

AS AMENDMENTS
CASH RESTRICTIONS
ICDS Overview, I, II IV & V
SCHEDULE III AMENDMENTS



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

Shared at

Muzzafar Nagar Branch of CIRC of ICAI

19th June 2017

CASH RESTRICTIONS



DEDUCTION U/S 80 G

- Not admissible if donation made exceeding Rs. 2000 in cash by a person (Earlier Rs. 10000/-). Cl. 33 Form 3CD
- A Trust receives Rs. 9000/- from Mr. B in cash on 19th June 2017. Is there any implication on Trust or Mr. B ?
- Mr. X gives following donations to PQR Trust.?:
 - 10.6.2017 Rs. 2100/-
 - 15.6.2017 Rs. 1900/-
 - 17.6.2017 Rs. 1500/-
- Mr. A gives following donations:
 - To ABC Trust Rs. 2500/-
 - To PQR Trust Rs. 1500/-
 - To XYZ Trust Rs. 1500/-

• Nil

• Nil

S. 40A(3) / 40A (3A)

- **Expenditure u/s 40A(3) / 40A(3A) disallowed in payment made in cash exceeding Rs. 10000/- per person per day (Old Rs. 20000/-)**
- **Limits:**
 - **Rs. 2500/- 1.4.1969**
 - **Rs. 10000/- 1.4.1989**
 - **Rs. 20000/- 1.4.1997**
 - **Rs. 10000/- 1.4.2017**
- **Reportable in clause 21 (d) of Form 3CD**

S. 40A(3) / 40A (3A)

- ABC & Co pays wages to 100 employees as per the minimum wages Act Rs. 13000/- per month in cash?
- Service of Car of Rs. 10500/-?
- Payment of Rent Rs. 15000/- pm?
- Payment of bill at Restaurant of Rs. 11500/-
- XYZ P. Ltd. purchases raw material through an invoice dt 28.5.2017 of Rs. 54000/-. Makes payment Rs. 9000/- per day?
- Would there be any difference if invoice is of Rs. 2.50 Lakhs and payment is less than Rs. 10K per day?
- XYZ P. Ltd. makes payment to its Sundry Creditor Mr. A of FY 2015-16 of Rs. 1.50 Lakhs of Rs. 15000/- per day in cash in **May 2017?**

ASSETS

- Depreciation disallowed on cash component of asset cost exceeding Rs. 10000/- per person per day.
 - Capital Gain?
 - Deferred Tax?
 - MAT?
 - Rule 6DD?
- S. 35AD benefit not allowed on exp. incurred exceeding Rs. 10000/- per person per day

SECTION 269 ST

- No person to receive an amount \geq Rs. 2 Lakhs otherwise than by A/c payee cheque/draft or use of electronic clearing using bank a/c (i.e. primarily in cash):
 - in aggregate from a person in a day; or
 - in respect of a single transaction; or
 - in respect of transactions relating to one event or occasion from a person

SECTION 269 ST

- **Not applicable to receipts by:**
 - **Government,**
 - **Bank,**
 - **Post Office Savings Bank or Co-operative Bank,**
 - **S. 269SS transactions**
 - **Such other persons or class of persons or receipts, which the CG may notify**
- **Not applicable to receipts from Bank, Post Office Savings Bank or Co-operative Bank**
- **Penalty of equal amount u/s 271DA**
- **Rule 6DD?**



- A sells his personal Innova car to Y for Rs. 3 L in cash?
 - Yes
- Ramlal an agriculturist sells his produce to M/s ABC & Co. for Rs. 3 Lakhs in Cash
 - Yes
- Son receives gift Rs. 5 L in cash from his father
 - Yes
- X receives Rs. 2.10 Lakhs for following from Y in cash on 19.6.2017:
 - Loan Rs. 0.15 Lakhs
 - Against sale of Car Rs. 1.95 Lakhs
 - No
- Father of Ms. C receives gifts from various persons on occasion of C's marriage aggregating Rs. 5 Lakhs?
 - No

???

- **X received Rs. 3.25 Lakhs from Y on 6th June 2017 :**
 - **For sale of car - Rs. 1.50 Lakhs on 1.6.2017**
 - **For sale of jewellery - Rs. 1.75 Lakhs on 4.6.2017**
 - **Yes**
- **X takes cash loan of Rs. 2.10 Lakhs from Y?**
 - **No 269ST, but 269SS**
- **X makes repayment of loan along with interest of Rs. 2.30 Lakhs in Cash to Y?**
 - **Yes, also 269T**
- **On the occasion of marriage of Ms. C the event manager receives Rs. 4.25 L on 20.5.2017 in cash:**
 - **Rs. 1.50 Lakhs from mother of C**
 - **Rs. 1.75 Lakhs from father of C**
 - **Rs. 1 Lakh from brother of C**
 - **If single bill, could be issue**

???

- On the occasion of marriage of Ms. C, AB Jewellers sold jewellery as under:
 - Mother of Ms. C Rs 1.50 Lakhs on 18.4.2017
 - Mother of Ms. C Rs. 1.75 Lakhs on 20.4.2017
 - Mother-in Law of Ms. C Rs. 2.50 Lakhs on 18.4.17
 - Sister of Ms. C Rs. 1.50 Lakhs on 20.4.2017
 - Bua of Ms. C Rs. 1 lakh on 20.4.2017
- 2.50 L
- Mr. Y from Australia comes to India. On arrival he falls ill & is hospitalised. His bill is of Rs. 2.25 Lacs which he wants to pay in 3500 dollars as he doesn't have rupees?
 - Doubtful, but should be no

???

- **Mr. A receives cash payment of Rs. 3.75 Lakhs from ABC P. Ltd. on 15th June 2017 for the following:**
 - **Rs. 2.10 Lakhs part payment for invoice no. 4. dt. 17.4.2017 of Rs. 3 Lakhs**
 - **Rs. 95000/- part payment for invoice no. 6 dt. 30.4.2017 of Rs. 2.50 Lakhs**
 - **Rs. 70000/- part payment for invoice no. 12 dt 10.5.2017 of Rs. 1.50 Lakhs**
- **Implications are:**
 - **271DA penalty on Mr. A for Rs. 3.75 Lakhs**
 - **Mr. A to report Rs. 2.10 Lakhs in SFT in Form 61A**
 - **ABC P. Ltd expense of Rs. 3.75 Lakhs would be disallowed u/s 40A(3)**

???

- A charitable trust organises 3 days Satsang of Pandit ji. It receives followings in cash:
 - Rs. 10 lacs as donations from various persons in 3 days
 - Rs. 4.50 lacs from 3 sponsorship in equal amounts
- It pays the following:
 - Rs. 1 lacs per day for tent
 - Rs. 1.50 lacs per day to caterers
 - Rs. 75000 per day for security and sevadar to manpower consultant
 - Yes, In hands of receiver for payment made by Trust

???

- **PQR P. Ltd receives Rs. 5 lacs each from its 2 subscribers on incorporation in cash**
 - Yes
- **Mr. B introduces Rs. 3 Lacs as capital in partnership firm ABC & Co?**
 - Yes
- **Mr. B partner withdraws the following in cash from ABC & Co. during FY 2017-18:**
 - **Rs. 1.80 Lacs remuneration Rs. 15K p.m.**
 - **Rs. 36000 being interest on 31.3.2017**
 - **Rs. 3 L on different dates, being profit**
 - S. 40A(3)

SCHEDULE III AMENDMENTS



SCHEDULE III

- ✖ Amended w.e.f. 30th March 2017.
- ✖ Every company to disclose details of SBN held & transacted during 8/11/2016 to 30/12/2016 .

	SBNs	Other denomina tion notes	Total
Closing cash in hand as on 8.11.2016			
(+) Permitted receipts			
(-) Permitted payments			
(-) Amount deposited in Banks			
Closing cash in hand as on 30.12.2016			

AUDITOR'S REPORT

- ✘ Whether the company had provided requisite disclosures in its financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8 November 2016 to 30 December 2016
- ✘ And if so
- ✘ Whether these are in accordance with the books of accounts maintained by the company.

WHAT TO DO

- ✖ Obtain cash balance certificates with denominations as on closing of 8.11.16 & 30.12.16
- ✖ Obtain cash book and bank statements for demonetization period – keep a signed copy in audit documents, wherever feasible
- ✖ Perform audit procedures
- ✖ Verifying permitted SBN transactions
- ✖ Obtain due MR
- ✖ Issue report accordingly

	SBNs		Other Denomination Notes		Total	
	Denom ination	Amo unt	Denominati on	Amount	Denomi nation	Amo unt
Closing Balance as on 8.11.2016						
Add: Withdrawal from bank	NA	Nil				
Add: Receipts for permitted transactions						
Add: Receipts for non- permitted transactions						
Less: Paid for permitted transactions						
Less: Paid for non-permitted transactions						
Less: Deposited in Bank						
Closing Balance as on 30.12.2016						

SUGGESTED M. R.

- ✖ **We have appropriately disclosed {Refer Note []}, the details of Specified Bank Notes (SBN) held and transacted during the period from 8.11.2016 to 30.12.2016 pursuant to the requirement of Notification G.S.R 308(E) dated 30th March 2017.**
- ✖ **Further we confirm that we have complied with all relevant guidelines / notifications issued by RBI from time to time in respect of holding and dealing with SBN, and that the company had proper controls, system and procedures in place for such compliances.**

REPORTING FORMATS

✖ **Clean Report:**

- + Based on audit procedures and relying on the management representation we report that the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note [*]

✖ **Where clause not applicable:**

- + The Company did not have any holdings or dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016 – Refer Note [*]
- + The disclosure requirement as envisaged in Notification G.S.R 308(E) dated 30th March 2017 is not applicable to the Company - Refer Note [*]

REPORTING FORMATS

- ✖ **Company provided details, but auditor could not verify due to non-availability of sufficient and appropriate audit evidence resulting into scope limitation**
- + **The Company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. However, we are unable to obtain sufficient and appropriate audit evidence to report on whether the disclosures are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note [*];**
- ✖ **Also comment in report – not received information**

REPORTING FORMATS

✘ **Company did not give disclosures:**

+ The Company has not provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016.

✘ **Company did not give certain requisite disclosures:**

+ The Company has not provided certain requisite disclosures in the FS as to holdings as well as dealings in Specified Bank Notes during period from 8.11.2016 to 30.12.2016. Consequently we are unable to obtain sufficient and appropriate audit evidence to report whether the disclosures to the extent stated in the notes are in accordance with books of account maintained by the Company and as produced to us by the Management – Refer Note [*]

✘ **Also comment in both cases – not received information**

REPORTING FORMATS

- ✖ **Company has disclosed, but have transacted in non-permitted receipt/payments**
- + **The Company has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. However, as stated in notes [*] to the financial statements amounts aggregating to Rs. [] as represented to us by the Management have been utilized for other than permitted transactions/received amount aggregating Rs. [] from transactions which are not permitted;**

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ACCOUNTING STANDARDS



AMENDED W.E.F. 30TH MARCH 2016

- ✖ **AS 2 (Valuation of Inventories)**
- ✖ **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**
- ✖ **AS 14 – Amalgamation - Limited revision to include reference to Companies Act, 2013**
- ✖ **AS 21 - Where no subsidiary but an associate / JV, to prepare CFS as per applicable AS**
- ✖ **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**

IND AS – ROADMAP FOR OTHER THAN BANKS, NBFC & INSURANCE COS.

From FY
2015-16

- Any company voluntary

From FY
2016-17

- All companies having net worth of rupees 500 crore or more.
- Holding, subsidiary, joint venture or associate companies of above companies.

From FY
2017-18

- Cos. whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of **< Rs. 500 crore.**
- **Unlisted companies** having net worth of Rs. **250 crores or more but less than Rs. 500 crore.**
- Holding, subsidiary, joint venture or associate companies of above companies.



ICDS

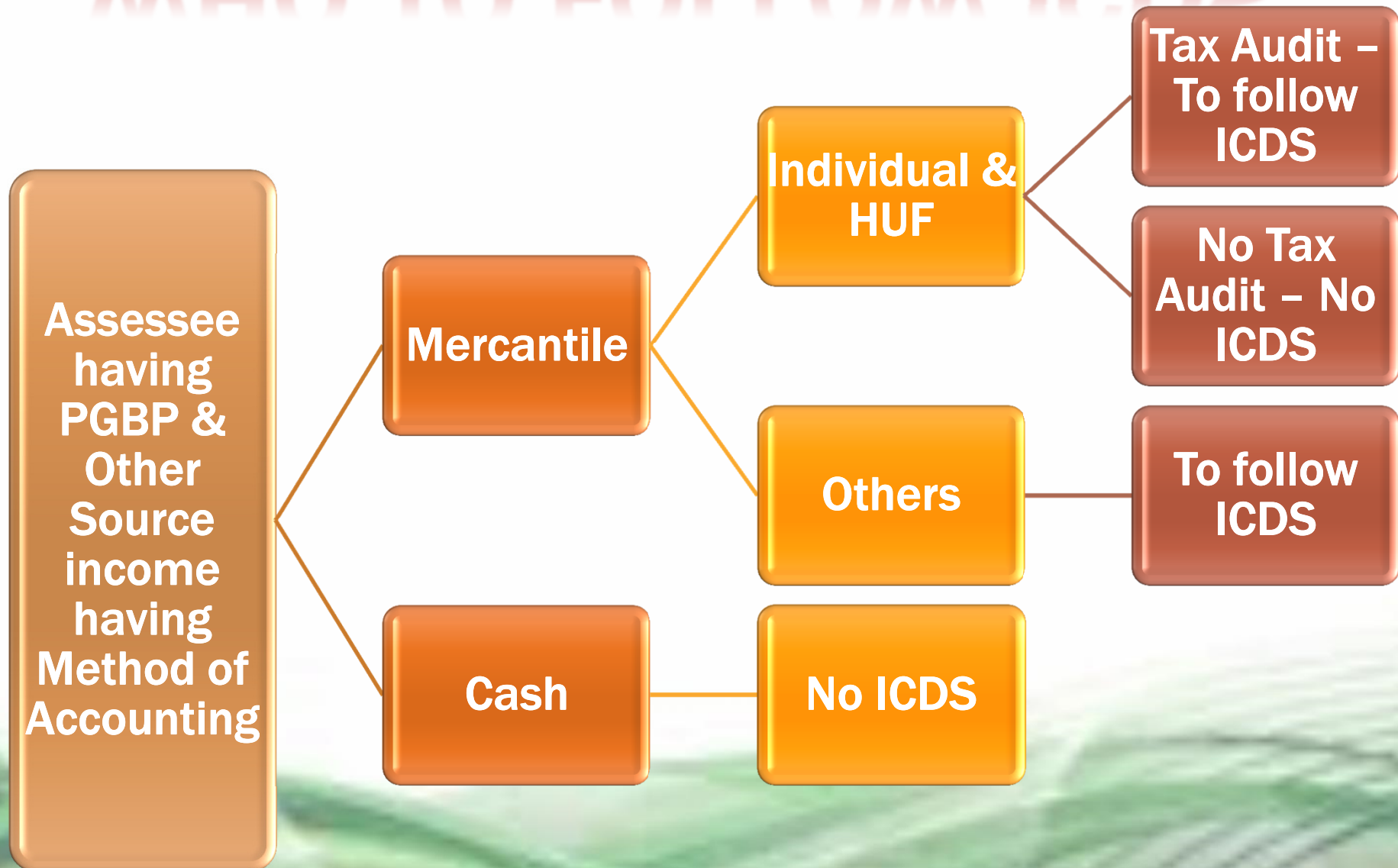
Income Computation and
Disclosure Standards



ICDS BACKGROUND

- ✖ CG notified 10 ICDS vide notification no. 32 of 2015 dated 31st March 2015 which were applicable from AY 2016-17 onwards
- ✖ Due to various issues & representations referred to Expert committee & deferred by 1 year (6.11.2016).
- ✖ CBDT rescinded the old ICDS through notification no. 86/2016 dated 29th September 2016 and issued revised ICDS vide notification no. 87/2016 and amended Tax Audit Form 3CD.
- ✖ Also issued FAQs dated 25th March 2017
- ✖ Draft ICDS on Real Estate Transaction released for suggestion - 11.05.2017

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

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

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 assessee has no business income but only income from other sources?
- ✗ What if has one business on mercantile basis and other on cash ?
- ✗ Transitional provisions - neither double taxation nor escapement of income
- ✗ Disclosure requirements

SEQUENCE OF PREVALENCE

ACT



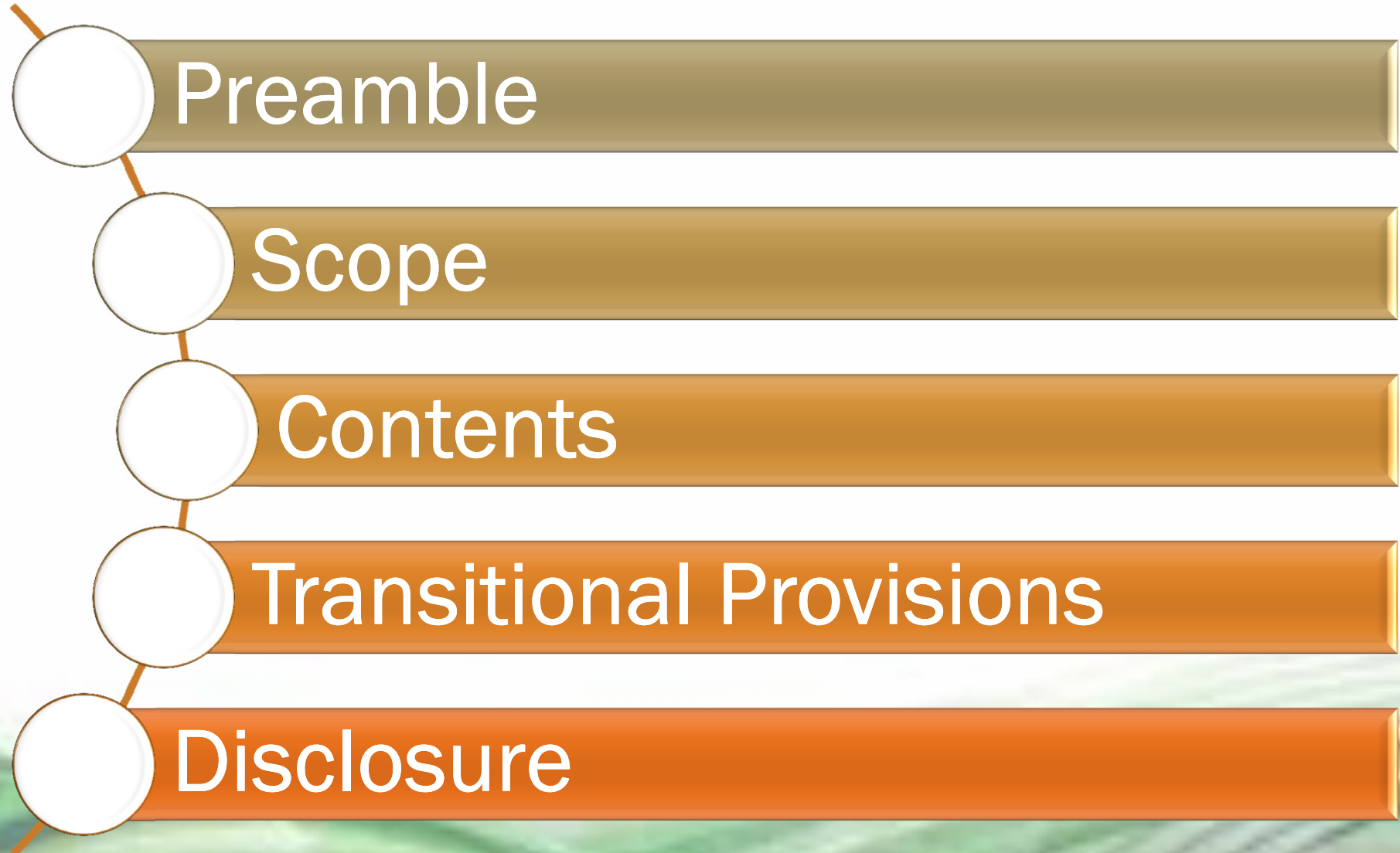
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graph TD; ACT[ACT] --> ICDS[ICDS]; ICDS --> RULES[RULES]; RULES --> JUDICIAL_PRECEDENTS[JUDICIAL PRECEDENTS];
```

ICDS

RULES

**JUDICIAL
PRECEDENTS**

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

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

FORM 3CD – CLAUSE - 13

- ✖ (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. 23RD 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. 23RD 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**

I - ACCOUNTING POLICIES



ICDS I – ACCOUNTING POLICIES



Accounting Policy or Income Computation???

All significant Accounting policies

Fundamental accounting assumptions of going concern, consistency and accrual

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

- ✖ **Selection of accounting policy so as to represent a true and fair view of:**
 - ✖ **State of affairs; and**
 - ✖ **Income of business, profession or vocation.**
- ✖ **Change in accounting policy only if reasonable cause. AS 5 – only if required by statute, compliance with AS or more appropriate presentation of FS**
- ✖ **Reasonable cause is an existing concept conferring flexibility in deserving cases - FAQ**

ICDS I – ACCOUNTING POLICIES

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

ICDS I – TRANSITIONAL PROVISION

- ✖ All contracts/transaction existing on 1.4.2016 or entered thereafter to be as per ICDS after taking into account income, expense or loss recognised in FY2015-16**



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 (other than those covered by other ICDS):**
 - + Marked to market loss / gain
 - + Expected losses
- ✖ **Take care of change in accounting policies having material effect in the year of effect too.**

FORM 3CD – CLAUSE – 13(E)

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



FORM 3CD – CLAUSE – 13(F)

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



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II – VALUATION OF INVENTORIES



ICDS 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.**
- ✖ **Does not include WIP dealt by other ICDS.**
- ✖ **Cost of inventories to include:**
 - + **Cost of purchases;**
 - ✖ **Includes all duties & taxes . AS 2 excludes refundable from taxing authorities**

ICDS II – VALUATION OF INVENTORIES

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

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

- + **Costs of conversion; and**

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

- × **Cost Formulae**

- + **Specific identification of cost**

- + **FIFO**

- + **Weighted Average**

ICDS II – VALUATION OF INVENTORIES

- ✖ 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

- ✗ **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)
- ✗ **S. 145A**

ICDS II – TAX DUTIES

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

ICDS II – TAX DUTIES

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

ICDS II – PARTNERSHIP FIRMS

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

ICDS II – VALUATION OF INVENTORIES

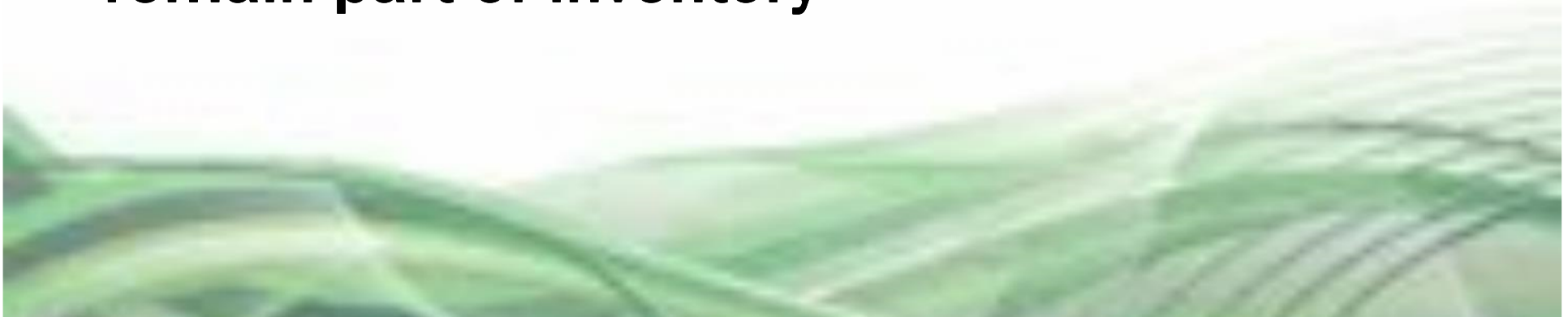
- ✖ **No Interest /borrowing cost unless as per ICDS IX**
 - + **Where inventories require a period of 12 months or more to bring them to a saleable condition**
- ✖ **Value of the inventory as on beginning of PY shall be:**
 - + **Cost of inventory available, if any, on day of commencement of business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

ICDS II – VALUATION OF INVENTORIES

- ✗ No change in method of valuation without reasonable cause
- ✗ Reasonable cause:
 - + Change in method of accounting in view of mandatory requirements of AS-7 is a bonafide reason for change - *Mazagon Dock Ltd. v. JCIT [2009] 29 SOT 356 (Mum.)*
 - + No addition could be made to income of assessee on account of change in accounting policy as to valuation of closing stock if such change had been made on account of statutory requirements - *Uniflex Industries (P.) Ltd. v. ITO [2007] 15 SOT 246 (LUCK.)*

ICDS II – TRANSITIONAL PROVISION

- ✖ **Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in cost of opening inventory as on 1.4.2016, shall be taken into a/c for determining cost of such inventory for valuation as on 31.3.2017 if such inventory continue to remain part of inventory**




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**
- ✖ **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)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
II	Valuation of Inventories	10000		10000	Difference over cost to NRV in case of dissolution of firm. Valued at lower in books
	Total			10000	



FORM 3CD – CLAUSE – 13(F)

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

IV – REVENUE RECOGNITION

CA. Pramod Jain



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.

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



THANK YOU!



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