



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