



ICDS

Income Computation and
Disclosure Standards

OVERVIEW



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Shared at

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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 (6.07.2016).
- ✖ CBDT rescinded the old ICDS through notification no. 86/2016 dated 29th September 2016 and issued revised ICDS vide notification no. 87/2016 and amended Tax Audit Form 3CD.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

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**

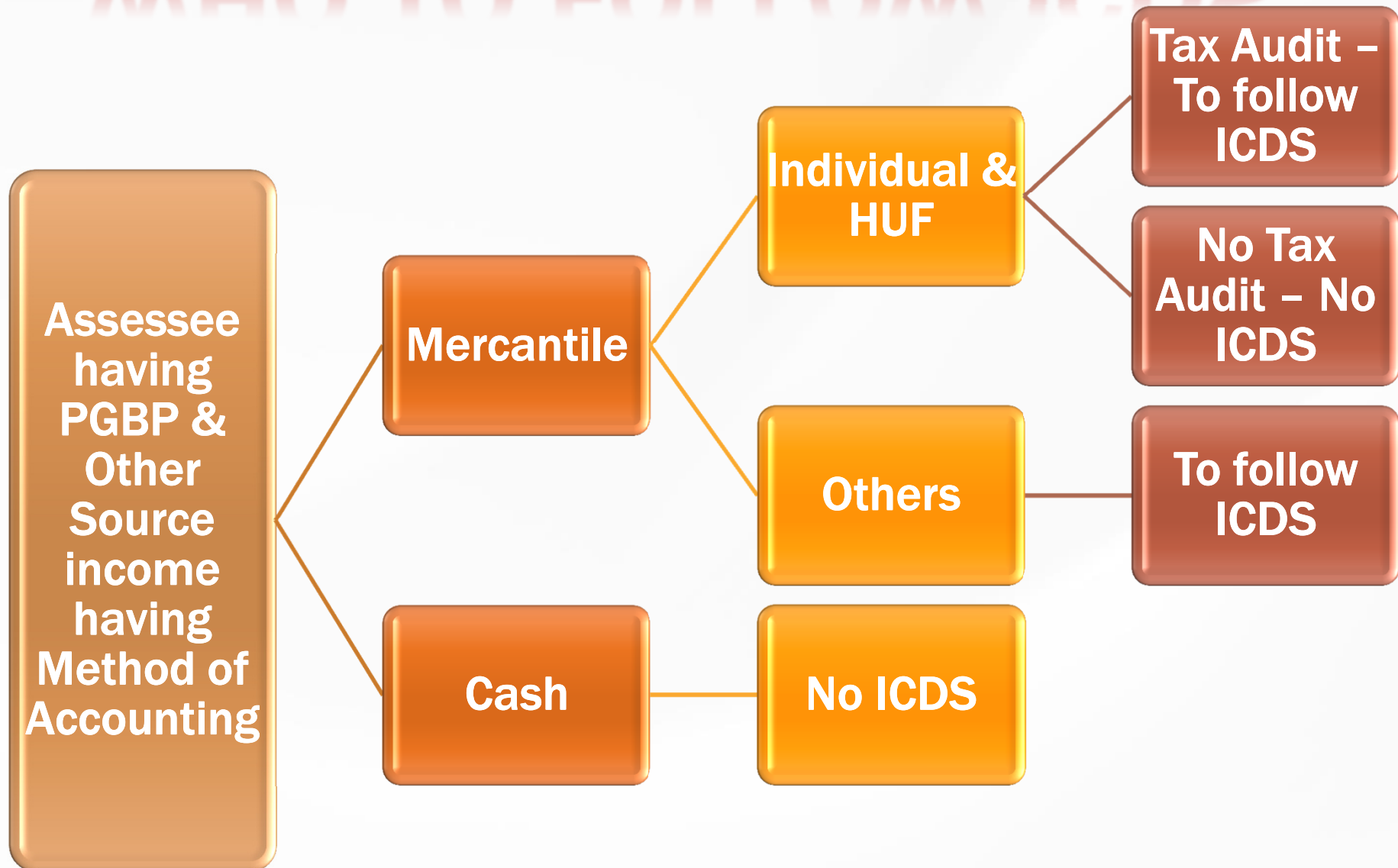
DHC

- **The Chamber of Tax Consultants & Anr vs. UOI**

I T Act

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

WHO TO FOLLOW ICDS



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	115
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
- ✗ 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**
- ✗ **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 ?**
- ✗ **Disclosure requirements**

STRUCTURE



PREAMBLE

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

FINANCE ACT 2018

- ✖ Various provisions amended w.r.e.f. AY 2017-18
- ✖ S. 145A - amended
 - + ICDS 2 (Valuation of Inventories of goods)
 - + ICDS 4 (Valuation of Inventories of services)
 - + ICDS 8 (Securities)
- ✖ S. 145B - inserted
 - + ICDS 4 (Revenue Recognition)
 - + ICDS 7 (Government Grants)

FINANCE ACT 2018

- ✗ **S. 36(xvii) inserted – Mark to Market Loss – ICDS1**
- ✗ **S. 40A (13) inserted - 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)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
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 <i>(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)</i>	
III	Construction Contracts	200000
IV	Revenue Recognition	300000
V	Tangible Fixed Assets	
VI	Changes in Foreign Exchange Rates	
VII	Government Grants	
VIII	Securities <i>(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)</i>	
IX	Borrowing Costs	5000
X	Provisions, Contingent Liabilities and Contingent Assets	
11a	Total Effect of ICDS adjustments on Profits (I+II+III+IV+V+VI+VII+VIII+IX+X) (If Positive)	505000
11b	Total Effect of ICDS adjustments on Profits (I+II+III+IV+V+VI+VII+VIII+IX+X) (If Negative)	

ITR – PART A - OI

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

WHAT IF ICDS NOT FOLLOWED

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

CBDT FAQs DT. 25TH MARCH 2017

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

CBDT FAQs DT. 25TH MARCH 2017

- ✗ **For Derivative contracts :**
 - + **Forward contracts and similar - ICDS VI [Foreign Exchange] subject to para 3 of ICDS VIII [securities]**
 - + **For others ICDS I**
- ✗ **Disclosure where to be made – Q 25**
 - + **Net effect of ICDS to be disclosed in ITR**
 - + **Form 3CD**
 - + **No separate disclosures persons who are not liable for tax audit**

FINANCE ACT 2018

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

ICDS I – DISCLOSURES

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

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II – VALUATION OF INVENTORIES



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 – 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)
- ✖ **Already u/s. 145A since 1.4.1999 amended now**

ICDS II – TAX DUTIES

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

ICDS II – TAX DUTIES

The Trading Account on “EXCLUSIVE METHOD”

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

ADJUSTMENT U/S 145A

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

The net impact on Profit & Loss Account is NIL.

COMPUTATION OF INCOME

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

The computation of total income would appear as under:-


Profit as per Profit & Loss account on the basis of exclusive method	Rs.3,00,000
Add: Adjustments required under section 145A	
1. Increase in Sales on inclusion of VAT	Rs. 90,000
2. Increase in Closing Stock on inclusion of VAT	Rs. 60,000
Total	Rs. 4,50,000
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	<u>Rs.30,000</u>
Profit	Rs. <u>3,00,000</u>


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

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