# Finalization of Financial Statements for FY 2017-18 ICDS Overview & ICDS II



#### CA. PRAMOD JAIN

B. COM (H), FCA, FCS, FCMA, LL.B, MIMA, DISA
Shared at
Rohtak Branch of NIRC of ICAI
1st September 2018

# THE PROCESS



Director's Report

Auditor's Report

**Financial Statements** 

**Balance Sheet** 

Profit /Loss

Statement of changes in equity, if any

**Cash Flow** 

**Notes** 



# FINANCIAL STATEMENTS

- Financial Year 31st March
- Cash Flow for all except:
  - > OPC
  - >SC
  - > DC
  - > Start up Company w.e.f. 13th June 2017
- FS to be in Schedule III
  - Amended w.e.f. 4.9.15 to include MSMED details under Trade Payable

# **BASICS – CURRENT VS. NON-CURRENT**

- Current Asset satisfies any of following criteria;
  - + In the company's normal operating cycle it is;
    - ×Intended for sale; or
    - ×Intended to be consumed; or
    - **Expected to be realized.**
  - + Held primarily for the purpose of being traded; or
  - + Expected to be realized within 12 months after reporting date; or
  - + Cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after reporting date.

### **BASICS - CURRENT LIABILITY**

- Current liability if it satisfies any of the following criteria; if it is:
  - + Expected to be settled in the company's normal operating cycle; or
  - + Held primarily for the purpose of being traded; or
  - + Due to be settled within 12 months after reporting date; or
  - + The company does not have an unconditional right to defer settlement of liability for at least 12 months after reporting date. Terms of a liability that could, at option of counterparty, result in its settlement by issue of equity do not affect its classification.

# **GENERAL**

- Balance Sheet Title 'as at' or 'as on' 31st March
- PL Title Statement of Profit & Loss / I & E
- **×** Rounding off based on turnover.
  - +< Rs. 100 Crores To the nearest hundreds, thousands, lakhs or millions or decimal thereof
  - +Rs. 100 Crores or more To the nearest lakhs or millions or crores or decimal thereof
- Comparative figures required to be disclosed for the last reporting period

# **GENERAL**

- Linking of notes with B/S & PL
- **×B/s & PL on letterhead of Auditors ??**
- Date of signing
- × Payment to shareholders for 2(22)(e)
- Issues in Sole Proprietorship / Partnership Firm Financials:
  - Significant Accounting Policies
  - +Accounting Standards

FORM OF BALANCE SHEET (PART 1)

Particulars	Note No.	Figures as at the end of the CRP	Figures as at the end of the PRP
I. EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(a) Share capital	1		
(b) Reserve and Surplus	2		
(c) Money received against share warrants			
(2) Share application money pending allotment	3		
(3) Non-current Liabilities			
(a) Long term borrowings	4		
(b) Deferred tax liabilities (net)	5		
(c) Other long term liabilities	6		
(d) Long term provisions	7		
(4) Current Liabilities			
(a) Short term borrowings	8		
(b) Trade payables			
(c) Other current liabilities	9		
(d) Short term provisions	10		
TOTAL			

# SHARE CAPITAL & RESERVES

- Authorized / Paid up Capital Check with Master Data
- Reconciliation of no of shares outstanding at beginning and at end of reporting period.
- Rights, preference & restrictions attaching to each class of shares etc.
- Is conversion of loans into shares in event of default in repayment – Non-cash?
- Share Premium A/c??

# **BORROWINGS**

- Long Term vs. Short Term
  - + Directors??
  - + CC Limits?? Demand Loans??
- Secured / unsecured nature of security to be stated & guaranteed by directors to be shown separately.
- Term of repayment of term loans to be given
  - + Period of maturity with respect to B/S date
  - + Number of installments due; Amt of installments due
  - Applicable rate of interest
- Period & amount of default in payment of principal & interest as on B/S date

# OTHER CURRENT LIABILITIES

- **×** The amount shall be classified as:
  - + Current maturities of long term debts
  - + Current maturities of finance lease obligations
  - + Interest accrued but not due on borrowings
  - + Interest accrued and due on borrowings
  - + Income received in advance
  - + Unpaid dividends
  - + Share Application money due for refund and interest accrued thereon (including advances for allotment of share Capital)
  - Unpaid matured deposit and interest thereon
  - Unpaid matured debentures and interest thereon
  - + Other payables

# OTHER CURRENT LIABILITIES

- Others payable may include:
  - + Statutory obligations like, ESI, PF, VAT, CST, etc.
  - + Liability for purchase of fixed assets
  - + Contractually reimbursable expenses
  - + Interest accrued on trade payables
  - + Expenses Payable.
  - + TDS Payable
  - + Trade / Security Deposit
  - Mark-to-market loss on forward and option contracts
  - Retention Monies
  - + Accrued salaries and benefits

# LIABILITIES ??

- **Current / Non-Current Loans**
- **×Trade payables − Ageing**
- **×GST** input credit reversal

**FORM OF BALANCE SHEET (PART 2)** 

Particulars	Note No.	Figures as at the end of the CRP	Figures as at the end of the PRP
II. ASSETS			
(1) Non-current assets			
(a) Fixed assets	11		
(i) Tangible assets	12		
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development	13		
(b) Non- current investments			
(c) Deferred tax assets (Net)	14 15		
(d) Long term loans and advances	15		
(e) Other non-current assets			
(2) Current assets			
(a) Current investments	16		V.
(b) Inventories	17		
(c) Trade receivables			
(d) Cash and cash equivalents	18		
(e) Short term loans and advances	19		
(f) Other current assets	20		
TOTAL			

# FIXED ASSETS

- Fixed Asset on the face of the Balance Sheet has to be classified as follows:
  - + Tangible Assets
  - +Intangible Assets
    - **×**Software
  - + Capital work-in-progress
  - + Intangible assets under development
- Capital advances to be grouped as Capital Work-in-Progress or loans and advances? Long term or short term?

# INVENTORIES

#### **×** Classification into:

- + Raw Materials
- + Work-in-progress
- + Finished goods
- + Stock-in-trade (trading goods)
- + Stores and spares
- + Loose tools
- + Others (specifying nature)
- Finished goods should include all goods except acquired for trading purposes
- Goods-in-transit -disclose under relevant sub-head

# **ASSETS??**

- ×Investment Property
- **×Inventories**
- **×Cash**
- Debtors Ageing / Provisioning
- **\*Miscellaneous Expenditure**

# CA. Pramod Jain FORM OF STATEMENT OF PROFIT AND LOSS

Particulars	Note	Figures for	Figure for
	No.	the CRP	the PRP
I. Revenue from operations	21		
II. Other income	22		
III Total Revenue (I + II)			
Iv. Expenses	23		
V. Profit before exceptional and extraordinary items and tax (III - IV)			
VI. Exceptional items	24		
VII. Profit before extraordinary items and tax (V-VI)			
VIII. Extraordinary items	25		
IX. Profit before tax (VII-VIII)			
X. Tax Expenses	26		
XI. Profit (loss) for the period from continuing operations (IX-X)			
XII Profit (Loss) from the discontinuing business	27		
XIII Tax expenses of discontinuing operations	28		
XIV. Profit (Loss) from discontinuing operations (after tax) (XII-XIV)			
XV. Profit (Loss) for the period (XI+XIV)	29		
XVI. Earnings per equity share			

# REVENUE FROM OPERATIONS

- **×** For companies other than finance company:
  - + Sale of Products
  - + Sale of Services
  - + Other Operating Revenues
    - **×Less: Excise Duty**
- **×** For Finance company:
  - + Interest
  - + Other Financial services
- \* Recognition of Revenue as per AS 9 / 7 for Service Contracts / Construction Contracts

# **OTHER INCOME**

- **×** To be classified as:
  - + Interest income (other than for finance company)
  - + Dividend
  - + Dividend from subsidiary company
  - + Net gain / loss on sale of investments
  - + Other non-operating income
- Interest, dividend, etc. to be disclosed separately for Current as well as Non Current Investments

# **EXPENSES**

#### Disclosure on face of the PL:

- Cost of material consumed
- Purchase of stock-in-trade
- Changes in inventories of finished goods Work-in-progress and stock in trade
- Employee benefit expenses
- Finance cost
- Depreciation and amortization expenses
- × Other expenses.

# FINANCE COST

#### Interest expense

- + Interest on borrowings, debentures, bonds, etc.
- + Finance charges on finance lease are in nature of interest

#### Other borrowing costs

- + Commitment charges
- + Loan processing charges
- + Guarantee charges
- + Loan facilitation charges
- Discounts/ premium on borrowings
- Other ancillary costs
- Applicable net loss on foreign currency transactions to the extent they are regarded as adjust to interest cost
- Interest on Tax???

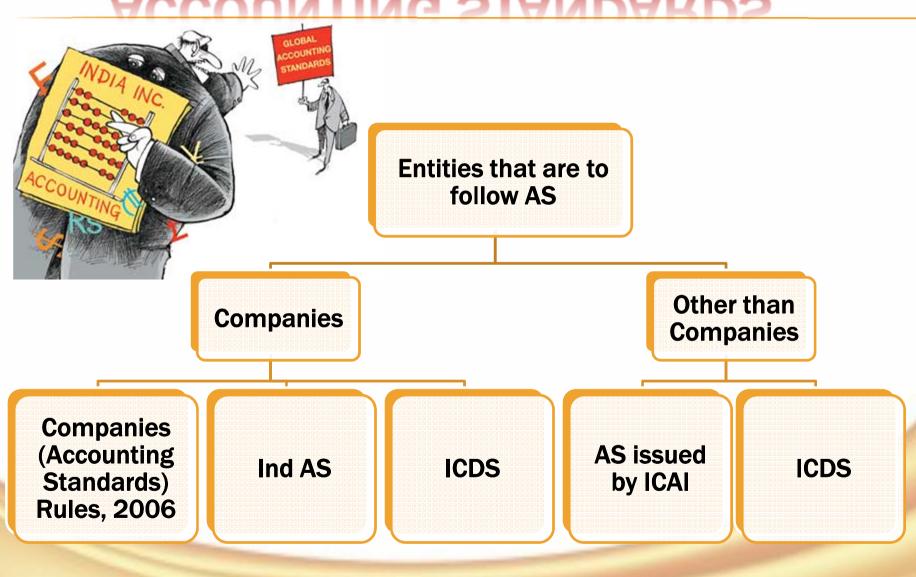
# **OTHER EXPENSES**

- All other expenses will be grouped here. Following to be disclosed separately:
  - Consumption of stores and spares
  - Power and fuel
  - ✓ Rent
  - Repairs to buildings
  - Repairs to machinery
  - ✓ Insurance
  - Rates and taxes, excluding taxes on income
  - Miscellaneous expenses
- Any expenditure which exceeds 1% of revenue from operations or Rs.1 L whichever is higher separate

# Notes to the Accounts



# **ACCOUNTING STANDARDS**



### **AS DISCLOSURES IN NOTES**

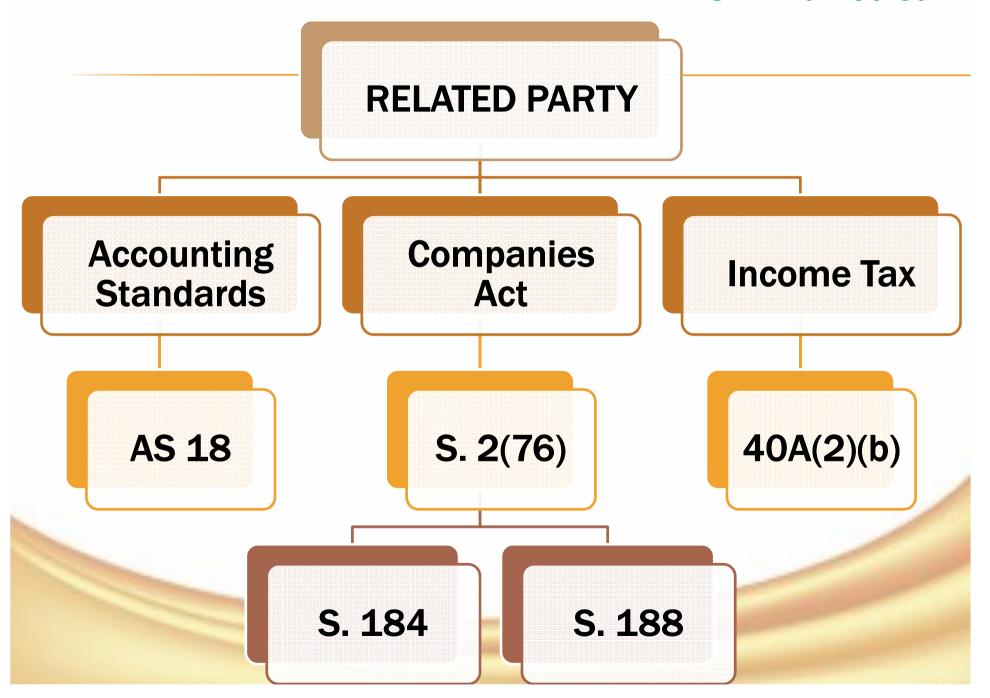
- **\*SMC / Non-SMC**
- ×AS 1
- **\*FS** to be prepared in compliance of AS
- **×FS** has to be AS compliant:
  - +FS to disclose deviation from AS
  - +Reason for deviation
  - +Financial effect arising of deviation

# **AS APPLICABILITY**

AS	Short Title	Companies		Other than Companies		
No.		Non-SMC	SMC	Level I	Level II	Level III
1	<b>Accounting Policies</b>	Y	Y	Y	Y	Y
2	Inventories	Y	Y	Y	Y	Y
3	Cash Flow	Y	N	Y	N	N
4	<b>Events after Balance Sheet date</b>	Y	Y	Y	Y	Y
5	<b>Prior Period Items &amp; Policies</b>	Y	Y	Y	Y	Y
6	Depreciation (Omitted w.e.f. 30.3.16)	NA	NA	NA	NA	NA
7	Construction	Y	Y	Y	Y	Y
9	Revenue	Y	Y	Y	Y	Y
10	Property, Plant & Equipment	Y	Y	Y	Y	Y
11	Foreign Exchange	Y	Y	Y	Y	Y
12	<b>Government Grants</b>	Y	Y	Y	Y	Y
13	Investments	Y	Y	Y	Y	Y
14	Amalgamations	Y	Y	Y	Y	Y
15	<b>Employee Benefits</b>	Y	Partly	Y	Partly	Partly

# **AS APPLICABILITY**

16	<b>Borrowing Cost</b>	Y	Y	Y	Y	Y
17	Segment	Y	N	Y	N	N
18	Related Party	Y	Y	Y	Y	N
19	Leases	Y	Partly	Y	Partly	Partly
20	Earning Per Share	Y	Partly	Y	Partly	Partly
21	Consolidation	Y (listed)	N	Y (listed)	N	N
22	Deferred Taxes	Y	Y	Y	Y	Y
23	<b>Consolidated Statements</b>	Y (listed)	N	Y (listed)	N	N
24	<b>Discontinuing Operation</b>	Y	Y	Y	Y	N
25	Interim Reporting	Y (listed)	N**	Y (listed)	N**	N**
26	Intangible Assets	Y	Y	Y	Y	Y
27	Interest in Joint Ventures	Y (listed)	N	Y (listed)	N	N
28	Impairment	Y	Partly	Y	Partly	Partly
29	Contingency	Y	Partly	Y	Partly	Partly



# AMENDED W.E.F. 30<sup>TH</sup> MARCH 2016

- X AS 2 (Valuation of Inventories )
- X AS 4 (Contingencies and Events Occurring after the Balance Sheet Date)
- × AS 6 (Depreciation Accounting requirements for depreciation are now incorporated in revised AS 10)
- As 10 (Property, Plant and Equipment)
- **×** AS 13 (Accounting for Investments)
- **×** AS 14 (Accounting for Amalgamation)
- AS 21 (Consolidated Financial Statements)
- × AS 29 (Provisions, Contingent Liabilities and Contingent Assets)

# AS 6 & AS 10

- × AS 6 omitted
- × AS 10 Property Plant & Equipment. For tangible only
- PPE 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
- It now includes bearer plants, biological assets too
- Provides for recognizing & derecognizing costs of replacement of:
  - Parts (Other than small parts)
  - Major inspection costs

# **AS 10**

- Capitalization of decommissioning, restoration & similar liabilities other than for producing inventories )- in old AS too
- If deferred payments interest subject to AS 16
- Revaluation model or Cost model
- **×** Revaluation of entire class not specific asset
- Investment Property in AS 13 only at Cost Model
- Enhanced disclosures
  - Existence and amounts of restrictions on title, and PPE pledged as security for liabilities
  - + Contractual commitments for PPE

# **AS 10**

- Component accounting
- Change in depreciation is now accounting estimate
- No gross block / net block but now carrying amounts
- Spare parts, which were being treated as inventory & are now required to be capitalised as per AS 10, to be capitalised at their carrying amounts & depreciated over their remaining useful lives prospectively

# OTHER IMPORTANT AMENDMENTS

- AS 2 Earlier Machinery Spares which can be used only with item of a fixed asset were FA if its use is irregular.
  - + Now spare parts, servicing equipment and standby equipment to be FA only as per AS 10 (PPE) 12 month
  - + Common classification for inventories would include Stock-in-trade (in respect of goods acquired for trading)
- × AS 4 no provision for proposed dividends now

# OTHER IMPORTANT AMENDMENTS

- AS 13 Investment property at cost model AS
   10 less depreciation and any impairment costs
- X AS 14 Amalgamation Limited revision to include reference to Companies Act, 2013
- X AS 21 Where no subsidiary but an associate / JV, to prepare CFS as per applicable AS
- X AS 29 Discounting of decommissioning, restoration & similar liabilities as per AS 10 at pre-tax rate that reflect the current market assessment of time value of money & and the risks specific to the liability

# **IMPORTANT NOTES**

- Contingent Liabilities / Commitments (to the extent not provided for)
- **×** Broad Heads RM, Income, Purchases
- × Value of imports made during the year on CIF basis:-
  - + Raw Materials
  - + Components (intermediaries & components) & Spare Parts (for capital equipment)
  - + Capital Goods

# **IMPORTANT NOTES**

- **Expn.** in foreign currency (accrual basis) on:
  - + Royalty
  - + Know-how
  - + Professional & consultation fee
  - + Interest
  - + Others
- Dividend if paid in FC (cash Basis):
  - + Total amount remitted during the year in FC
  - Total no. of non-resident shareholders
  - + No. of shares held by them on which dividend due
  - + Year to which dividend relates

# **IMPORTANT NOTES**

- Foreign Exchange Earnings (Accrual basis):
  - + Export of goods (calculated on F.O.B. basis)
  - + Royalty, know how, professional and consultation fees
  - + Interest and dividends
  - +Other income (indicating the nature thereof)

### OTHER DISCLOSURES IN NOTES

- **×** To disclose in FS full particulars of:
  - + Loan given;
  - + Investment made;
  - + Guarantee given; or
  - + Security Provided.
  - + Purpose for which loan or guarantee or security is proposed to be utilised by recipient of loan or guarantee or security [186(4)]
- Contribution during year to National Defence Fund
- \* Amount contributed to Political Party [182(3)]

### OTHER DISCLOSURES IN NOTES

- **×** Public Companies:
  - + Money received from director
- Private companies
  - + Money received from director
  - + Money received from relative of director

# **AUDIT**



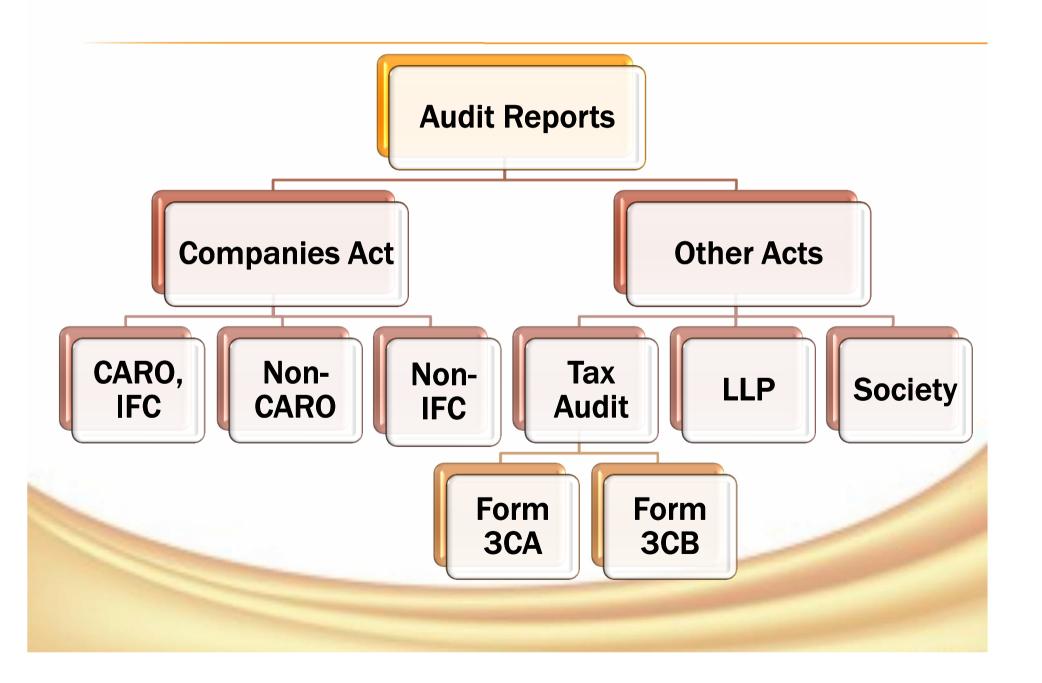
# **AUDIT PROCEDURE**



# **AUDITING STANDARDS**

- Auditor to comply with auditing standards
- NFRA to notify auditing standards. Till NFRA does – as by ICAI
- Total 38 SAs

SA. No.	Sub-division	No.
100-199	Introductory Matters	0
200-299	General Principles & Responsibilities	9
300-499	Risk Assessment and Response to Assessed Risks	6
500-599	Audit Evidence	11
600-699	Using Work of Others	3
700-799	Audit Conclusions and Reporting	6
800-899	Specialized Areas	3



# **COMPNY'S AUDIT REPORT**

- Inquiry u/s 143(1) 6 points
  - To be reported when comments required
- > Report to also include:
  - > Matters specified u/s 143(3) 9 points
  - Matters specified in Rules 3 points
  - > Any order made u/s 143(3) for specified Companies in consultation with NFRA CARO 2016 16 points

### IFC APPLICABILITY W.E.F. 13.7.2017

- Not applicable to Private company which:
  - + Is OPC; or
  - + Is Small Company; or
  - +Has:
    - Turnover less than Rs. 50 crores as per latest audited financial statement; and
    - ×Aggregate borrowings at any point of time during the FY less than Rs. 25 crore from:
      - ★ Banks or
      - Financial Institutions or
      - Any body corporate

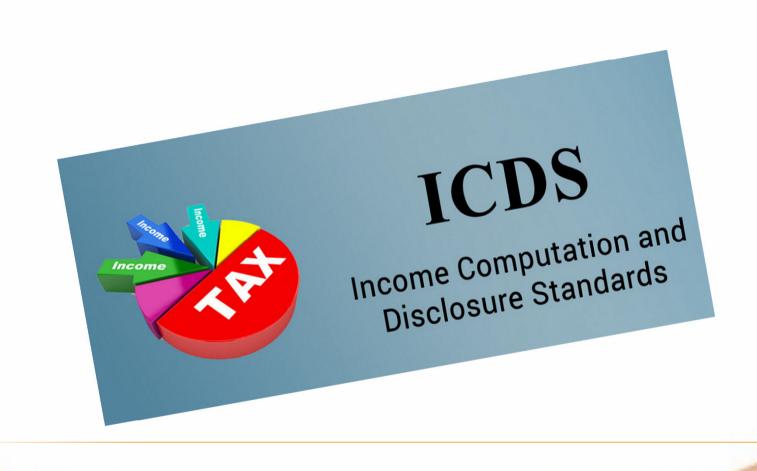
# CARO 2016

- Applicable to all including Foreign Co. for a/cing period after 1.4.15 except:
  - +Banking Co. / Insurance Co.
  - +Section 8 Co.
  - +OPC
  - +Small Co.
  - +Not applicable on CFS
  - +Branch auditor also covered, if applicable to co.

- **Pub. Co. whose:** 
  - +Paid up Capital & Reserves < 1 Cr as at B/s date; and
    - ×Bonus, Pref. shares to be included
    - **×Share Application money !!**
    - ×All reserves to be included including revaluation reserve

- Pvt. Co not being sub. or holding of Pub. Co. whose:
  - +Outstanding Loans Bank or FIs < 1 Cr during FY; and
    - ×All borrowings included non fund based to extent devolved, invoked guarantees & devolved LCs
    - ×TL interest accrued & due only to be considered
    - ×CC balance on any day as per books
    - OD against FD included
    - Outstanding due of Credit card also included
    - × Foreign banks covered Fls include NBFC

- Pvt. Co not being sub. or holding of Pub. Co. whose:
  - +Total Revenue (including from discontinuing operations) < 10 crores as per Financial Statements as per Schedule III
    - ×Other income included



# **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

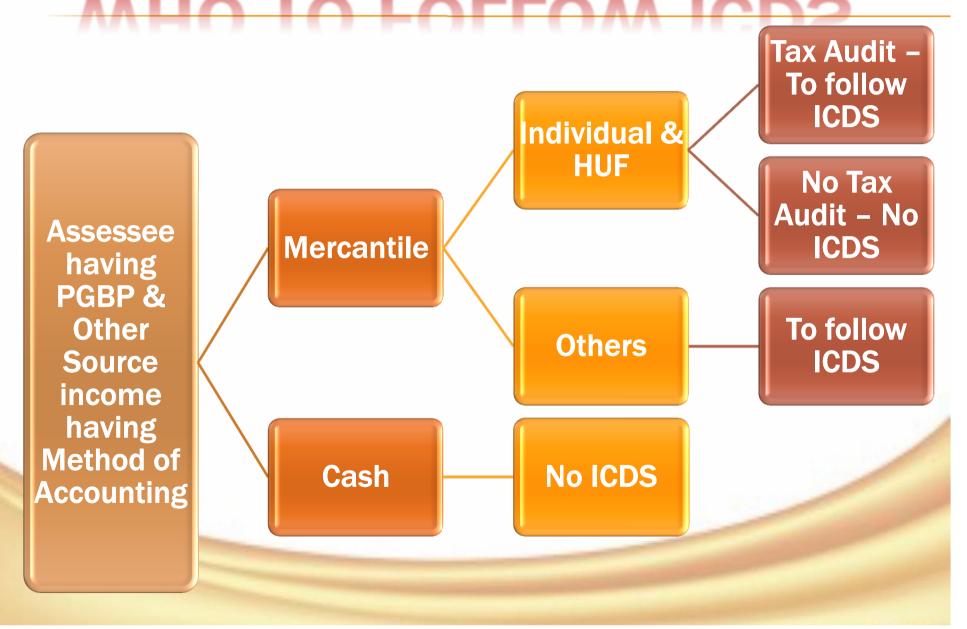
### DHC

 The Chamber of Tax Consultants & Anr vs. UOI

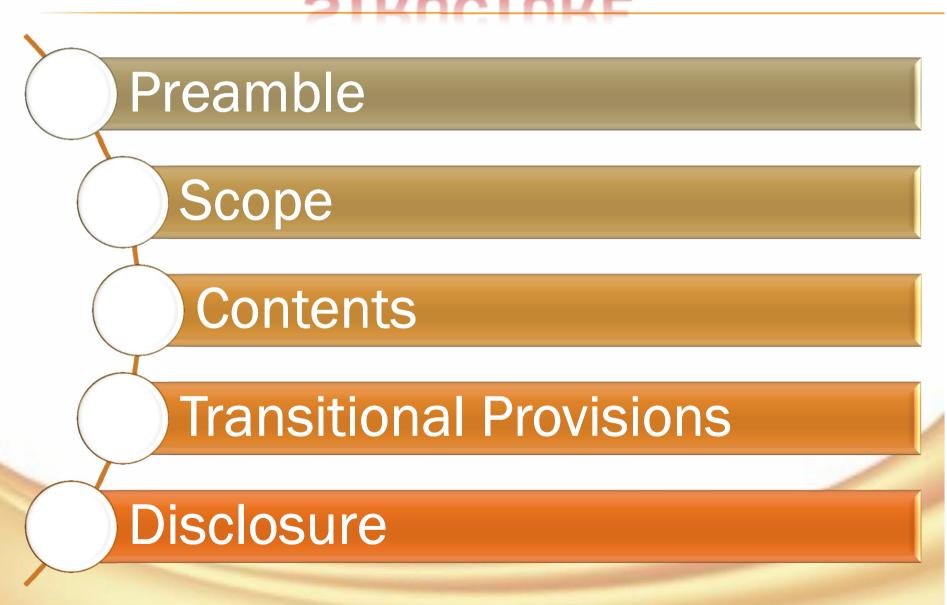
### IT Act

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

# WHO TO FOLLOW ICDS



# **STRUCTURE**



# 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

# 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
ı	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		
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	Amount
(i)	(ii)	(iii)
	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	
	${f Securities}$ (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	
9	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]
- ★ 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)
- × 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

# II - VALUATION OF INVENTORIES



### 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).
- X 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

- **x** 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.
- x 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.					

#### CA. Pramod Jain

## **COMPUTATION OF INCOME**

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

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

Add: Adjustments required under section 145A

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

Total	Rs. <b>4,50,000</b>

#### Less:

1.	Increase in Opening Stock on inclusion of VAT	Rs. 30,000
2	VAT Credit Receivables (Input) A/c	Rs 90 000

3. 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. 3,00,000

#### CA. Pramod Jain

## FINANCE ACT 2018 - S. 145A

- Valuation 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.

### 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>

# UDIT NOT ENTED UDIT NOT DONE



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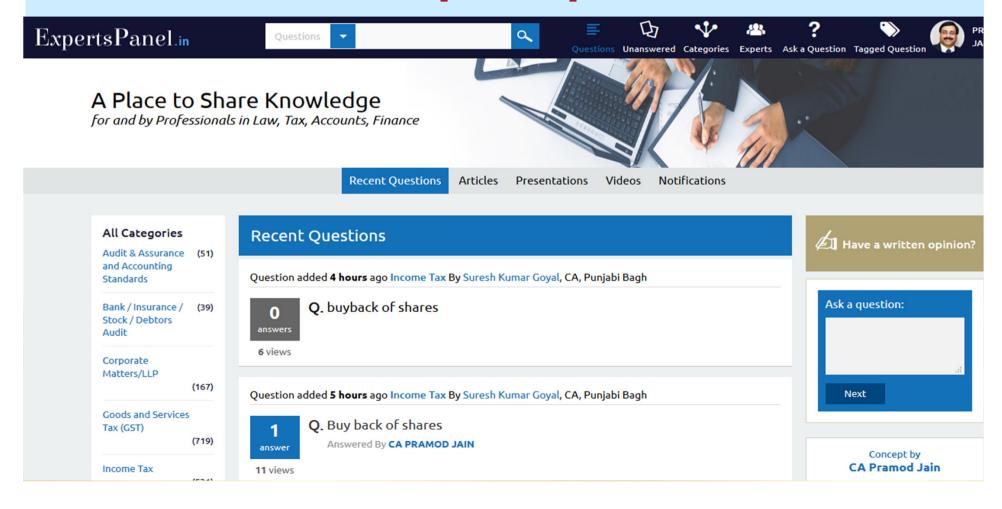
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CA. Pramod Jain <a href="mailto:pramodjain@lunawat.com">pramodjain@lunawat.com</a> +91 9811073867







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