

**AS AMENDMENTS**  
**CASH RESTRICTIONS**  
**ICDS OVERVIEW, I & II**  
**SCHEDULE III AMENDMENTS**



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

**Shared at**

**Shastri Nagar CPE Study Circle of NIRC of ICAI**

**16<sup>th</sup> June 2017**

# CASH RESTRICTIONS

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# **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
- ABC Trust receives Rs. 9000/- from Mr. B in cash on 9<sup>th</sup> June 2017. Is there any implication on Trust or Mr. B ?
- Mr. X gives following donations to PQR Trust.?:
  - 20.5.2017 Rs. 2100/-
  - 25.5.2017 Rs. 1900/-
  - 14.6.2017 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)**

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- **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. 11400/-**
- **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

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- No person to receive an amount  $\geq$  Rs. 2 L 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**

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- **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**
- **No applicable to receipts from Bank, Post Office Savings Bank or Co-operative Bank**
- **Penalty of equal amount u/s 271DA**
- **Rule 6DD?**





- **Mr. A sells his personal Innova car to Mr. Y for Rs. 4 Lakhs 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 27.5.2017:**
  - **Loan Rs. 0.18 Lakhs**
  - **Against sale of Car Rs. 1.92 Lakhs**
    - No

???

- **X sells the following to Y for which he received on 6<sup>th</sup> June 2017:**
  - **Car for Rs. 1.50 Lakhs on 1.6.2017**
  - **Jewellery for Rs. 1.75 Lakhs on 4.6.2017**
    - **Yes**
- **Father of Ms. C receives gifts from various persons on occasion of C's marriage aggregating Rs. 5 Lakhs?**
  - **No**
- **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 Mr. B's father made payments of Rs. 3.00 Lakhs in cash to following:
    - To horse cart – Rs. 75K
    - To event manager for party Rs. 2.25 Lakhs
  - 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
- 2.25 L
- 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
- 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?

• 2.50 L

• Doubtful, but should be no

???

- **Mr. A receives cash payment of Rs. 3.75 Lakhs from ABC P. Ltd. on 15<sup>th</sup> 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 AIR 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. 30<sup>th</sup> 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**

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- ✘ **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
<b>Closing Balance as on 8.11.2016</b>						
<b>Add: Withdrawal from bank</b>	<b>NA</b>	<b>Nil</b>				
<b>Add: Receipts for permitted transactions</b>						
<b>Add: Receipts for non- permitted transactions</b>						
<b>Less: Paid for permitted transactions</b>						
<b>Less: Paid for non-permitted transactions</b>						
<b>Less: Deposited in Bank</b>						
<b>Closing Balance as on 30.12.2016</b>						

## **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;**

**CA. Pramod Jain**

# ACCOUNTING STANDARDS



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

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- ✖ **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

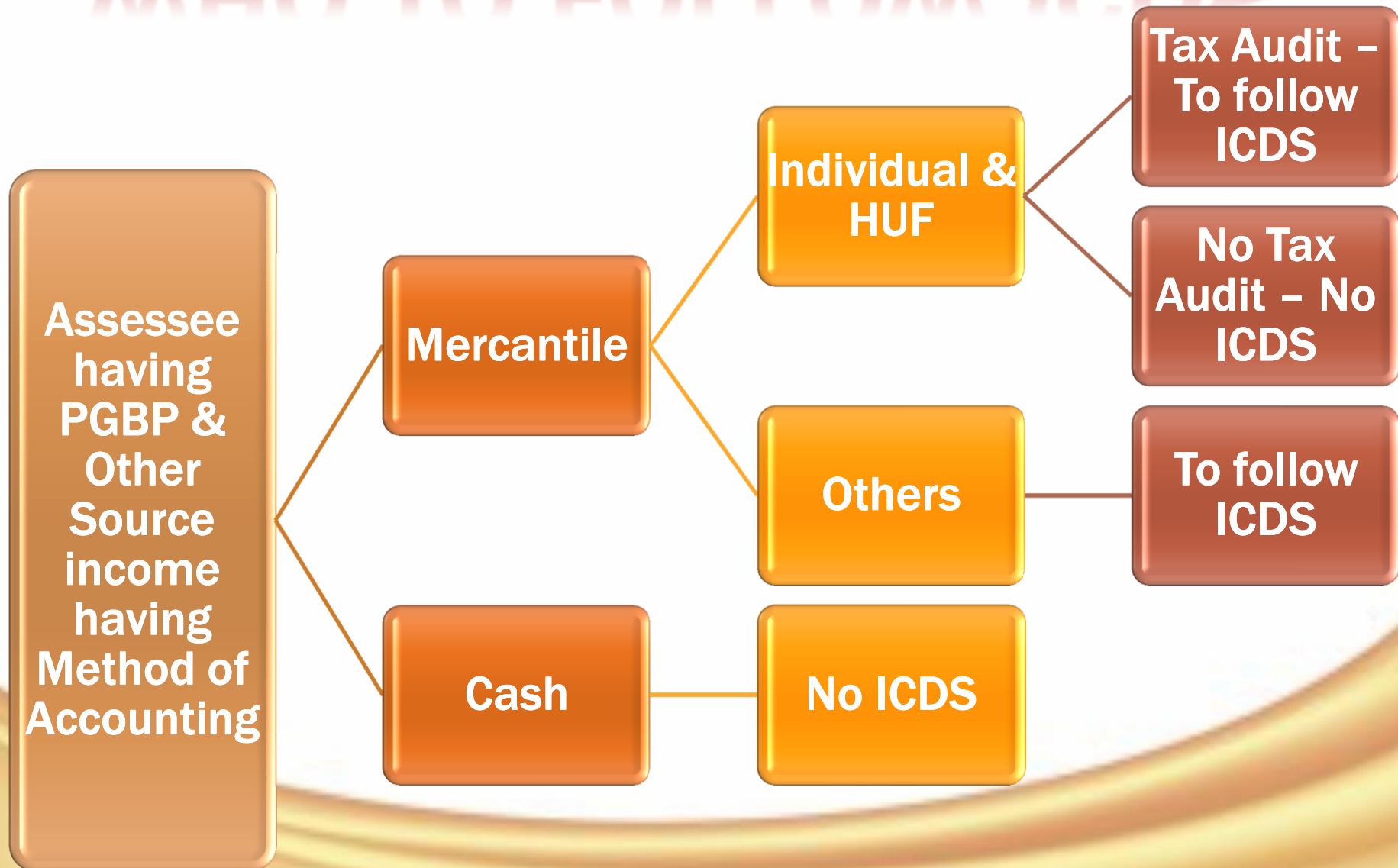
Income Computation and  
Disclosure Standards



# ICDS BACKGROUND

- ✖ CG notified 10 ICDS vide notification no. 32 of 2015 dated 31<sup>st</sup> 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 29<sup>th</sup> September 2016 and issued revised ICDS vide notification no. 87/2016 and amended Tax Audit Form 3CD.
- ✖ Also issued FAQs dated 25<sup>th</sup> 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
- ✗ 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 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

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**ACT**



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

**RULES**

**JUDICIAL  
PRECEDENTS**

# STRUCTURE



# **PREAMBLE**

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

# WHAT TO DO

Get the FS  
prepared  
complying AS  
/ Ind AS

Check & List out  
the applicable  
ICDS

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

Also note  
difference in  
accounting policy  
as per AS in  
books and ICDS

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

Does any of those  
relate to any  
ICDS?

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

Verify related  
ICDS  
disclosure 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

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

# FORM 3CD – CLAUSE - 13

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

# FORM 3CD – CLAUSE – 13(E)

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

# FORM 3CD – CLAUSE – 13(F)

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

# ITR

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

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

# WHAT IF ICDS NOT FOLLOWED

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



# **CBDT FAQs DT. 23<sup>RD</sup> MARCH 2017**

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

# **CBDT FAQs DT. 23<sup>RD</sup> MARCH 2017**

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## **✖ For Derivative contracts :**

- + Forward contracts and similar - ICDS VI  
[Foreign Exchange] subject to para 3 of ICDS  
VIII [securities]**

- + For others ICDS I**

## **✖ Disclosure where to be made – Q 25**

- + Net effect of ICDS to be disclosed in ITR**

- + Form 3CD**

- + No separate disclosures persons who are  
not liable for tax audit**

# 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**

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



# **ICDS I – ACCOUNTING POLICIES**

- ✖ **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**

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- ✖ 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

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

# **ICDS I – PRACTICAL IMPLICATIONS**

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

# FORM 3CD – CLAUSE – 13(E)

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

# FORM 3CD – CLAUSE – 13(F)

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



*CA. Pramod Jain*

# **II – VALUATION OF INVENTORIES**



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

- ✖ **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**

<b>5</b>	<b>Increase in closing stock of raw material on inclusion of excise duty</b>	<b>40</b>	<b>-</b>
<b>6</b>	<b>Increase in closing stock of finished goods on inclusion of excise duty</b>	<b>60</b>	<b>-</b>
<b>7</b>	<b>Increase in excise duty on closing stock of finished goods as a result of its inclusion in closing stock of finished goods</b>	<b>-</b>	<b>60</b>
<b>8</b>	<b>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</b>	<b>160</b>	<b>-</b>
	<b>Total</b>	<b>440</b>	<b>440</b>

## ICDS II – PARTNERSHIP FIRMS

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

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

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

# ICDS II – 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**

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- ✖ **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**

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## **✖ Disclosures**

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

# **ICDS II – PRACTICAL IMPLICATION**

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

# FORM 3CD – CLAUSE – 13(E)

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"><li>• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements</li><li>• For carrying amount and classification refer Note No. _ of Balance Sheet</li><li>• The assessee is not including duties and taxes in cost of inventories, for the effect refer to Para 14(b) of Form 3CD</li><li>• The assessee is following Standard Costing as a measurement of cost, and that approximates the actual cost</li></ul>

# THANK YOU!



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