

### **ICDS**

Income Computation and Disclosure Standards

## CRITICAL ISSUES



### CA. PRAMOD JAIN

B. COM (H), FCA, FCS, FCMA, LL.B, MIMA, DISA
Shared at
Amritsar Branch of NIRC of ICAI
14<sup>th</sup> July 2018

## **BASICS**

#### Source

• Section 145(2)

#### **Effective Date**

w.e.f. AY 2017-18

## No. of Standards

• 10 vide Not. Dt. 29.09.2016

#### **Disclosure**

Para 13 of Form 3CD & ITR

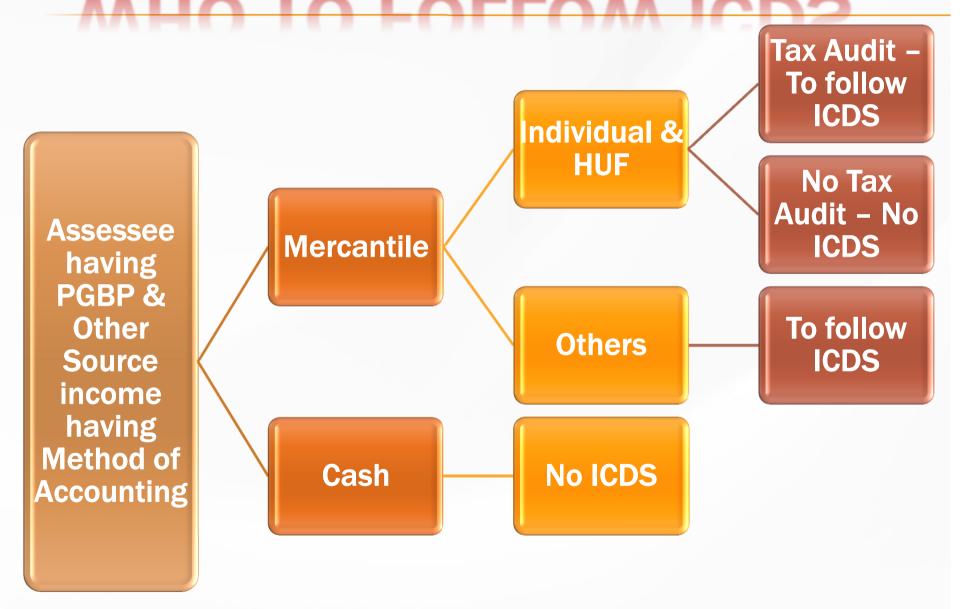
#### DHC

The Chamber of Tax
 Consultants & Anr vs. UOI

#### IT Act

 Amendment made through FA 2018 w.r.e.f AY 2017-18

# WHO TO FOLLOW ICDS



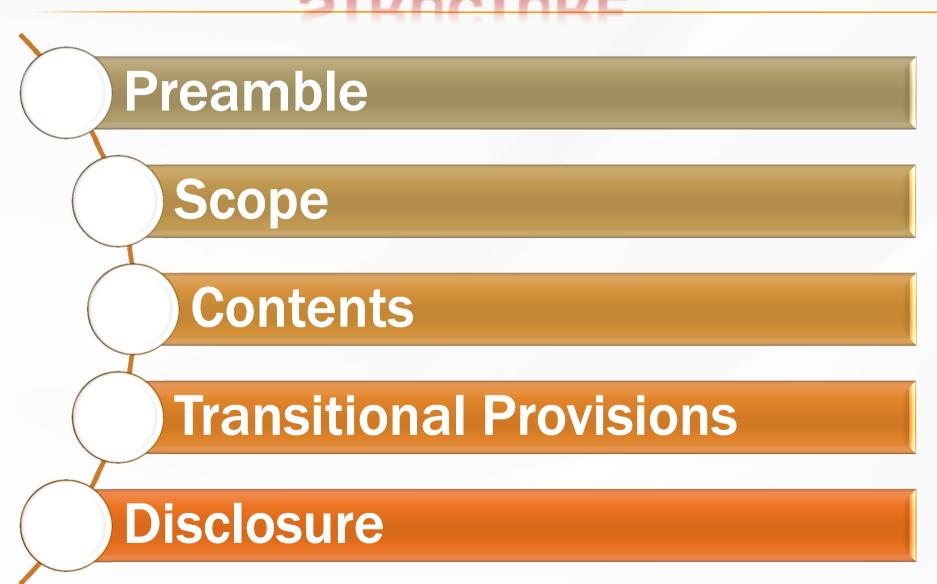
## **BASICS**

- It's for income computation only and NOT for books maintenance
- Is separate books to be maintained?
- ICAI standards amended Examples removed
- Would it impact incomes u/s 44AD, 44AE, etc?
- ★ FAQ Applicable on partnership firm u/s 44AD ...wherever possible example construction contracts, revenue recognition??
- No ICDS details in ITR 1, 2 & 4
- Draft ICDS on Real Estate Transactions 11.5.17

## **BASICS**

- Would it impact MAT / AMT??
- **★ ICDS** not to apply on MAT but applicable on AMT Q 6 FAQ
- Take care of AS 22
- What if assesse has no business income but only income from other sources?
- What if has one business on mercantile basis and other on cash?
- **×** Disclosure requirements

## **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.

# FINANCE ACT 2018

- × Various provisions amended w.r.e.f. AY 2017-18
- × S. 145A amended
  - + ICDS 2 (Valuation of Inventories)
  - + ICDS 8 (Securities)
- × S. 145B inserted
  - + ICDS 4 (Revenue Recognition)
  - + ICDS 7 (Government Grants)
- **×** S. 36(xvii) inserted −Mark to Market Loss −ICDS1
- S. 40A amended ICDS 1 (Accounting Policies)
- × S. 43AA inserted -ICDS 6(Foreign Exchange Rate)
- × S. 43CB inserted -ICDS 3 (Cons. Cont.) / ICDS 4

## 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				
Ш	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	
Ш	Valuation of Inventories		
Ш	Construction Contracts		
IV	Revenue Recognition		
V	Tangible Fixed Assets		
VII	<b>Government Grants</b>		
IX	Borrowing Costs		
X	Provisions, Contingent Liab & Assets		



Sched	ule ICDS Effect of Income Computation Disclosure Standards on p	rofit	
Sl. No.	ICDS Amou		
(i)	(ii)		
I	Accounting Policies		
II	Valuation of Inventories (other than the effect of change in method of valuation u/s 145A, if the same is separately reported at col. 4d or 4e of Part A-OI)		
III	Construction Contracts	200000	
IV	Revenue Recognition	300000	
V	Tangible Fixed Assets		
VI	Changes in Foreign Exchange Rates		
VII	Government Grants		
<b>N</b> /	${f Securities}$ (other than the effect of change in method of valuation u/s 145A, if the same is separately reported at col. 4d or 4e of Part A-OI)		
IX	Borrowing Costs	5000	
X	Provisions, Contingent Liabilities and Contingent Assets		
11a	Total Effect of ICDS adjustments on Profits (I+II+III+IV+V+VI+VII+VIII+IX+X) (If Positive)	505000	
11b	Total Effect of ICDS adjustments on Profits (I+II+III+IV+V+VI+VII+VIII+IX+X) (If Negative)		

# ITR - PART A - OI

- **×** 3a Increase in Profit or decrease in loss because of deviation, if any as per ICDS notified u/s 145(2) [Column 11a(iii) of Schedule ICDS]
- **x** 3b Decrease in Profit or Increase in loss because of deviation, if any as per ICDS notified u/s 145(2) [Column 11b(iii) of Schedule ICDS]

# ITR - SCHEDULE BP

- × 25. Increase in Profit or decrease in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3a + 4d of Part A OI)
- x 33. Decrease in Profit or Increase in loss on account of ICDS adjustments and deviation in method of valuation of stock (Column 3b + 4e of Part A OI)

# ACCOUNTING POLICIES

If books / FS as per AS / Ind AS



Effect and disclosure in Form 3CD

If books / FS as per ICDS



Qualify in Audit Report



Disclosure in Form 3CD

### WHAT TO DO - PRACTICAL APPROACH

Get the FS prepared complying AS / Ind AS



Check & List out the applicable ICDS



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



If No, disclose the amount effect in ITR as well as in Form 3CD



If, yes – disclose amount effect in ITR and disclosure in Form 3CD



If different, is the adjustment effected directly in ITR through specific section



If, ICDS applicable, 13(f) to be filled even if no amount effect



Verify related ICDS amount & disclosures in Form 3CD



Fill ICDS amount effect details in ITR

# 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 judgment assessment can be done by Assessing Officer.

# I - ACCOUNTING POLICIES



## ICDS I – ACCOUNTING POLICIES

- 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 marked loss unless as per other ICDS
- 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

## DHC

ICDS	Contrary to	DHC	Finance Act 2018
The concept of prudence, which was present in the earlier AS -1, has been completely done away with.	Triveni Engineering & Industries Ltd 49 DTR 253 (Del); Advance	Concept of prudence is embedded in s. 37(1) of the Act, which allows deduction in respect of expenses "laid out" or "expended" for the purpose of business.	MML - 40A FEL - 43AA Cons Losses - 43CB
ICDS -1 stipulates that prudence is not to be followed unless specified under the provisions of any other ICDS	Construction Co. Pvt. Ltd. 275 ITR 30 (Guj).	To this extent, the provisions of ICDS, are contrary to the provisions of the Act and the principles laid down in binding judicial precedents, and are therefore, unsustainable in law	

## FINANCE ACT 2018

- **x** S. 36(xvii) inserted deduction in respect of any marked to market loss or other expected loss shall be allowed, if computed in accordance with the ICDS
- Consequently S. 40A(13) inserted all marked to market losses or other expected losses other than those which are allowed u/s 36 (xvii) shall be disallowed

## ICDS I - DISCLOSURES

- **×** 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:
  - + Marked to market loss / gain AND Expected losses / gain
  - + But these being now covered u/s 36(xvii) & 40A(13), disclosure only in Form 3CD. Amount in ITR
- **x** Take care of change in accounting policies having material effect in the year of effect too.

# FORM 3CD -CLAUSE - 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
					Other than Marked to Market disclosure
	Total				

# FORM 3CD -CLAUSE - 13(F)

ICDS	Name of ICDS	Disclosures
	Accounting Policies	<ul> <li>Refer significant accounting policies mentioned at Note No to Financial Statements</li> <li>Mark to Market Loss is to be disallowed u/s 40A, hence not adjusted in ICDS</li> </ul>

## IX - BORROWING COSTS



## ICDS IX - BORROWING COSTS

QUALIFYING ASSETS

**AS 16** 

**ICDS** 

Asset that necessary takes substantial period to get ready for intended use or sale which generally is 12 months

Tangible /
Intangible Assets

Inventories that require 12 months or more to bring to saleable condition

- 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

- **×** Capitalization:
  - +Specific Borrowing
  - + General Borrowing
- **×** Specific Borrowing:
  - + Actual borrowing costs incurred during period on funds so borrowed from the date funds borrowed

- **×** 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
  - +AXB/C
  - +A = borrowing costs incurred except on specific borrowings

- + B = (excluding directly funded by specific borrowing)
  - x average of costs of qualifying asset as appearing in B/S of a person on 1st day & last day of PY;
  - x 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?

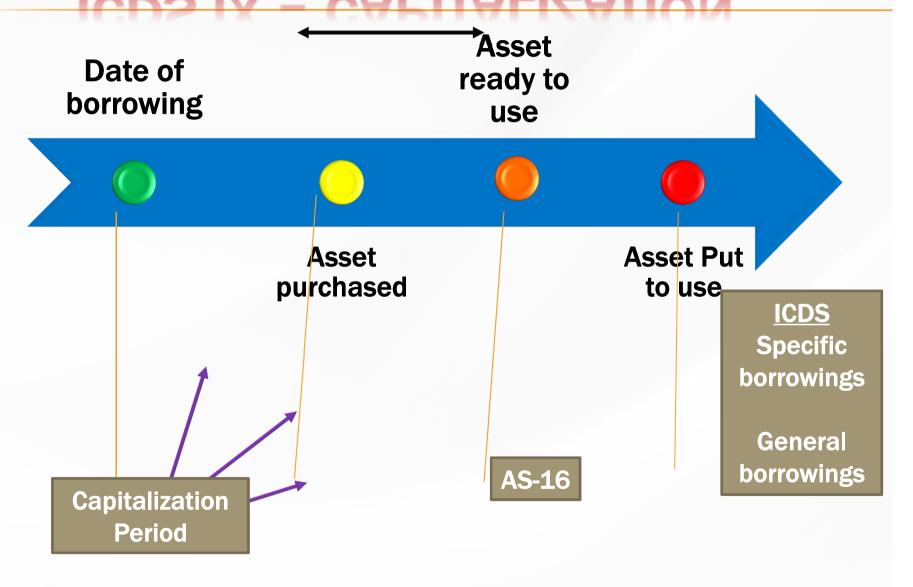
## ICDS IX - CESSATION

- 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 1<sup>st</sup> 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 - 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 - 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
    - xIf related to revenue not borrowing but exchange difference

## FORM 3CD -CLAUSE - 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
IX	Borrowin g Costs	10000		10000	<ul> <li>Qualifying assets as per AS &amp; ICDS – intt from date of ready for use to date of put to use - 2000</li> <li>Qualifying assets as per ICDS but not as per AS upto put to use -3000</li> <li>Exchange Fluctuation loss being borrowing cost as per AS 16 - 5000</li> </ul>
	Total			10000	

## FORM 3CD -CLAUSE - 13(F)

ICDS	Name of ICDS	Disclosures
IX	Borrowing Costs	<ul> <li>Refer to the significant accounting policies mentioned at Note No to the Financial Statements</li> </ul>

### III - CONSTRUCTION CONTRACTS



### 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.
- ★ ICDS -Expected losses not to be recognised AS 7 to provide on prudence immediately. ICDS is also contrary to Delhi HC & Gujarat HC judgements

## DHC

ICDS	Contrary to	DHC	Finance Act 2018
Retention money (being part of the contract revenue) would be recognised based on proportionate completion method.	Simplex Concrete Piles India (P) Ltd 179 ITR 8; P & C Constructions (P) Ltd 318 ITR 113	The treatment to retention money will have to be determined on a case to case basis by applying settled principles of accrual of income.	Section 43CB introduced
Construction cost to include borrowing cost Incidental income cannot be reduced from borrowing cost	Bokaro Steel Limited 236 ITR 315	The treatment of ICDS is contrary to the law settled by the various court decisions. Hence, cannot be sustained	43CB introduced

## DHC

ICDS	Contrary to	DHC	Finance Act 2018
ICDS IV permits only proportionate completion method	Bilhari Investment Pvt. Ltd. 299 ITR 1 (SC)	The proportionate completion method as well as the contract completion method have been recognized as valid method of accounting. ICDS permitting only one of the methods is contrary to the court decisions	Section 43CB introduced

## FINANCE ACT 2018 - S. 43CB

- Profits from construction contract or for providing services shall be determined on basis of % of completion method in accordance with ICDS notified u/s 145(2). Provided the following service contracts -
  - + With duration not more than 90 days shall be as per project competition method
  - + Involving indeterminate no. of acts over a specified period of time shall be as per straight line method
- Retention money to be part of contract revenue
- Any incidental income like interest, dividend or capital gains not be reduced from contract costs.

#### 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)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
	Construction Contracts	10000		10000	<ul> <li>Retention s not charged to revenue -4000</li> <li>Expected losses charged to PL as per AS 7 - 6000</li> </ul>
	Total			10000	

## FORM 3CD -CLAUSE - 13(F)

ICDS	Name of ICDS	Disclosures
	Contracts	<ul> <li>Refer to Note No to the Financial Statements</li> <li>For amount of contract revenue recognised as revenue in the period refer Note No of PL</li> <li>For contracts in progress at year end refer Note No to FS</li> </ul>



- 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.

- 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

- 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 (Para 7) - AS 9 – no such duration

## FINANCE ACT 2018 - S. 43CB

- Profits from construction contract or for providing services shall be determined on basis of % of completion method in accordance with ICDS notified u/s 145(2). Provided the following service contracts -
  - + With duration not more than 90 days shall be as per project competition method
  - + Involving indeterminate no. of acts over a specified period of time shall be as per straight line method
- Retention money to be part of contract revenue
- Any incidental income like interest, dividend or capital gains not be reduced from contract costs.

- 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
- 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. FAQ – Q 18

- 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 Income-tax, Service Tax, etc. shall now be taxable on receipt basis instead of accrual basis as contemplated under earlier ICDS
- ICDS applicable on tax on gross basis on interest, royalty & FTS for non-residents u/s 115A. FAQ – Q 14

#### RECOGNIZED INCOME - BAD DEBDT

- 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)

- X 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

### DHC

		DI I A		
ICDS	Contrary to	DHC	Finance Act 2018	
Recognition of income from export incentive in the year of making of the claim if there is 'reasonable certainty' of its ultimate collection	Excel Industries Limited 358 ITR 295 (SC)	Relied on law explained by the Supreme Court that only in the year of acceptance of claim by the government, income from export incentive can be said to have accrued and thus recognised as income. ICDS is not inconsistent with judicial precedents	Section 145B introduced	
ICDS IV permits only proportionate completion method	Bilhari Investment Pvt. Ltd. 299 ITR 1 (SC)	The proportionate completion method as well as the contract completion method have been recognized as valid method of accounting. ICDS permitting only one of the methods is contrary to the court decisions	Section 43CB introduced	

### DHC

ICDS	Contrary to	DHC	Finance Act 2018
Interest on non- performing assets would be taxable on time basis (accrual) though interest is not recoverable.		Circular clarifies that deduction of irrecoverable amount can be claimed under section 36(1)(vii) of the IT Act. Therefore, this ICDS provision cannot be held to be ultra vires the IT Act. The treatment of ICDS is not contrary to any judgement.	No Change

### **FINANCE ACT 2018 - 145B**

- Interest received on compensation or on enhanced compensation, deemed to be income of year in which it is received
- Claim for escalation of price in a contract or export incentives shall be deemed to be the income of the PY in which reasonable certainty of its realization is achieved

#### 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
- If service contract less than 90 days, then mandatory to follow completed contract method u/s 43CB

# FORM 3CD -CLAUSE - 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
IV	Recognition	2000		2000	<ul> <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)

S. No.	Name of ICDS	Disclosures
IV	Recognition	<ul> <li>Refer to SAP 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>For service transactions in progress at year end refer Note No to FS.</li> </ul>

## 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 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 - 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 Clause 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)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
V	Tangible Fixed Assets		5000	-5000	• Profit 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> <li>For Disclosures Refer to the clause 18 of Form 3CD</li> <li>(In case of Companies)         <ul> <li>Depreciation effect due to change in rates as per books and IT Act is to be taken as per s. 32 in computation of income hence not disclosed in ICDS</li> </ul> </li> </ul>

# II - VALUATION OF INVENTORIES



- 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.
- **×** Cost of inventories to include:
  - +Cost of purchases;
    - Includes all duties & taxes . AS 2 excludes refundable from taxing authorities

- + Costs of services 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

- **×** 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

- X 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 u/s. 145A since 1.4.1999 amended now

#### ICDS II - TAX DUTIES

- ★ Assuming that the assessee has opening stock of Rs.3,30,000/- on which input tax rebate of Rs.30,000/- is available.
- During the year three items purchased @ Rs.3,00,000/- per item.
- **× VAT** on purchase @ 10%. There is no opening stock.
- \* Two items are sold @ Rs.4,50,000/- per item. VAT on sales @ 10%

## ICDS II - TAX DUTIES

#### The Trading Account on "EXCLUSIVE METHOD"

Particulars	Qty.	Rate	Amount	Particulars	Qty.	Rate	Amount
To Opening Stock	1	3,30,000	3,30,000	By Sales	2	4,50,000	9,00,000
Less Input tax rebate			30,000				
			3,00,000				
To Purchases	3	3,00,000	9,00,000	By Closing Stock	2	3,00,000	6,00,000
To Gross Profit			3,00,000				
Total			15,00,000				15,00,000

## ADJUSTMENT U/S 145A

SI. No.	Particulars	Increase in profit (Rs)	Decrease in profit (Rs)
1	Increase in Opening Stock on inclusion of VAT		30000
2	Increase in Purchases on inclusion of VAT		90000
3	Increase in Sales on inclusion of VAT	90000	
4	Increase in Closing Stock on inclusion of VAT	60000	
5	VAT paid on sales		90000
6	VAT credit availed on cost of goods sold	60000	
		210000	210000

The net impact on Profit & Loss Account is NIL.

#### **COMPUTATION OF INCOME**

#### Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961

The computation of total	income	would	appear	as under:-	
--------------------------	--------	-------	--------	------------	--

Profit as per Profit & Loss account on the basis of exclusive method Rs.3,00,000

Add: Adjustments required under section 145A

Increase in Sales on inclusion of VAT Rs. 90,000

Increase in Closing Stock on inclusion of VAT Rs. 60,000

Total Rs. 4,50,000

#### Less:

Increase in Opening Stock on inclusion of VAT Rs. 30,000

VAT Credit Receivables (Input) A/c
 Rs. 90,000

VAT Paid on sales 90,000

Less: VAT Credit availed on Cost

of Goods Sold 60,000

Net VAT Paid Rs.30,000

Profit Rs. <u>3,00,000</u>

### 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:
  - + At 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)
  - + Business continued without any interruption after death 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)

# DHC

ICDS	Contrary to	DHC	Finance Act 2018
Stock-in-trade in case of dissolution of firm to be valued at market price irrespective of whether the business discontinues.	Shakti Trading Co. 250 ITR 871 (SC)	Section 145A of the IT Act providing valuation of inventory in accordance with the method of accounting regularly employed by the taxpayer is independent and irrespective of section 145(2) (ICDS).	Section 145A amended

# FINANCE ACT 2018 - S. 145A

- Xaluation of inventory shall be made at lower of actual cost or NRV in accordance with ICDS notified u/s 145(2)
- Valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation.

- 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:
  - + <u>Cost of inventory</u> 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

- 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

- **×** 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

- 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 (After GST refer Paras 23.18 to 23.24)
  - + ITR for AY 2018-19 says to disclose other than 145A?? Form 3CD??
- Borrowing costs for inventories only if they require a period of 12 months or more to bring them to a saleable condition

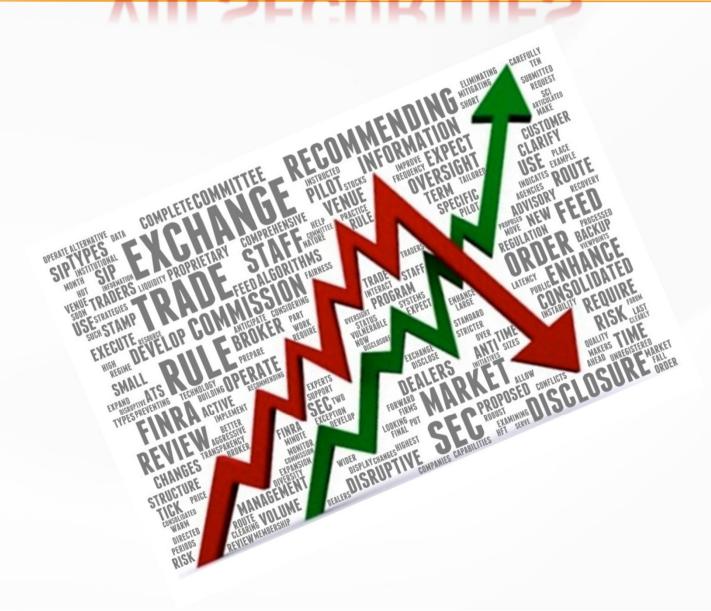
# FORM 3CD -CLAUSE - 13(E)

ICD S	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
					Other than 145A disclosure
	Total				

# FORM 3CD -CLAUSE - 13(F)

ICDS	Name of ICDS	Disclosures
	Valuation of Inventories	<ul> <li>Refer to Note No (SAP) to Financial Statements</li> <li>For carrying amount &amp; classification refer Note No to Balance Sheet</li> <li>Inventories are not inclusive of duties and taxes, yet there is no effect on profits u/s 145A, refer to clause 14(b) of Form 3CD</li> <li>Difference over cost to NRV in case of dissolution of firm is to be disclosed u/s 145A, hence not disclosed in ICDS.</li> <li>Assessee is following Standard Costing as a measurement of cost, and that approximates the actual cost</li> </ul>

# 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 - BUCKET METHOD

Security	Category	Cost	NRV	Lower of	ICDS
				Cost or NRV	Value
					Varao
1	Share A	1000	750	750	
2	Share B	1200	<b>1500</b>	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

# DHC

ICDS	Contrary to	DHC	Finance Act 2018
Valuation under 'bucket approach' (comparison of cost and NRV for all categories of securities taken together)	Shakti Trading Co. 250 ITR 871 (SC)	Separate approaches adopted for valuation of securities at different places (eg: ICDS II). Such change is not possible to be effectuated without a corresponding amendment to the IT Act. To that extent part A of ICDS VIII is ultra vires the IT Act	Section 145A amended

## FINANCE ACT 2018 - S. 145A

- Unlisted shares shall be valued at actual cost initially recognized or listed but not quoted on a recognised stock exchange with regularity from time to time in accordance with ICDS notified u/s 145(2)
- Inventory being listed securities, shall be valued at lower of actual cost or NRV category-wise.
- Comparison of actual cost and NRV of securities shall be made category-wise

## ICDS VIII - PRACTICAL IMPLICATION

- No Disclosures
- In books as per AS -13 due to footnote:
  - + Shares, debentures & other securities held as stock-in-trade (i.e., for sale in ordinary course of business) are not 'investments' as defined in this Standard.
  - + However, the manner in which they are accounted for and disclosed in the FS is quite similar to that applicable in respect of current investments.
  - + Accordingly, provisions of this Standard, to the extent that they relate to current investments, are also applicable to shares, deb. & other securities held as stock-in-trade, with suitable modifications as specified in this Standard.

# FORM 3CD -CLAUSE - 13(E)

10 S		Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
V	<b>/111</b>	Securities	4000		4000	Securities valued at cost or NRV scrip-wise
		Total			4000	

# TAKE CARE

# Certificate of ICDS is through Form 3CD



# KEEP INCREASING YOUR VALUE

# This Presentation would be available on

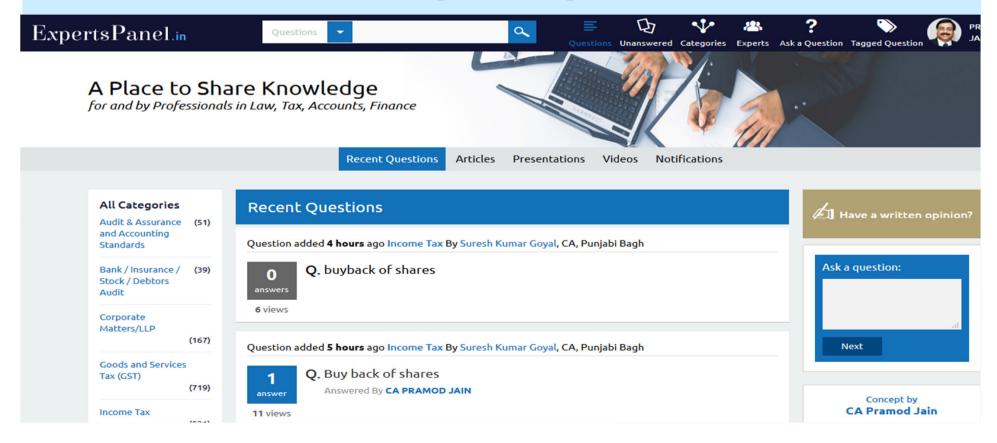
www.lunawat.com

# Also may download free mobile app "LUNAWAT"

for all updates since year 2007

# A one stop place where all your Queries can be answered by various Experts throughout the Country

www.expertspanel.in



Together ...we shall make it....



CA. Pramod Jain <a href="mailto:pramodjain@lunawat.com">pramodjain@lunawat.com</a> +91 9811073867







