

Critical Issues

in

Tax Audit & ICDS III to IX



CA. PRAMOD JAIN

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

Shared at

Pune Branch of WIRC of ICAI

5th August 2017



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

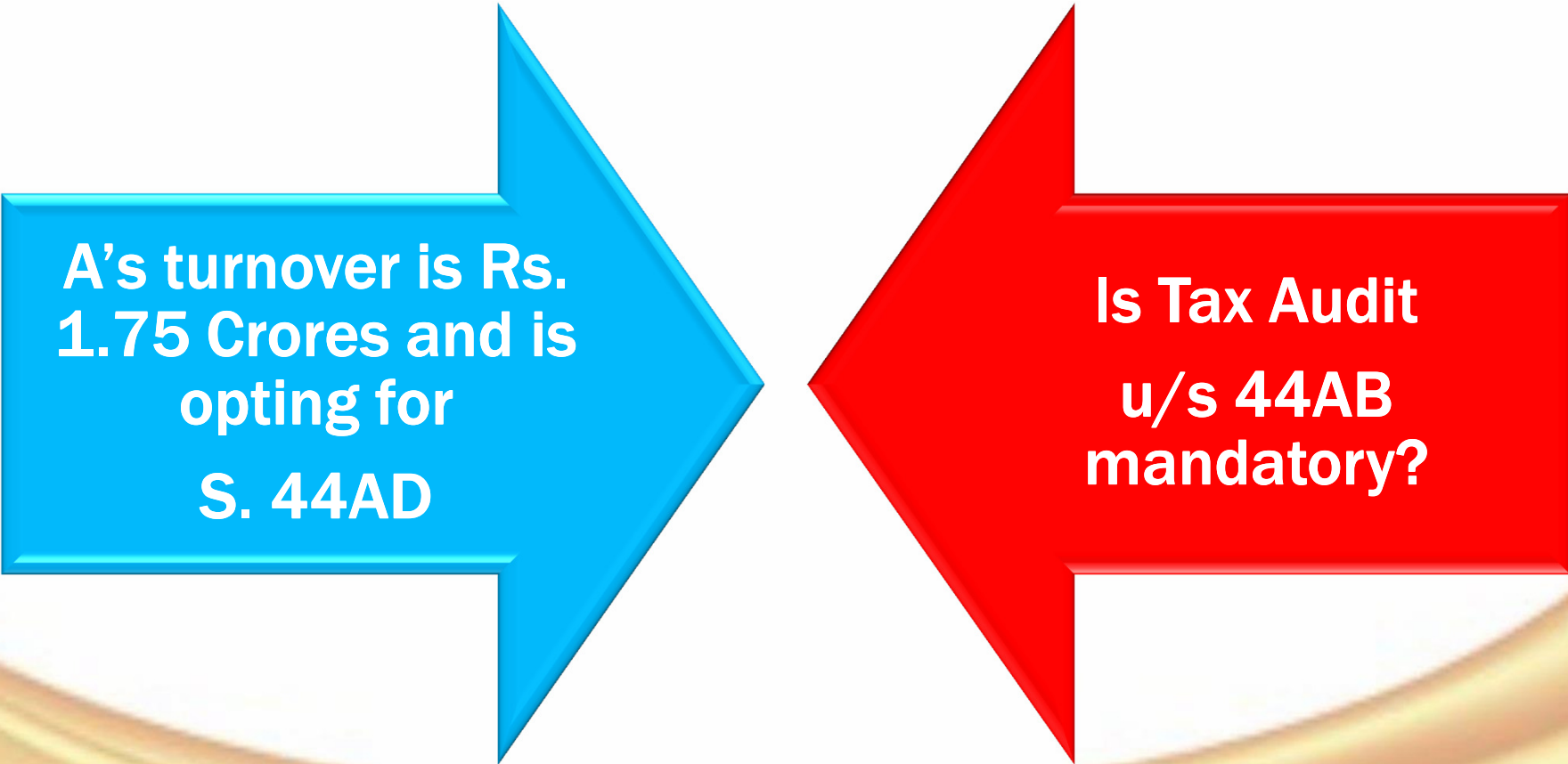
Form 3CD

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

S. 271B

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

44AD / 44AB



A's turnover is Rs.
1.75 Crores and is
opting for
S. 44AD

Is Tax Audit
u/s 44AB
mandatory?

APPLICABILITY OF 44AD(44ADA) / 44AB - AY 2017-18

**Mfg. - Turnover – 120L; NP – 10 L; 80-IA – 7 L;
TI-2.40L**

- AD - No
- AB - Yes

**Trading- Turnover – 90L; NP -3L; Architect –
Fee – 55 L; NP- 15 L; TI-7L**

- AD – No
- ADA - No
- AB - Yes

**Doctor – Trading Turnover – 120L - NP – 8 L;
Fee – 27 L – NP 15 L; TI- 20 L**

- AD – No
- ADA - Yes
- AB - Yes

**Trading; Turnover -120L; Commission - 2L; NP-
5L; TI 4L**

- AD - No
- AB - Yes

PRESUMPTIVE TAXATION - CHANGES

- **Limit u/s 44AD increased from 1 Cr to 2 Cr**
- **S. 44ADA introduced for Professionals – Limit 50 Lacs – Deemed Income -50%**
- **For firms - partners salary & interest not allowable for business as well as professional**
- **If benefit u/s 44AD not claimed in 1 year then cannot claim in next 5 years. In such case to maintain books if income > maximum amount not chargeable to tax and audit u/s 44AB**
- **No similar clause for professionals u/s 44ADA**
- **Advance Tax for 44AD /44ADA– 15th March**

APPLICABILITY-44AD / 44AB FOR AY 2017-18

**AY 2017-18 – T – Rs. 120 Lacs . P
– 10 L, TI – 9 L**

• Y/N

**AY 2018-19 – T – Rs. 120 Lacs . P
– 8 L, TI – 6 L**

• N/Y

**AY 2019-20 – T – Rs. 70 Lacs . P –
10 L, TI – 9 L**

• N/Y

**AY 2020-21 – T – Rs. 60 Lacs . P –
10 L, TI – 2 L**

• N/N

Qualified
or
Disqualified

WHO CAN CONDUCT AUDIT

- **W.e.f. 1st June 2015**
- **Accountant as defined in Explanation below S. 288 (2)**
- **A Chartered Accountant as defined in section 2 (1) (b) of the Chartered Accountants Act, 1949 who holds a valid certificate of practice u/s 6 (1) of that Act**
- **CA in practice (can represent)**

DISQUALIFICATION - COMPANIES



DISQUALIFICATION – OTHERS

- **Assessee himself**
- **In case of a firm - any partner of the firm**
- **In case of AOP - member of the association**
- **In case of HUF - member of the family**
- **Person referred to in section 13(3)(a),(b),(c), (cc);**
- **Relative of any of above persons**
- **Other than above, person who is competent to verify return u/s 139/140;**
- **Officer or employee of assessee;**

RELATIVE – INCOME TAX AUDITOR

- **Spouse of the individual;**
- **Brother or sister of the individual;**
- **Brother or sister of the spouse of the individual;**
- **Any lineal ascendant or descendant of the individual;**
- **Any lineal ascendant or descendant of the spouse of the individual;**
- **Spouse of a person referred above**
- **Any lineal descendant of a brother or sister of either the individual or of spouse of individual**

DISQUALIFICATIONS - OTHERS

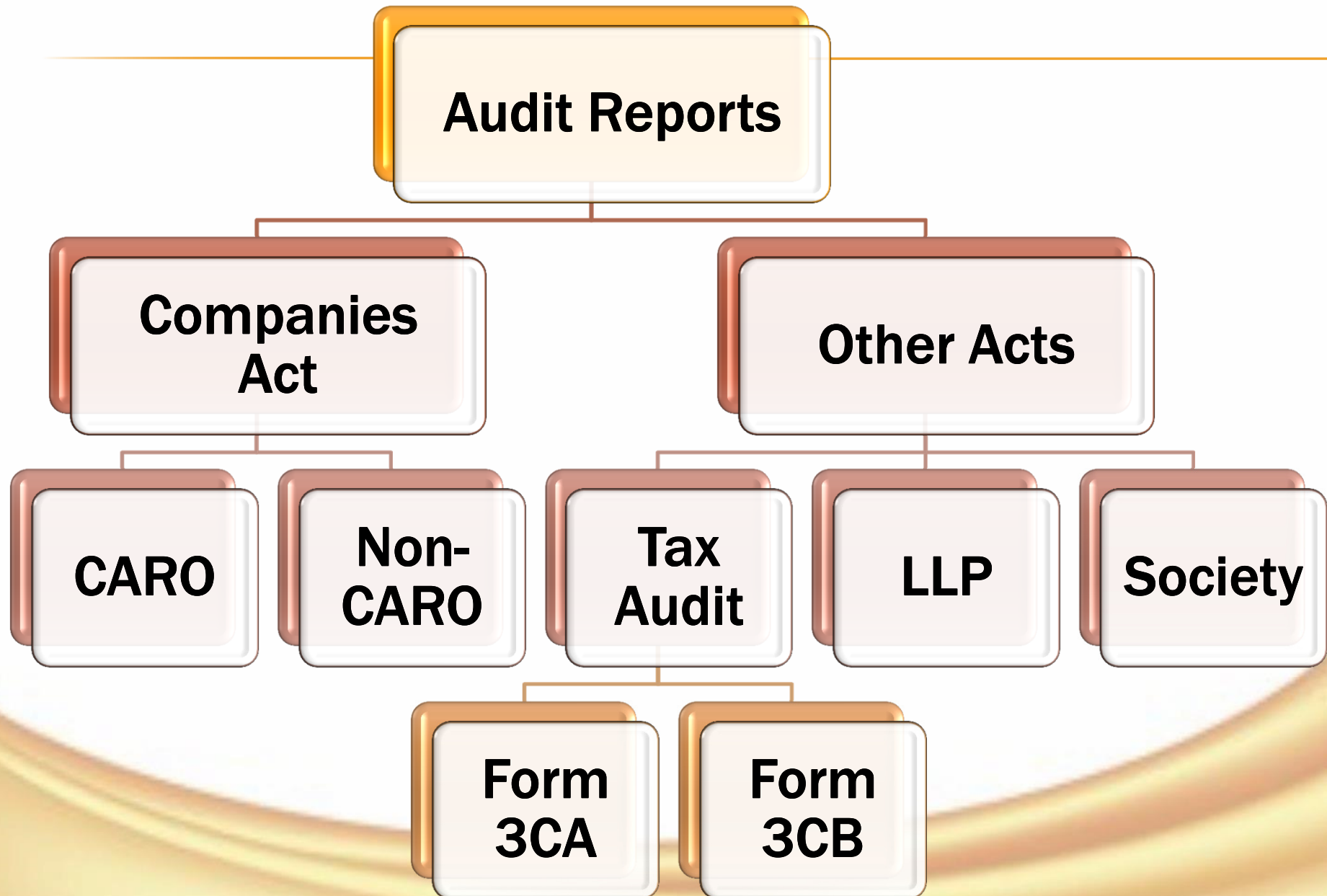
- **Who is a partner, or who is in employment, of an officer or employee of assessee;**
- **Who has been convicted by a court of an offence involving fraud and a period of 10 years has not elapsed from the date of such conviction**
- **An individual who, or his relative or partner**
 - **Is holding any security of or interest in assessee–
Relative face value - Rs. 1 L**
 - **Is indebted to the assessee. Relative – Rs. 1 L**
 - **Has given a guarantee /provided security . Relative –
1 L**

DISQUALIFICATIONS – TAX AUDITOR

- A person or a firm who, whether directly or indirectly, has business relationship with assessee. i.e., any transaction entered into for commercial purpose except:
 - In nature of professional services permitted
 - In the **ordinary course of business of co.** at ALP like
 - sale of products or
 - services
 - To **auditor, as customer, in the ordinary course of business**, by companies engaged in business of telecommunications, airlines, hospitals, hotels & such other similar businesses

???

- **Can a CA in practice who is giving accounting services to a company conduct tax audit of that company?**
- **Can an internal auditor of a company issue Form 15CB certificate for that company?**
- **Can a CA in practice who is giving accounting services to a company issue certificate in Form 29B for MAT calculation?**



FORM 3CA

- ✖ **Total 3Paras**
- ✖ **Reporting period for PL amended from 31st 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

- ✖ **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.

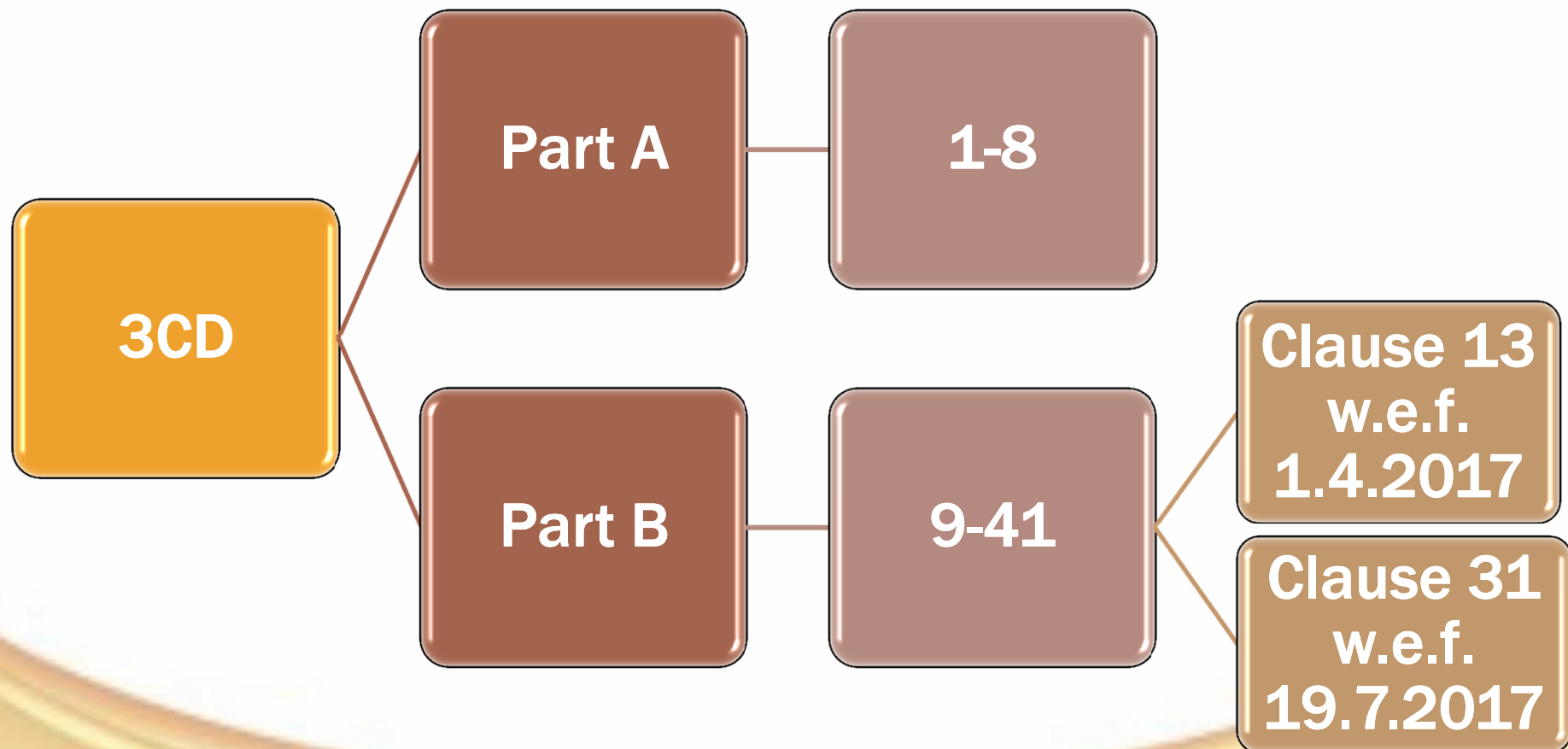
SA 700

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



FORM 3CD – CLAUSE - 11

- ✖ Whether books prescribed u/s 44AA? If yes, list of books prescribed.
- ✖ List of books maintained & address at which maintained
- ✖ List of books of a/cs & nature of relevant documents examined.
- ✖ S. 2(12A) - books or books of a/c includes ledgers, day-books, cash books, account-books & other books, whether kept in written form or ..electronic.
- ✖ Relevant documents - directly related to transactions reflected in books of a/cs like invoice, bank statements, vouchers, dr. note, cr. note, inventory register, agreements / contracts or any other document on basis of which preliminary entries are passed in books of a/cs

FORM 3CD – CLAUSE – 21(A)

✖ Furnish the details of amounts debited to the profit and loss account, being in the nature of Capital, personal, advertisement expenditure club fee, etc:

+ Loss on sale of Assets

+ Fee for increase in authorised Capital

+ Loss on sale of investments

CL. 31 - S. 269 SS/T – 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 - S. 269 SS/T – 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 - S. 269 SS/T – 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 - S. 269 SS/T – 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 - S. 269 SS/T – 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**

FORM 3CD – CLAUSE 40

✗ Ratios:

- + Total Turnover of the assessee**
- + GP / Turnover**
- + NP / Turnover**
- + Stock-in-trade / Turnover**
- + Material Consumed / Finished Goods produced**

✗ To be given for all assesseees???

- + Only Manufacturing & Trading**

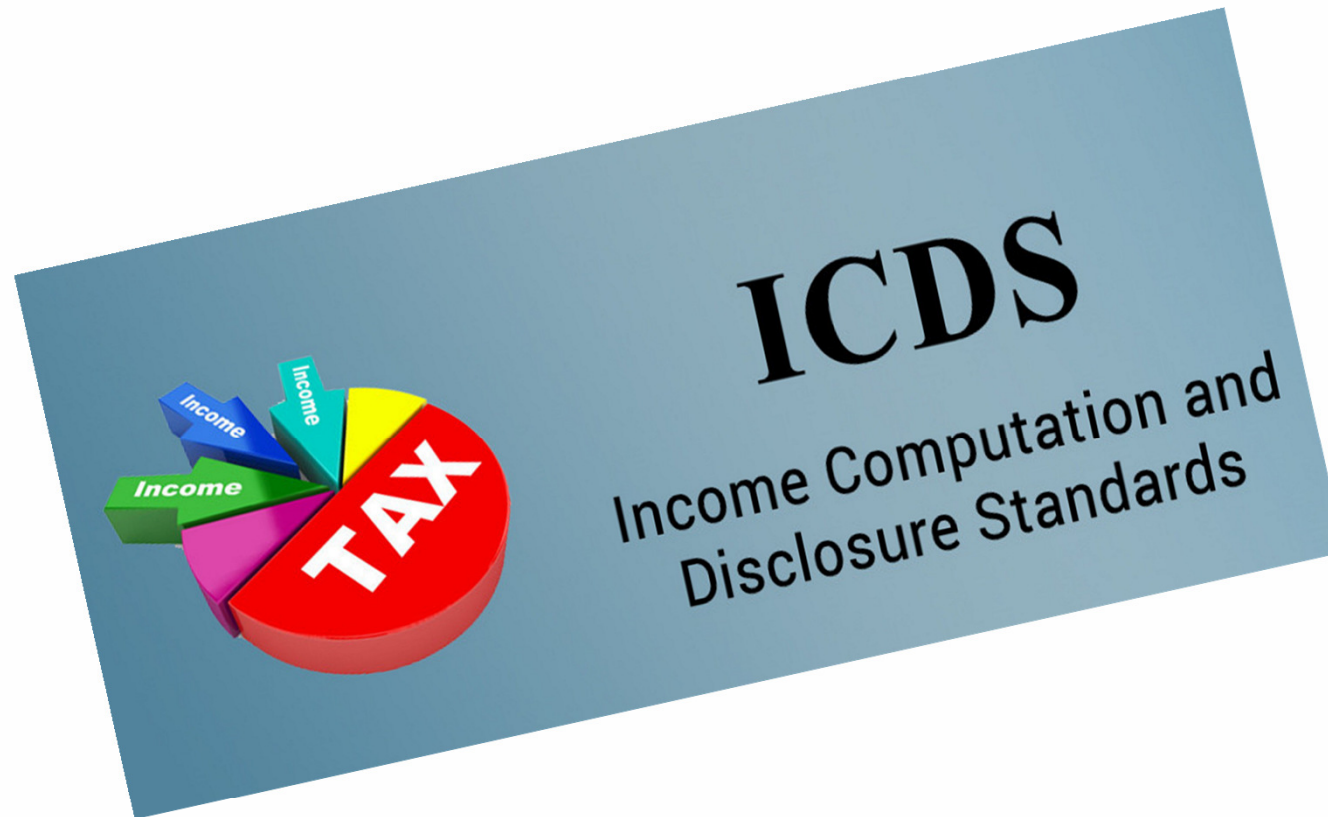
✗ Ratios in value only

✗ To be given for business as whole

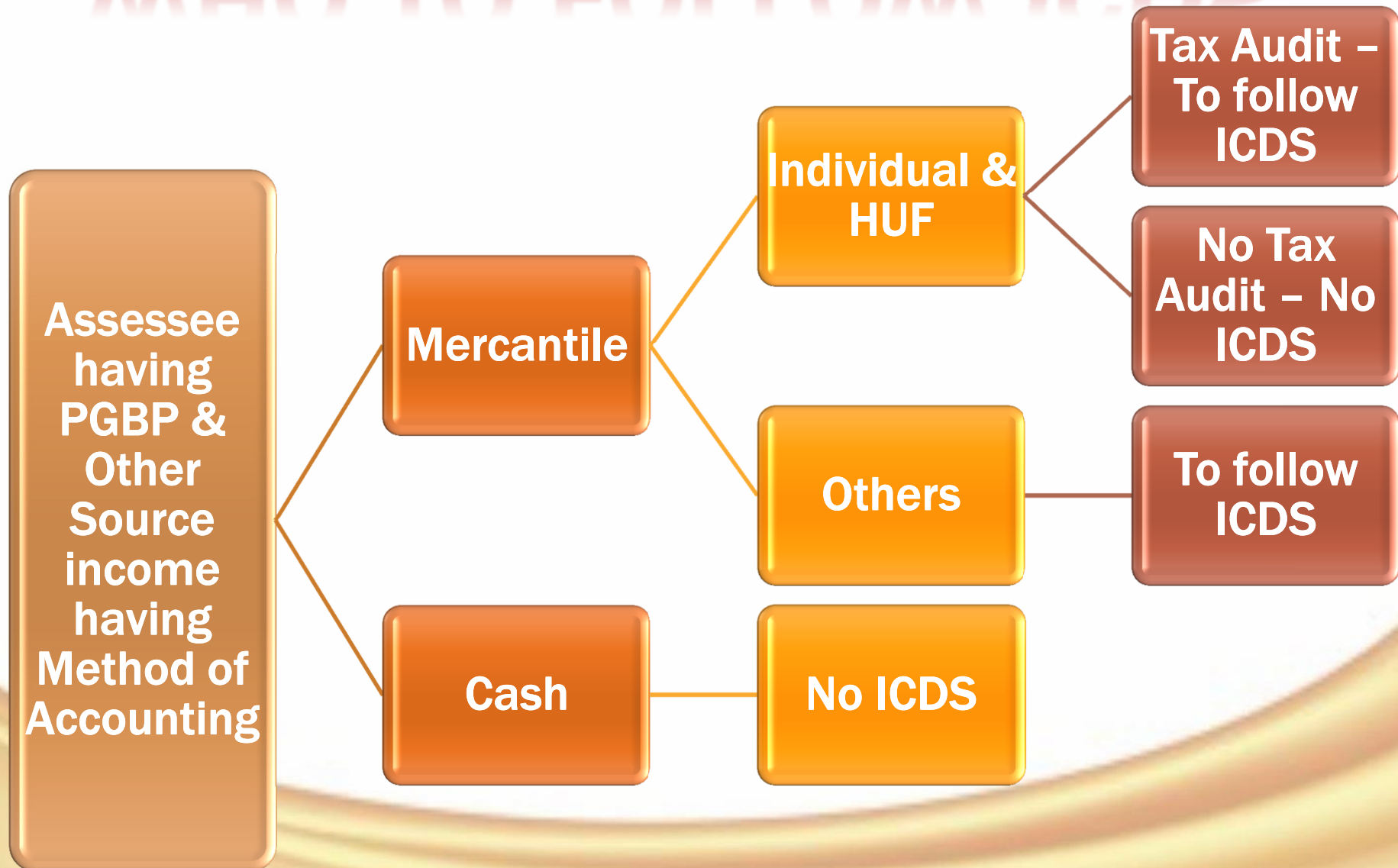
✗ Calculation of the ratios are also to be stated

FORM 3CD – CLAUSE 40

- ✖ **NP – before / after tax?**
 - + Before
- ✖ **Stock-in-trade includes what items?**
 - + Only finished goods
- ✖ **Material consumed would include RM consumed, stores, spare parts and loose tools**
- ✖ **Relevant previous year figures are to be taken from last previous year audit report.**
- ✖ **In case the preceding PY is not subject to audit, nothing should be mentioned in relevant column**



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



PREAMBLE

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

WHAT TO DO

Get the FS
prepared
complying AS
/ Ind AS

Check & List
out the
applicable
ICDS

Note Differences
in accounting
policy as per AS
in books & ICDS

Does any of
those relate to
any ICDS?

Is there any
adjustment
required in
computation from
Profit as per Books
& IT?

If different, effect
on profit /loss to
be disclosed in
Form 3CD & ITR

If yes, disclosure
may be required
in 3CD & ITR too

Verify related
ICDS
disclosures in
Form 3CD

Fill ICDS effect
details in ITR

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

ICD S	Name of ICDS	Whether Applicable	Amounts in ITR & 3CD	Disclosur es in 3CD	Rema rks
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

- ✗ (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

Schedule ICDS Effect of Income Computation Disclosure Standards on profit		
Sl. No.	ICDS	Amount
(i)	(ii)	(iii)
I	Accounting Policies	
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 Liabilities and Contingent Assets	
XI	Total Net effect (I+II+III+IV+V+VI+VII+VIII+IX+X)	0

✗ **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. 25TH MARCH 2017

- ✖ **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. 25TH MARCH 2017

✖ 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**

CA. Pramod Jain

III – CONSTRUCTION CONTRACTS



ICDS III – CONSTRUCTION CONTRACTS

- ✖ **ICDS specifically also defines Retentions, progress billings & advances**
- ✖ **May be fixed price contract or cost plus contract or combination of both. Same as AS 7**
- ✖ **ICDS - Revenue shall be recognised when there is reasonable certainty of its ultimate collection**
- ✖ **AS 7 – measured reliably and other conditions including that it is probable that the economic benefits associated with the contract would flow to the enterprise**

ICDS III – CONSTRUCTION CONTRACTS

✖ Revenue to include retentions. Judicial Precedents:

- + Where retention money and security deposit were repayable to the assessee after completion of the contract to the satisfaction of the contractee, it could not be said that said amount had accrued to assessee and therefore, could not be taxed in assessee's hand - *CIT v. P & C Constructions (P.) Ltd. [2009] 318 ITR 113 (Mad.)*
- + On date of submission of bills, assessee had no right to receive entire amount on completion of work and retention money did not accrue to it on such date but on later date in accordance with terms of contracts. The AO was not justified in treating entire contract amount as accrued on submission of bills - *CIT v. Simplex Concrete Piles India (P.) Ltd. [1989] 45 Taxman 370 (Cal.)*

ICDS III – CONSTRUCTION CONTRACTS

- ✖ **Retention money being part of overall contract to be recognised subject to reasonable certainty of its ultimate collection as per para 9 – FAQ – Q11**
- ✖ **Contract 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 .**
- ✖ **AS 7 does not mention these, but gives examples that can be reduced of sale of surplus materials, disposal of Plant etc at end of contract.**

ICDS III – CONSTRUCTION CONTRACTS

- ✘ 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. Same as AS 7
- ✘ Percentage completion method to be adopted. Same as AS 7 except – when outcome of a construction contract can be estimated reliably
- ✘ The early stage of a contract shall not extend beyond 25 % of the stage of completion. outcome of a construction contract estimation not required
- ✘ ICDS -Expected losses not to be recognised – AS 7 – to provide on prudence immediately. ICDS is also contrary to *Delhi HC & Gujarat HC judgements*

ICDS III – CONSTRUCTION CONTRACTS

- ✖ Implication of non – allowance of expected loss.

Example :-

- + Expected loss in the year 1st year of a 3 year contract was Rs . 300.
- + Actual Loss on completion of the contract in the third year was Rs. 240.

Year	Book Profit	As per Income Tax
1	(300)	(100)
2	-	(100)
3	60	(40)

- + Without any actual income there would be taxable income u/s 115 JB.


ICDS III – TRANSITIONAL PROVISION

- ✖ Contract Revenue and Contract Costs associated with the construction contract which commenced on or after 1 April 2016 shall be recognized as per provision of ICDS – III**
- ✖ Contract Revenue and Contract Costs associated with the construction contract which commenced on or before 31 March 2016 but not completed by the said date, shall be recognized based on method regularly followed by the person prior to 1.4.2016**

ICDS III – DISCLOSURES

- ✖ The amount of contract revenue recognised as revenue in the period; and
- ✖ The methods used to determine the stage of completion of contracts in progress.
- ✖ For contracts in progress at the reporting date, namely:—
 - ✖ Amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
 - ✖ Amount of advances received; and
 - ✖ Amount of retentions.
- ✖ AS – same + methods used to determine contract revenue recognized during the period

ICDS III – PRACTICAL IMPLICATIONS

- ✖ **Retentions to be recognised on percentage completion method through ICDS**
 - ✖ **Expected losses to be added back to computation and disclosure through ICDS**
 - ✖ **Contract costs not to be reduced by interest, dividends or capital gains. To be charged directly to revenue**
- 

FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
III	Construction Contracts	10000		10000	<ul style="list-style-type: none"> • Retentions not charged to revenue -4000 • Expected losses charged to PL as per AS 7 - 6000
	Total			10000	

FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
III	Construction Contracts	<ul style="list-style-type: none">• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements• For amount of contract revenue recognised as revenue in the period refer Note No. _ of PL

IV – REVENUE RECOGNITION



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

- ✖ **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

- ✖ **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 – TRANSITIONAL PROVISION

- ✖ **The transitional provisions of ICDS III shall mutatis mutandis apply to recognition of revenue & associated costs for a service transaction undertaken on or before 31.3. 2016 but not completed by the said date.**
- ✖ **Revenue for a transaction other than dividend undertaken on or before 31.3.2016 but not completed by the said date shall be recognised in accordance with the provisions of this ICDS for the PY commencing on 1.4.2016 & subsequent PY. The amount of revenue, if any, recognised for the said transaction for any PY commencing on or before 1.4.2015 shall be taken into a/c for recognising revenue for the said transaction for the PY commencing on 1.4.2016 & subsequent PYs.**

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 1st

ICDS IV – PRACTICAL IMPLICATIONS

- ✖ **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"> • Interest not provided in books Rs. 1000 • Service contract exceeding 90 days recognised on completed method as per AS 9 - 1000
	Total			2000	

FORM 3CD – CLAUSE – 13(F)

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

CA. Pramod Jain

V – TANGIBLE FIXED ASSETS



ICDS V – TANGIBLE FIXED ASSETS

- ✗ **Not comparable with AS 10 - PPE**
- ✗ **AS 10 - Property, Plant and Equipment are tangible items that:**
 - + **Are held for use in production or supply of goods or services, for rental to others, or for administrative purposes; AND**
 - + **Are expected to be used during more than a period of twelve months**
- ✗ **Only for Tangible FA being land, building, machinery, plant or furniture held with intention of being used for purpose of producing or providing goods or services and is not held for sale in normal course of business.**
- ✗ **Not for intangibles.**
- ✗ **Not for rental / Administrative use?**

ICDS V – TANGIBLE FIXED ASSETS

- ✖ **AS 10 - Spare parts, stand-by equipment and servicing equipment are recognised in accordance with this Standard when they meet the definition of property, plant and equipment. Otherwise, such items are classified as inventory**
- ✖ **ICDS :**
 - + **Stand-by equipment /servicing equipment are to be capitalised.**
 - + **Machinery spares to be charged to revenue as and when consumed. When such spares can be used only in connection with an item of tangible FA & their use is expected to be irregular, they shall be capitalised**

ICDS V – TANGIBLE FIXED ASSETS

- ✘ **Time upto which to be capitalized:**
 - + **Expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. AS 10- Initial cost to include testing costs**
 - + **Expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure.**
- ✘ **Exp. incurred till plant has begun commercial production intended for sale or captive consumption to be capitalised. FAQ – Q 15**

ICDS V – TANGIBLE FIXED ASSETS

- ✖ **AS 10 - Recognition of costs in carrying amt. of an item of PPE ceases when item is in location and condition necessary for it to be capable of operating in manner intended by management. Following costs not included:**
 - + **Costs incurred while an item capable of operating in manner intended by management has yet to be brought into use or is operated at less than full capacity;**
 - + **Initial operating losses, such as those incurred while demand for the output of an item builds up; and**
 - + **Costs of relocating or reorganising part or all of the operations of an enterprise.**

ICDS V – TANGIBLE FIXED ASSETS

- ✖ **AS 10 - Provides for recognizing & derecognizing costs of replacement of:**
 - ✖ **Parts (other than small parts)**
 - ✖ **Major inspection costs**
- ✖ **ICDS - An Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost**
- ✖ **If against shares – FV of asset acquired to be actual cost. In AS same but with various conditions**
- ✖ **Revaluation**
- ✖ **Depreciation as per IT Act**
- ✖ **Income on transfer as per IT Act**

ICDS V – TRANSITIONAL PROVISION

- ✦ **The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31.3.2016 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 PY commencing on or before 1.4.2015 shall be taken into account for recognising actual cost of the said assets for the PY commencing on 1.4.2016 and subsequent PYs**

ICDS V – DISCLOSURES – CLAUSE 18 FORM 3CD

- ✗ **Description of asset or block of assets;**
- ✗ **Rate of depreciation;**
- ✗ **Actual cost or WDV, as the case may be;**
- ✗ **Additions or deductions during the yr with dates; in the case of any addition of an asset, date put to use; including adjustments on account of—**
 - + **CENVAT credit claimed and allowed under CENVAT Credit Rules, 2004;**
 - + **Change in rate of exchange of currency;**
 - + **Subsidy or grant or reimbursement, by whatever name called;**
- ✗ **Depreciation Allowable; and**
- ✗ **Written down value at the end of year.**

ICDS V – PRACTICAL IMPLICATIONS

- ✘ **Disclosure - Para 18 of Form 3CD. Mention same in description as well as disclosure**
- ✘ **If cost varies due to borrowing costs, what to do...? No specific column in Para 18. Addition would tally with FS too?**
 - + Add in actual cost in Para 18 and give details in additions
- ✘ **Would Depreciation adjustment for companies etc to be disclosed in ICDS?**
- ✘ **Would gain / loss on sale of asset be disclosed in ICDS?**
- ✘ **Machinery Spares / Stand by equipments, etc**

FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
V	Tangible Fixed Assets	20000	30000	-10000	<ul style="list-style-type: none"> • Depreciation effect on taking it as per IT Act – Co. Act 20000; IT Act 25000 • Loss on sale of assets 5000 taken on block of asset method
	Total			-10000	

FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
V	Tangible Fixed Assets	<ul style="list-style-type: none">• Refer to the clause 18 of Form 3CD

VI

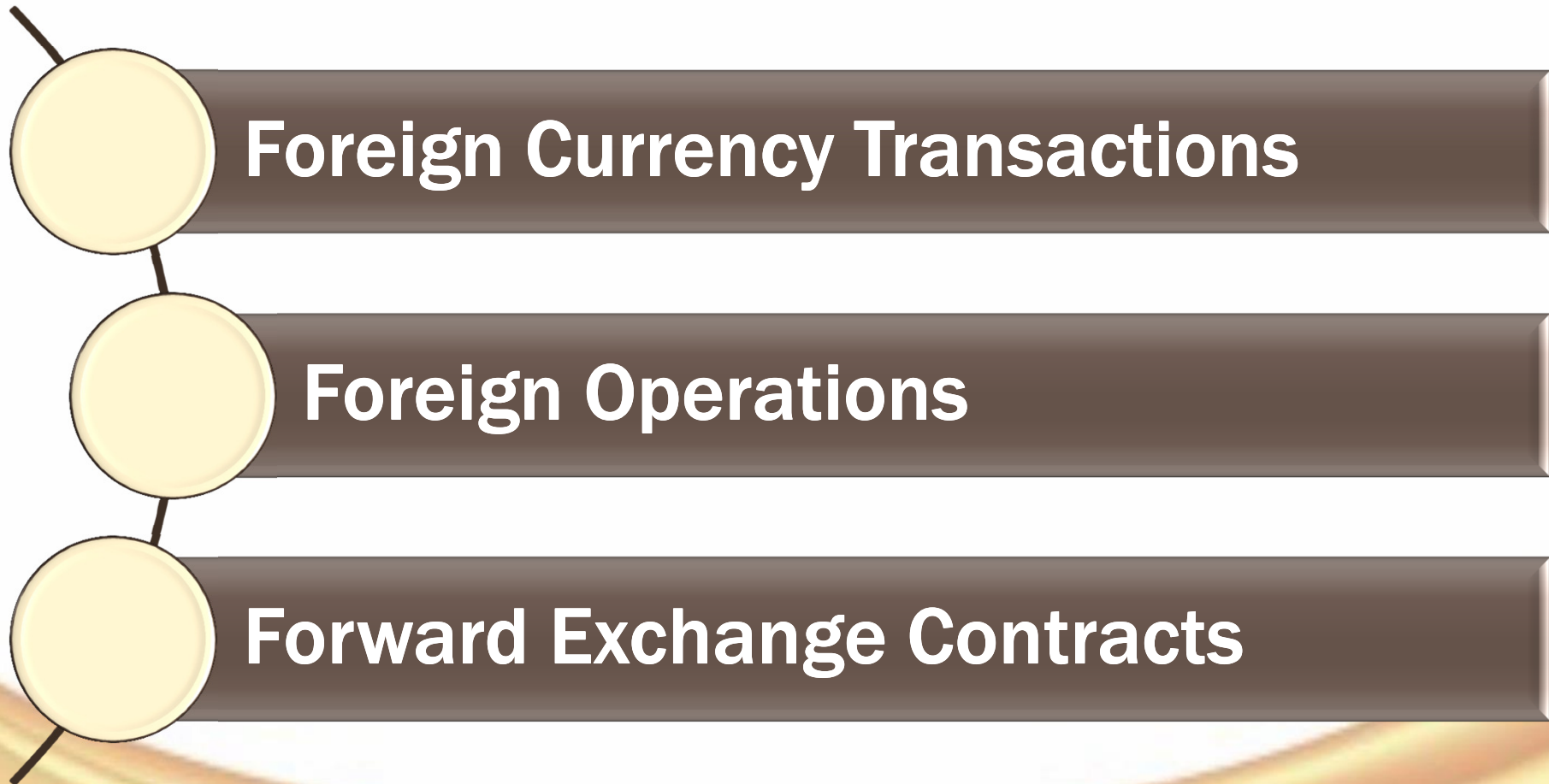
EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES



ABC	COUNTRY	Currency	Rate 1	Rate 2
A-B	Bulgaria	Lev	26.1384	34.0
C	Czech. Repub	Koruna	7.2860	9.3421
D-F	Egypt	Pound	63.4020	88.4683
G-I	India	Rupee	3.3722	4.1963
J-L	Lithuania	Litas	4.8855	5.9434
M	Malaysia	Ringgit	4.4640	5.5630
N-P	Poland	Zloty	42.9190	53.9075
Q-S	Russia	Rouble	2.1677	2.6658
T	Turkey	Lira	10.4853	13.7635
7	Ukraine	Hryvnia		

... deals over £250. (£1.50 charge applies up to £20, £3 from £20 to £200)

ICDS VI – EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES



ICDS VI – EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

✖ Initial Recognition

+ To be recorded in reporting currency by applying exchange rate of the foreign currency at the date of the transaction

✖ Conversion on last date of previous year

✖ Recognition of exchange differences has to be subject to s. 43A or Rule 115

✖ ICDS scope does not exclude exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs.

MONETARY VS. NON-MONETARY

**Monetary
Items**

**Money held
& assets to
be received
or liab. to be
paid in fixed
or
determinable
amt. of
money**

**Cash,
Trade
receivab
les,
Trade
payable
s**

**Non-
monetary
items**

**Assets &
Liabilities
other than
monetary
items**

**Fixed
Assets,
Inventor
ies,
Investm
ents**

ICDS VI – CONVERSION AT LAST DATE OF PY

✖ Monetary items

- + To be converted by applying closing rate**
- + Exchange differences arising on settlement or on conversion shall be recognised as income/expense**

✖ Non-monetary items

- + Item which are carried at historical cost to be converted by applying rate at the date of transaction**
 - + Exchange differences arising on conversion shall not be recognised as income /expense in that PY.**
- ✖ Non-monetary items being inventory carried at fair value shall be converted at rate prevailing on date when such NRV is determined**

ICDS VI – CONVERSION AT LAST DATE OF PY

- ✖ X Ltd. Sold goods worth \$150,000 to ABC Inc in USA on 1st Sept. 2016 ABC Ltd paid:
 - + \$ 50,000 on 31st Dec 2016
 - + \$ 50,000 on 2nd Feb. 2017
- ✖ The exchange rates for \$ to INR on different dates were as follows:

+ 1 st Sept. 2016	- INR 64.00
+ 31 st Dec. 2016	- INR 65.00
+ 2 nd Feb. 2017	- INR 64.50
+ 31 st Mar. 2017	- INR 65.50

ICDS VI – CONVERSION AT LAST DATE OF PY

✖ The exchange rates for \$ to INR :

- + 1st Sept. 2016 - INR 64.00
- + 31st Dec. 2016 - INR 65.00
- + 2nd Feb. 2017 - INR 64.50
- + 31st Mar. 2017 - INR 65.50

Receivable A/c



☐ 1.9.16 = 9600000

☐ 31.12.16 = - 3200000

☐ 2.2.17 = - 3200000

☐ 31.3.17 = + 75000

☐ Balance 31.3.17 = 3275000

Foreign Exchange Fluctuation



☐

☐ 31.12.16 = 50000

☐ 2.2.17 = 25000

☐ 31.3.17 = 75000

☐ Balance 31.3.17 = 150000

ICDS VI – FOREIGN OPERATIONS

- ✖ **ICDS – Considers only Branch - Does not differentiate between integral and non- integral operations. Same translating provisions.**
 - + **FS of a foreign operation shall be translated using the principles and procedures in paras 3 to 6 as if the transactions of the foreign operation had been those of the person himself**
- ✖ **AS - Separate provisions for non-integral.**
Exchange difference on monetary items forming part of enterprise net investment in non-integral operations to be transferred to FCTR

ICDS VI – FORWARD EXCHANGE CONTRACTS

- ✖ Any premium or discount arising at inception of a forward exchange contract shall be amortised as expense or income over the life of contract. Provided:**
 - + is not intended for trading or speculation purposes; and**
 - + is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction**

ICDS VI – FORWARD EXCHANGE CONTRACTS

- ✗ **Premium, discount or exchange difference on contracts that are**
 - + **intended for trading or speculation purposes, or**
 - + **that are entered into to hedge foreign currency risk of**
 - ✗ **a firm commitment (not including assets and liabilities existing at the end of the previous year) or**
 - ✗ **a highly probable forecast transaction****to be recognised at time of settlement.**
- ✗ **ICAI Guidance Note – at Fair value at balance sheet date (AS 11 does not cover this)**

ICDS VI – TRANSITIONAL PROVISION

- ✖ **All foreign currency transactions undertaken on or after 1.4.2016 shall be recognised in accordance with the provisions of this standard.**
- ✖ **Exchange differences arising in respect of monetary items or non-monetary items, on settlement thereof during PY commencing on 1.4.2016 or on conversion thereof at 31.3.2017 shall be recognised in accordance with provisions of this ICDS after taking into a/c amount recognised on last day of PY ending on 31.3.2016 for an item, if any, which is carried forward from said PY.**

ICDS VI – TRANSITIONAL PROVISION

- ✖ **FS of foreign operations for PY commencing on 1.4.2016 shall be translated using the principles & procedures specified in this standard after taking into a/c amount recognised on last day of PY ending on 31.3.2016 for an item, if any, which is carried forward from said PY.**
- ✖ **All forward exchange contracts existing on 1.4.2016 or entered on or after 1.4.2016 shall be dealt with in accordance with the provisions of this standard after taking into a/c income or expenses, if any, recognised in respect of said contracts for PY ending on or before 31.3.2016**

ICDS VI – TRANSITIONAL PROVISION

- ✖ **As per AS 11, exchange differences arising on foreign exchange translation in case of non-integral foreign operation is required to be Cr. or Dr. as foreign exchange translation reserve but as per ICDS, same is required to be recognized as income/loss in the year in which it arises**
- ✖ **Foreign Currency Translation Reserve (FCTR) balance as on 1.4.2016 pertaining to exchange differences monetary items for non-integral operations to be recognized to the extent not recognized in income computation in past. FAQ – 0 16**

ICDS VI – DISCLOSURES

✗ **ICDS – None**

✗ **AS – A few**

ICDS VI – PRACTICAL IMPLICATION

- ✖ **Difference in translation of non-integral operations, if any**
- ✖ **Foreign Currency Translation Reserve (FCTR) balance as on 1.4.2016 pertaining to exchange differences monetary items for non-integral operations to be recognized to the extent not recognized in income computation in past**
- ✖ **Would 43A implications be disclosed in ICDS now?**

FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
VI	Effect of Changes in Foreign Exchange Rates	2500	5000	-2500	<ul style="list-style-type: none"> • FCTR of non-Integral Operations - 2000 • Foreign Exchange Fluctuation loss on borrowing costs as per AS 16 - 5000 • Mark to market loss on FEC - 500
	Total			-2500	

VII – GOVERNMENT GRANTS



ICDS VII – GOVERNMENT GRANTS

- ✘ **As per ICDS “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**
- ✘ **Are Cash assistance, duty drawbacks, reimbursements covered !!**

ICDS VII – GOVERNMENT GRANTS

- ✖ **AS -12 permits two approaches, depending on the nature of the grant:**
 - + **Capital approach – owner's funds**
 - + **Income approach**
- ✖ **ICDS – only income approach**
- ✖ **Recognition Criteria:**
 - + **Not be recognised until there is reasonable assurance that**
 - ✖ **Person shall comply with conditions attached to them; &**
 - ✖ **Grants shall be received**
 - + **Not to be postponed beyond actual date of receipt.**

ICDS VII – GOVERNMENT GRANTS

- ✖ **AS-12 – To be recognised on satisfaction of related conditions & achieving reasonable certainty of receipt.**
- ✖ **AS -12 - Government grant with respect to depreciable FA may be either reduced from gross block or may be transferred to PL in proportion..**
- ✖ **ICDS - Government grant with respect to depreciable fixed asset always required to be reduced from the actual cost of depreciable fixed assets.**

ICDS VII – GOVERNMENT GRANTS

- ✖ **AS 12 - Government grants in respect of non depreciable fixed assets are required to be credited to the capital reserve account where there is no obligation to be fulfilled. However ICDS is silent over this & requires to be recognized as income over the period over which cost of meeting such obligation is charged**
- ✖ **ICDS have annulled 'The Purpose Rule' that was established by several Case laws pronounced like Rasoi Ltd. Now even the subsidy is for capital purpose the same is exposed to taxability.**

ICDS VII – IT ACT

- ✖ **Inserted by Finance Act 2015 - S. 2(24) (xviii) - Assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the CG or a SG or any authority or body or agency in cash or kind to the assessee other than,—**
 - + **Subsidy or grant or reimbursement which is taken into account for determination of actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of section 43; or**
 - + **Inst. By Finance Act 2016 - Subsidy or grant by CG for the purpose of the corpus of a trust or institution established by the CG or a SG, as the case may be**

ICDS VII – IT ACT

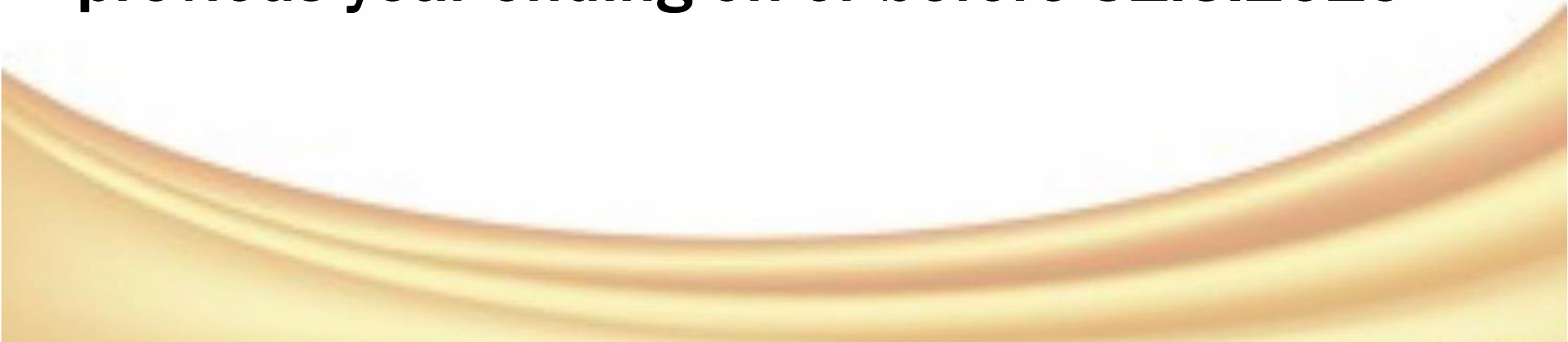
- ✖ **Explanation 10 to 43(1) - Where a portion of the cost of an asset acquired by the assessee has been met directly or indirectly by the CG or SG or any authority established under any law or by any other person, in the form of a subsidy or grant or reimbursement (by whatever name called), then, so much of the cost as is relatable to such subsidy or grant or reimbursement shall not be included in actual cost of the asset to the assessee:**



ICDS VII – IT ACT

- ✗ **Explanation 10 to 43(1) -**
- ✗ **Provided that where such subsidy or grant or reimbursement is of such nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total subsidy or reimbursement or grant the same proportion as such asset bears to all the assets in respect of or with reference to which the subsidy or grant or reimbursement is so received, shall not be included in the actual cost of the asset to the assessee.**
- ✗ **Also to see s. 28**

ICDS VII – TRANSITIONAL PROVISION

- ✖ **All the Government grants which meet the recognition criteria of para 4 on or after 1.4.2016 shall be recognised for the previous year commencing on or after 1.4.2016 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 31.3.2016**
- 

ICDS VII – TRANSITIONAL - FAQ

- ✖ **Q 17 – FAQ – Grants received prior to 1.4.2016 shall continue to be recognised as per law prevailing on that date. Example as per FAQ:**
 - + **Total subsidy entitlement as on 31.3.16 - 10 Cr**
 - + **Total recognised till 31.3.2016 – 6 Cr**
 - + **Pending due to satisfaction of related conditions or achieving reasonable certainty of receipt – 4 Cr**
 - + **4 Cr to be recognized in yr(s) in which related conditions are met & reasonable certainty is achieved**
 - + **If subsidy received prior to 1.4.2016 Para 13 of ICDS VII not applicable even if related conditions are met after 1.4.2016. Earlier Law applicable**

ICDS VII – DISCLOSURE

- ✖ Nature and extent of Government grants recognised during PY:
 - ✖ By way of deduction from actual cost of the asset or assets or from the WDV of block of assets during the PY;
 - ✖ As income;
 - ✖ By way of deduction from actual cost of asset(s) or from WDV of block of assets and reasons thereof;
 - ✖ Not recognised during the PY as income and reasons thereof.
- ✖ AS – totally different

ICDS VII – PRACTICAL IMPLICATION

- ✖ **Disclosures required**
- ✖ **If transferred to owner's fund – adjustment required and disclosure in ICDS**
- ✖ **If grant for depreciable assets charged to revenue in proportion.. Disclosure as per ICDS – reduce from FA**
- ✖ **If grant for non-depreciable assets transferred to capital reserve.. Disclosure as per ICDS – charge to revenue**
- ✖ **If complying as per IT Act, no other implication**

FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
VII	Government Grants	2000	3000	-1000	<ul style="list-style-type: none"> • Grant recognise d as Capital Reserve - 2000 • Grant on FA recognise d as revenue as per AS 12 - 3000
	Total			-1000	

FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
VII	Government Grants	<p>Nature and extent of Government grants recognised during PY:</p> <ul style="list-style-type: none">✗ By way of deduction from actual cost of the asset or assets or from the WDV of block of assets during the PY;✗ As income;✗ By way of deduction from actual cost of asset(s) or from WDV of block of assets and reasons thereof;✗ Not recognised during the PY as income and reasons thereof.

VIII SECURITIES



ICDS VIII SECURITIES

- ✖ **Not on investments, but only on securities held only as stock-in-trade**
- ✖ **In two Parts – A & B. Part A Does not deal with:**
 - + **Interest and dividend which are covered by Revenue Recognition**
 - + **Securities held by business of Insurance**
 - + **Securities held by, MF, VCF, Banks & PFIs**
- ✖ **At year end securities to be valued at lower of:**
 - + **Actual cost initially recognised; or**
 - + **Net realisable value**

ICDS VIII SECURITIES

- ✗ **“Securities” shall mean:**
 - + **As defined in S. 2(h) of the Securities Contracts (Regulation) Act, 1956**
 - + **Share of a company in which public are not substantially interested**
- ✗ **But shall not include derivatives referred to in sub-clause (ia) of clause (h)**

ICDS VIII – SECURITIES

- ✖ Comparison to be done category-wise and not each security wise
- ✖ To be classified into the following categories:-
 - + Shares;
 - + Debt securities;
 - + Convertible securities; &
 - + Any other securities not covered above.
- ✖ Opening stock-in-trade to be:
 - + Cost of securities , if any, on commencement of business if commenced during PY; and
 - + Value of securities on close of immediately preceding PY. in other case.

ICDS VIII – BUCKET METHOD

Security	Category	Cost	NRV	Lower of Cost or NRV	ICDS Value
1	Share A	1000	750	750	
2	Share B	1200	1500	1200	
3	Share C	1400	1200	1200	
4	Share D	2000	1900	1900	
	Total	5600	5350	5050	5350
5	Deb. E	1500	1600	1500	
6	Deb. F	1050	900	900	
7	Deb. G	1250	1350	1250	
8	Deb H	2200	2300	2200	
	Total	6000	6150	5850	6000
Total		11600	11500	10900	11350

ICDS VIII – BUCKET METHOD

Security	Cost	NRV	Lower of Cost or NRV	ICDS Value
1	1000	20	20	
2	1000	100	100	
3	1000	100	100	
4	1000	200	200	
5	1000	200	200	
6	1000	5000	1000	
Total	6000	5620	1620	5620

ICDS VIII – BUCKET METHOD

Security	Cost	NRV	Lower of Cost or NRV	ICDS Value
YEAR 1				
1	1000	500	500	
2	1000	100	100	
3	3000	3500	3000	
Total	5000	4100	3600	4100
YEAR 2				
1	1000	2000	1000	
2	1000	500	500	
3	3000	4000	3000	
Total	5000	6500	4500	5000

ICDS VIII – SECURITIES

- ✖ Unlisted securities or listed but not quoted with regularity - at actual cost initially recognised.
- ✖ Where actual cost initially recognised cannot be ascertained by specific identification, then to be determined on FIFO or **weighted average**
- ✖ Part B is for Banks & PFIs
 - + To be classified, recognised & measured in accordance with RBI guidelines in this regard & any excess deduction not to be taken into a/c. To this extent, ICDS VI relating to forward exchange contracts to not apply

ICDS VIII – PRACTICAL IMPLICATION

- ✖ **No Disclosures**
- ✖ **One can value its inventories of securities in books of accounts as per Bucket method as no specific AS on same. Consequently no ICDS adjustment thereof.**



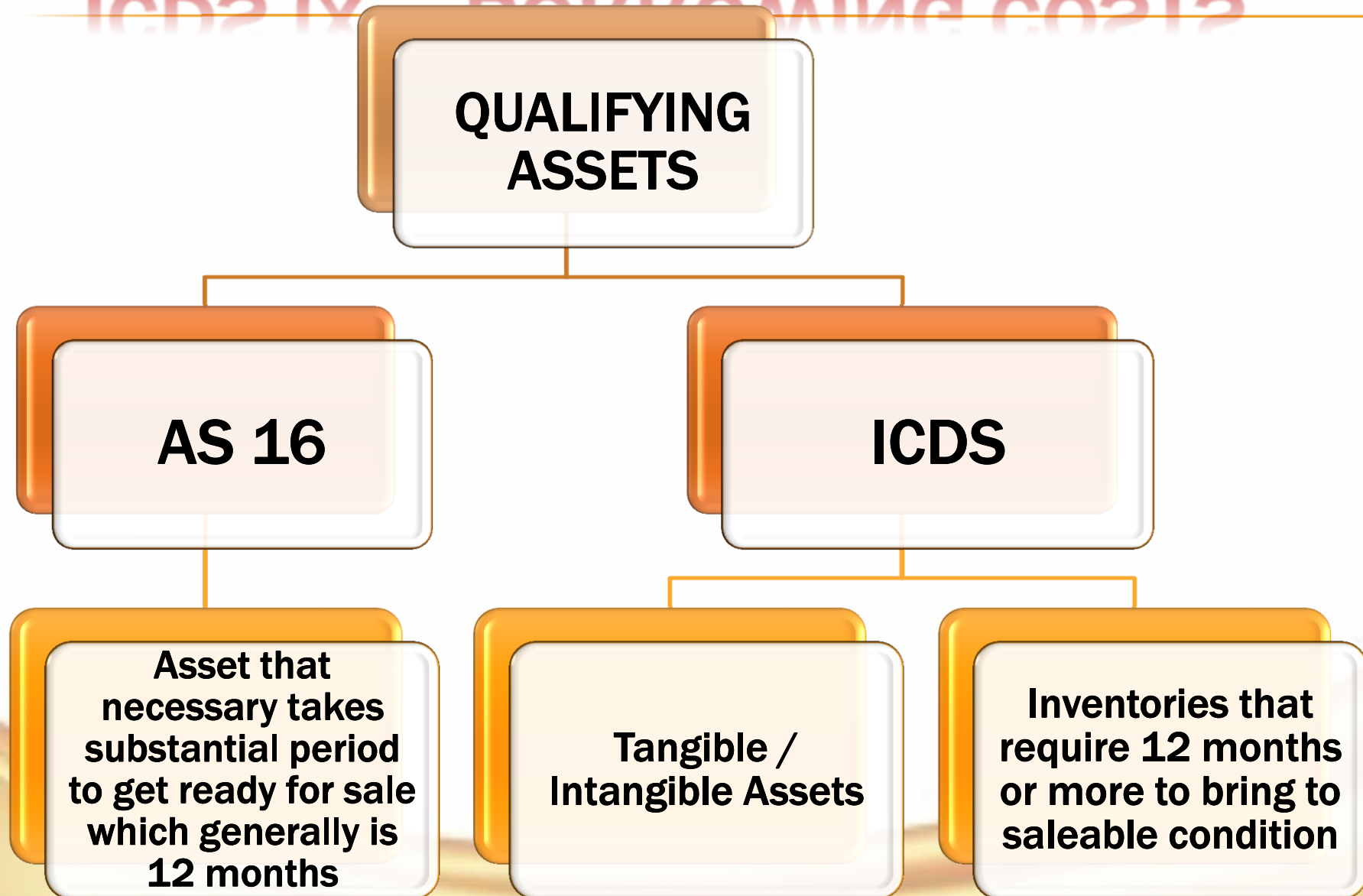
FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
VIII	Securities	4000		4000	Securities valued at cost or NRV scrip-wise
	Total			4000	


IX – BORROWING COSTS



ICDS IX – BORROWING COSTS



ICDS IX – BORROWING COSTS

- ✖ **ICDS does not include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest cost as a borrowing cost**
 - ✖ **FAQ – Q 21 – bill discounting charges are borrowing costs**
- 

ICDS IX – BORROWING COSTS

- × **Capitalization:**

- + **Specific Borrowing**
- + **General Borrowing**

- × **Specific Borrowing:**

- + **Actual borrowing costs incurred during period on funds so borrowed from the date funds borrowed**
- 

ICDS IX – BORROWING COSTS

- ✖ Other than specific borrowing:
 - + Capitalization of general borrowing costs as per para 6 of ICDS IX formula to be done on asset-by-asset basis. FAQ – Q 22
- ✖ Formulae Based
 - + $A \times B / C$
 - + A = borrowing costs incurred except on specific borrowings

ICDS IX – BORROWING COSTS

- + B = (excluding directly funded by specific borrowing)
 - ✗ average of costs of qualifying asset as appearing in B/S of a person on 1st day & last day of PY;
 - ✗ in case the qualifying asset does not appear in the B/S of a person on 1st day, half of the cost of qualifying asset; or
 - ✗ in case the qualifying asset does not appear in the B/S of a person on last day of PY, average of costs of qualifying asset as appearing in B/S of a person on 1st day of PY and on date of put to use or completion, as case may be
- + C = average of amount of total assets as appearing in B/S of a person on 1st day & last day of PY, other than assets to the extent they are directly funded out of specific borrowings
 - ✗ For this formulae qualifying asset - if it requires 12 months or more for acquisition or construction or production)
 - ✗ If less than 12 months... no capitalization?

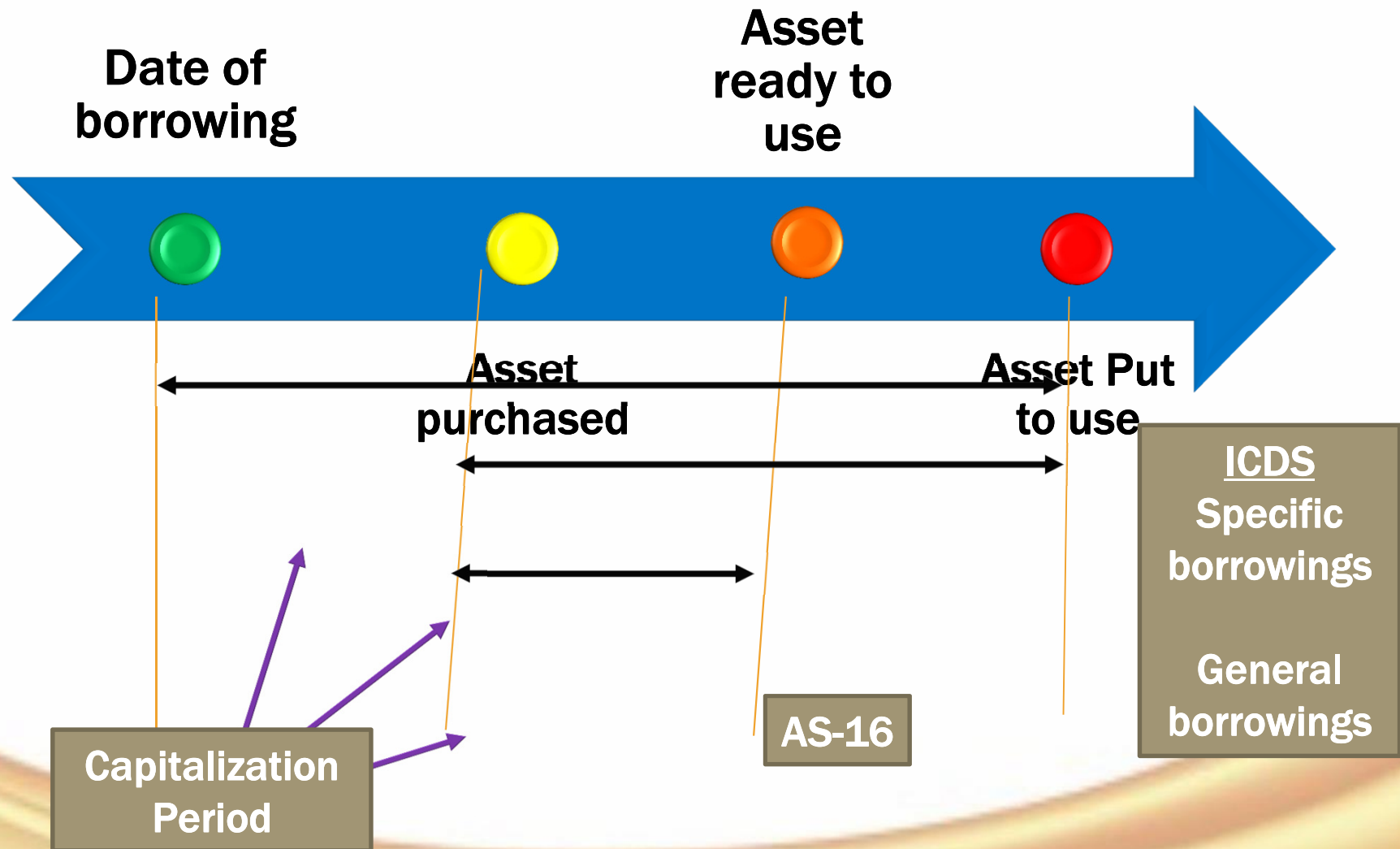
ICDS IX – CESSATION

- ✖ Cessation of borrowing costs: -
 - + In case of tangible fixed asset and intangible asset when **first put to use**; and
 - + In case of inventory when substantial activities necessary to prepare such inventory for its intended sale are complete
- ✖ ICDS - silent on suspension of capitalization during extended periods in which active development is interrupted.

ICDS IX – CESSATION

- ✗ ICDS – 1st put to use
- ✗ AS 16 – Cessation when substantially all the activities necessary to prepare the qualifying asset for its **intended use** or sale are complete, i.e. when the asset is **ready to be put to use**
- ✗ Difference between ready to be put to use and put to use is important...
- ✗ Loan for vehicle. Interest between loan taken and vehicle on road... capitalise

ICDS IX – CAPITALIZATION



ICDS IX – FAQ

- ✖ **Q 20 -There are specific provisions in Act read with Rules under which a portion of borrowing cost may get disallowed u/ss like 14A, 43B, 40(a)(i), 40(a)(ia), 40A(2)(b), etc. Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions?**
 - + **Capitalization shall exclude those borrowing costs which are specifically disallowed under specific provision of the Act**
 - + **Capitalization of borrowing costs shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act**

ICDS IX – S. 36(1)(III)

- ✖ Finance Act, 2015 already amended Proviso to Section 36(i)(iii) that the interest expenses incurred for acquisition of capital asset upto put to use shall not be deductible.
- ✖ Provided that any amount of the interest paid, in respect of capital borrowed for acquisition of **an asset** ~~for the [extension of existing business or profession]~~ (whether capitalized in the books of accounts or not), for any period beginning from the date on which the capital was borrowed for acquisition of the assets till the date on which **such asset was first put to use**, shall not be allowed as deduction.

ICDS IX – BORROWING COSTS


- ✖ **AS 16 – Income earned on temporary investment of borrowings is to be deducted from borrowing costs.**
 - + **No similar provision in ICDS?**
 - + **Would be taxed as income**



ICDS IX – TRANSITIONAL PROVISION

- ✖ **All the borrowing costs incurred on or after 1.4.2016 shall be capitalised for the previous year commencing on or after 1.4.2016 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 31.3.2016**

ICDS IX – DISCLOSURE

- ✖ **Accounting policy adopted for borrowing costs**
 - ✖ **Amount of borrowing costs capitalised during the previous year.**
 - ✖ **AS - Similar**
- 

ICDS IX – PRACTICAL IMPLICATIONS

- ✗ **Disclosure ... same as per AS**
- ✗ **Capitalize Interest if charged to revenue:**
 - + **For Qualifying assets as per AS as well as ICDS**
 - ✗ **From date of ready to be put to use and put to use**
 - + **For Qualifying asset as per ICDS but not a Qualifying assets as per AS:**
 - ✗ **Interest charged to revenue as per books to be capitalized upto the date of put of use including for loan taken for vehicles from date of loan taken till put on road**

ICDS IX – PRACTICAL IMPLICATIONS

- ✖ **Exchange differences arising from foreign currency borrowings to the extent .. interest cost**
 - + **In books revenue**
 - + **In computation**
 - ✖ **If related to s. 43A – capitalize**
 - ✖ **If related to revenue – not borrowing but exchange difference**

FORM 3CD – CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
IX	Borrowing Costs	10000		10000	<ul style="list-style-type: none"> • Qualifying assets as per AS & ICDS – intt from date of ready for use to date of put to use - 2000 • Qualifying assets as per ICDS but not as per AS upto put to use -3000 • Exchange Fluctuation loss being borrowing cost as per AS 16 - 5000
	Total			10000	

FORM 3CD – CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
IX	Borrowing Costs	<ul style="list-style-type: none">Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements

AUDIT PROCEDURE

- × Appointment**
- × Engagement Letter**
- × Understanding of Client**
- × Understanding the Engagement**
- × Authorizations**
- × Confirmations**
- × Management Representations**
- × Certificates**
- × Reports**
- × Billing /Collection**

TAKE CARE

**Certificate of ICDS is now
through Form 3CD**



**AUDIT NOT
DOCUMENTED
IS
AUDIT NOT DONE**



**KEEP INCREASING
YOUR VALUE**

THANK YOU!



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