# ICDS – Impact on Computation of Income

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# Introduction

# Background in brief

- ICDS notified by Central Government (CG) as a delegated legislation u/s 145(2) w.e.f. AY 2017-18[1]
  - Applicable for computation under the heads PGBP and IFOS
  - Applicable to all taxpayers following mercantile method of accounting
  - Not applicable to individuals and HUFs not liable to tax audit
- Revised ICDS notified in September 2016 and FAQs released by the CBDT in March 2017[2]
- The Delhi HC in The Chamber of Tax Consultants[3] read down power granted to notify ICDS u/s.145(2) to preserve constitutional validity and struck down several contentious ICDS provisions

**Finance Act 2018 (FA 2018)**

In order to provide legitimacy and bring certainty, new provisions inserted in the Act, in line with ICDS

- Retrospective amendment from AY 2017-18 to regularize compliance by large number of taxpayers and to prevent any further inconvenience to them

1. Postponed by one year from AY 2016-17 in view of implementation difficulties faced by taxpayers
2. Circular No. 10/ 2017 dt 23 Mar 2017
3. (2017) 159 DTR 313 (Del)

# Amendments vis-à-vis ICDS

*[Section 36, 40A, 43AA, 43CB, 145A, 145B – **Applicable retrospectively from Assessment Year 2017-18**]*

**Marked to market losses:** ICDS – I
section 36(1)(xviii), section 40A(13)

Expected Loss not allowed

**Foreign currency gains or losses:** ICDS –VI
section 43AA

Forex- Capital Account taxable

**Construction contracts:**
ICDS – III
section 43CB

Proportionate completion method

**Revenue Recognition:**
ICDS – IV
section 145B

Taxing Subsidy/incentives immediately

**Valuation of Inventory:**
ICDS – II
Section 145A

Valuation including taxes

Whether Amendments applicable to even those to whom ICDS are not applicable ?.

Delhi High Court in the case of *Chamber of Tax Consultants v. Union of India (2017) overruled*

# ICDS – Principles of construction

- Provisions of ITA to prevail in case of conflict with ICDS
- Amendment to Income Tax Act by retrospective effect
- Undefined words/expression take their meaning from ITA
- No clarity as yet on interplay with tax jurisprudence

**Hierarchy of ICDS**

- Specific statutory provisions (ITA) & ICDS
- Income tax rules
- Real income theory
- Tax jurisprudence on above
- Commercial principles of accounting

| ICDS | Relevant AS |
| --- | --- |
| ICDS I – Accounting Policies | AS-1 and AS-5 |
| ICDS 2 - Valuation of Inventories | AS-2 |
| ICDS 3 - Construction Contracts | AS-7 |
| ICDS 4 - Revenue Recognition | AS-9 |
| ICDS 5 - Tangible fixed assets | AS-10 |
| ICDS 6 - Effects of changes in foreign exchange rates | AS-11 |
| ICDS 7 - Government Grants | AS-12 |
| ICDS 8 – Securities | AS-13 |
| ICDS 9 - Borrowing costs | AS-16 |
| ICDS 10 - Provisions, Contingent Liabilities & Assets | AS-29 |

Draft ICDS on Real Estate Transactions issued in May 2017. Not yet notified -?

Where no Specific treatment of an element of income/expense/asset/liability is Presrcibed under the Act or ICDS, the existing accounting framework (including guidance notes and other authoritative pronouncements of ICAI) applicable to the entity will apply

# Scope

- The ICDS have been issued for computation of income chargeable under the head 'Income from Business and Profession' and 'Income from Other Sources'.
  - Assessee having income from two business, one from manufacturing business and other from commission agency business. For manufacturing business, mercantile system is followed and commission business, cash system is followed.
  - Is ICDS applicable for both business or either of them?
  - Different methods of accounting for different sources of income
    - J. K. Bankers v. CIT – 94 ITR 107 (All.)
    - CIT v Smt Vimla D Sonwane - 212 ITR 489 (Bom.)
    - CIT v VTC Leasing & Finance Ltd - 323 ITR 514 (Raj)

# Scope

- **Can assessee change the method of accounting from mercantile to cash system of accounting?**
- An accounting method is different from an accounting policy.
- A change in accounting method itself does not amount to a change in accounting policy, but is a change in the method itself. Therefore, para 5 of ICDS I, which deals with change in accounting policy, and the requirement of reasonable cause for such change, would not apply.
- In the context of section 145, various courts have held that an assessee is entitled to change the method of accounting, if such change is bona fide. If such method of accounting is a permissible method and is regularly followed thereafter, the change of method cannot be rejected.
  - Molmould Corporation v CIT - 202 ITR 789 (Bom)
  - CIT v Carborandum Universal Limited - 149 ITR 759 (Mad).

# Scope

## Applicability of ICDS to taxpayers governed by presumptive tax provisions

- As per FAQ 3 &14 of Circular, ICDS applies even to taxpayers opting for presumptive tax provisions for determining "receipt" or "turnover" and also for computation of income on gross basis u/s 115A

Presumptive sections like s.44B/ BBA/ BBB specify presumptive tax base as amount paid/ payable or received/ deemed to be received

- These presumptive tax provisions are self-contained and complete code in itself
- Thus, taxation cannot be as per ICDS

Presumptive sections like s.44AD/ ADA do not define gross receipt/ turnover

- Taxpayers governed by s.44AD/ ADA not liable to tax audit
- Thus, individual and HUF continue to remain outside the ICDS net

Incomes taxed on gross basis u/s.115A

- S.115A merely prescribes rate of tax and quantifies tax lability after income is computed
- Thus, income covered by S.115A necessarily gets subjected to ICDS

- However, if taxpayers opt out of presumptive provision and offer lower income, they are governed by normal tax provisions and also liable for tax audit. ICDS will also apply in that case

# Tax Audit perspective

- **CBDT Notifications no. 88/2016 dated 29 September 2016**
- **Clause 13(d), (e) and (f)**
- (d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under Section 145 and the effect thereof on the Profit or Loss — stands deleted
- **(d) Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)**

| | | Increase in profit (Rs.) | Decrease in profit (Rs.) | Net effect (Rs.) |
|---|---|---|---|---|
| ICDS I | Accounting Policies | | | |
| ICDS II | Valuation of Inventories | | | |
| ICDS III | Construction Contracts | | | |
| ICDS IV | Revenue Recognition | | | |
| ICDS V | Tangible Fixed Assets | | | |
| ICDS VI | Changes in Foreign Exchange rates | | | |
| ICDS VII | Government Grants | | | |
| ICDS VIII | Securities | | | |
| ICDS IX | Borrowing Costs | | | |
| ICDS X | Provisions, Contingent Liabilities and Contingent Assets | | | |
| | Total | | | |

# Tax Audit perspective

## Clause 13(f):

(f) Disclosure as per ICDS:

| S.No. | | ICDS | Disclosure |
|---|---|---|---|
| 1 | | ICDS I-Accounting Policies | As per annexure |
| 2 | | ICDS II-Valuation of Inventories | As per Annexure |
| 3 | | ICDS III-Construction Contracts | As per Annexure |
| 4 | | ICDS IV-Revenue Recognition | As per Annexure |
| 5 | | ICDS V-Tangible Fixed Assets | As per Annexure |
| 6 | | ICDS VII-Governments Grants | As per Annexure |
| 7 | | ICDS IX Borrowing Costs | As per Annexure |
| 8 | | ICDS X-Provisions, Contingent Liabilities | As per Annexure |

Add Delete

- Practical Aspect- the Auditor separately needs to upload Form 3CD through the utility as prescribed by the IT Dept-but the utility has space constraint- Each field in form 3CD utility of Dept against clause 13(f) accepts maximum of 500 character.
- As such , separate attachment/annexure for the same has to be given while uploading the Tax Audit Report.

# Consequences of non-compliance

- Non-compliance with the ICDS may invite Best Judgement Assessment u/s 144 of the Act, since provision of section 145(3) of the Act empower AO to do Best Judgement Assessment if AO is not satisfied about the

  - correctness or completeness of accounts; or
  - Method of accounting (cash or mercantile) not regularly followed; or
  - **Income not computed in accordance with ICDS**

# ICDS Analysis-Impact on Computation

# ICDS – I Accounting Policies

| | **Disallowance – add back** | **Amount** |
|---|---|---|
| 1 | Disallowance of exp. debited on a/c of exercising Prudence @ 36(1)xviii) & 40A(13)<br>❑ Expected losses<br>❑ Marked to Market Loss [MTM Gains not to be considered – FAQ-8]<br>❑ Any other | |
| 2 | Disallowance of expenditure debited on account of Materiality | |

1. ICDS-2: Cost or market price whichever is lower. (Inventory Valuation Loss)
2. ICDS-3: Contract loss allowed in proportion (Actual Loss and Expected Loss on POCM)
3. ICDS-4: Revenue need not be recognized if there is no reasonable certainty of its collection.
4. ICDS-6: Hedging losses allowed (except for covering highly probable or firm commitment contracts).
5. ICDS-8: Securities held as stock measured at cost or NRV WIL (but with “bucket principle valuation” only)
6. ICDS-10: Recognizes provision. (quantified on actuarial basis (eg. Pension obligation), best estimate basis (eg. Loss by fire), Provision created under AS-29 for paying damages/ compensation, pursuant to law suit against the taxpayer)

Disclosure is of Accounting Policy or Computational Policy ??

# ICDS – II Valuation of Inventories

| | Disallowance – add back | Amount |
|---|---|---|
| 1 | Change in value of Stock –<br>A. If other than "FIFO or Weighted Average or Specific identification“ Cost formula is applied.<br>B. Distribution expenses also to be included in cost of inventory ?<br>TG of ICAI 10.4: If incurred at distribution depots – Don’t consider | |
| 2 | • Consider Value of inventory for service provider<br>• [To the extent not recognized as revenue - See ICDS IV]<br>• TG of ICAI Says otherwise # | |
| 3 | Inventory valued @ NRV on dissolution date, during dissolution of Firm, AOP or BOI whether business is discontinued or not. | Delhi HC has struck down* |
| 4 | Like in AS - **Standard cost technique now acceptable** in ICDS along with **Retail method** - But in case of **Retail Cost Tech**. - "An Average percentage for each retail dept. is to be used. | |

***Inventory Valuation on dissolution** - *Controversy continues – no corresponding amendment in section 145A*

# ICDS – II Valuation of Inventories

## *Illustration- Raw material valuation*

| | |
|---|---|
| Raw material costing | **Rs. 175** |
| NRV of a raw material | **Rs. 146** |
| This raw material is incorporated in a finished product whose total cost (including raw material cost) | **Rs. 250** |

**Para 21 of ICDS**

**Raw Material should be written down to NRV when both the following conditions are satisfied:**

- *there has been a decline in the price of materials; and*
- *it is estimated that the cost of the finished product will exceed its net realisable value and NRV shall be the replacement cost of such materials.*

| | Situation 1 | Situation 2 | Situation 3 |
|---|---|---|---|
| Finished product sells | Rs. 250 or above | Rs. 225 | below Rs. 221 |
| Valuation | *there is no need to write down raw material to NRV and raw material will be valued at cost Rs. 175* | *the raw material inventory will be written down to its NRV Rs. 146.* | |

# ICDS III – Consturction Contract

## Contract Revenue

- The initial amount of revenue, including retentions
- Variations in contract work, claims and incentive payments:
  - to the extent that it is probable that will result in revenue
  - they are capable of being reliably measured

## Contract Cost

- Costs that relate directly to the specific contract
- Costs attributable to contract activity in general and can be allocated to the contract
- Such other costs as are specifically chargeable to the customer under the terms of the contract
- Allocated borrowing costs in accordance with the ICDS on Borrowing Costs

To be reduced by - incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue.

## Recognition of Contract revenue and expenses

- Contract Revenue – as revenue
  Contract Costs – as expense
  with reference to the stage of completion of the contract
- Percentage of Completion Method ('POCM') basis only
- Stage of completion to be determined based on:
  - Expenditure approach
  - Work survey approach
  - Physical work completion approach
- Early stage of contract – when outcome cannot be reliably estimated – contract revenue = contract costs incurred
- Early stage not to go beyond 25% of stage of completion

## ICDS III – An illustration…

- A construction contractor has a fixed price contract for Rs. 9,000 to build a bridge. Rentention @10%
- The contractor's initial estimate of contract costs is Rs. 8,000. It will take 3 years to build the bridge. By the end of year 1, the contractor's estimate of contract costs has increased to Rs. 8,050.
- In year 2, the customer approves a variation resulting in an increase in contract revenue of Rs. 200 and estimated additional contract costs of Rs. 150. At the end of year 2, costs incurred include Rs. 100 for standard materials stored at the site to be used in year 3 to complete the project.

The cost incurred upto the reporting dates are as follows —

| Year | Rs. in lakhs | Incidental income |
|---|---|---|
| 1 | 2,193 | 100 – Sale old Material |
| 2 | 6,168 | |
| 3 | 8,200 | 20 - Interest |

| | | | Year 1 | Year 2 | Year 3 |
|---|---|---|---|---|---|
| 1 | Initial amount of revenue agreed in contract | | 9,000 | 9,000 | 9,000 |
| 2 | Variation | | - | 200 | 200 |
| 3 | **Total contract revenue** | | 9,000 | 9,200 | 9,200 |
| 4 | Contract costs incurred upto the reporting date | | 2,093 | 6,068 | 8,200 |
| 5 | Material issued at site but not consumed | | 0 | 100 | |
| 6 | Contract costs to complete | | 5,957 | 2,132 | - |
| 7 | **Total estimated contract costs** | | 8,050 | 8,200 | 8,200 |
| 8 | Stage of completion | (4)/(7)x100 | 26% | 74% | 100% |
| 9 | Revenue Recognition | (3)x(8) | 2,340 | 6,808 | 9,200 |
| 10 | Contract Cost-Expenses (net)* section 43CB | | 2,093 | 6,068 | 8,200 |
| 11 | Revenue Recognition in Prior Year | | - | 2,340 | 6,808 |
| 12 | Cost Recognition in Prior year | | - | 2,093 | 6,068 |
| 13 | Revenue Recognition for Current Year | (9)-(11) | 2,340 | 4,468 | 2,392 |
| 14 | Contract Cost for Current year | (10)-(12) | 2,093 | 3,975 | 2,132 |
| 15 | Current year Profit | (13)-(14) | 247 | 493 | 260 |
| | *Actual Bill raised during the year* | | 2,000 | 4,500 | 2,700 |
| | *Amount received* | | 1,500 | 6,000 | 1,430 |
| | *Retention @ 10%* | | 200 | 450 | 270 |

## ICDS III – An illustration…

| Disclosure | Year 1 | Year 2 | Year 3 |
|---|---|---|---|
| Contract Revenue Recognised As Revenue In The Period | 2,340 | 4,468 | 2,392 |
| The Methods Used To Determine | Cost incurred to Total Estimated Cost | | |
| Amount of Costs Incurred Upto The Reporting Date | 2,093 | 6,068 | 8,200 |
| Recognised Profits Less Recognised Losses Upto The Reporting Date | 247 | 740 | 1,000 |
| The Amount of Advances Received | | 1,000 | - |
| The Amount of Retentions | 200 | 450 | 270 |

# ICDS – IV Revenue Recognition

| | **Disallowance – add back** | **Amount** |
|---|---|---|
| 1 | Recognize income from **Escalation of price & Export incentive** in year of making claim if there is '**reasonable certainty**' of its ultimate collection.<br><br>*SC in CIT Vs. Excel Ind ltd [2013] 358 ITR 295 held that right to receive coincides with right to pay – until such time no income is accrued (Overruled by Amendment S. 145B)* | Section 145B |
| 2 | The condition of **reasonable certainty** of ultimate collection is not laid down for taxation of **interest, royalty and dividend**. Whether the taxpayer is obliged to account for such income even when the collection thereof is uncertain (FAQ 13 : CBDT)<br><br>As a principle, interest accrues on time basis & royalty accrues on contractual terms. Subsequent non recovery in either cases can be claimed as deduction in view of amendment to S.36 (1) (vii). Further, Act (ex. S.43D) shall prevail over provisions of ICDS. | |

## ICDS IV – Service Contract…

| Particular | Service contracts $\leq$ 90 days | Service contracts > 90 days |
|---|---|---|
| Book treatment (assumed) | Completed contract method | Completed contract method |
| Tax treatment (2016 ICDS) | ▶ As per books<br>▶ WIP to be recognised at year end? | ▶ POCM is mandatory – Section 43CB<br>▶ No WIP since revenue is recognised on POCM basis |

***What about service contracts directly related to construction contracts-e.g. project managers and architects? Whether options of straight-line or completed contract method can be exercised?*** It would appear that this is not possible as these contracts are covered by ICDS-III (new) rather than ICDS-IV (new). Therefore, the options to adopt straight-line basis or completed service contract method can be exercised only in respect of contracts covered by ICDS-IV (new) and not in respect of contracts in ICDS-III (new).

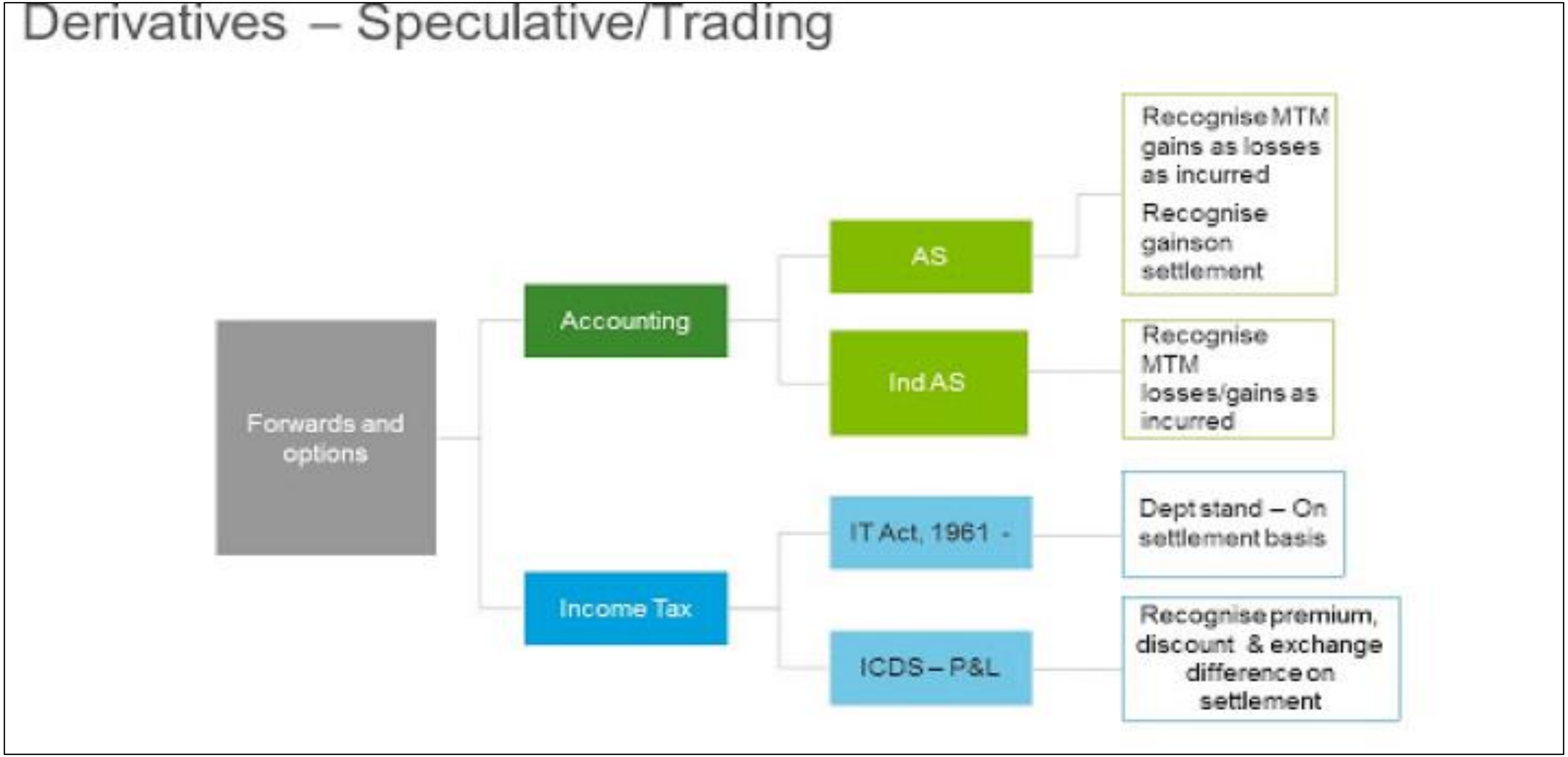
# ICDS – V Tangible Fixed Asset

| | **Disallowance – add back** | **Amount** |
|---|---|---|
| 1 | Disallowance of any asset debited as expense on account of materiality<br>(FA - not material also needs to be capitalized as per ICDS) | |
| 2 | **Replacement & Improvements**:<br>❑ AS-10(R) - Expense Current Repairs – Capitalize if it meets PPE criteria.<br>❑ ICDS like Pre AS-10 – Capitalise if future benefit increases beyond its **previously assessed standard of performance**. Else? (No Guidance in ICDS but allowable U/s.37)<br>It is "betterment" rather than "repairs or maintenance" that meet the test of capitalization under para 23 of AS 10 [i.e. para 12 of ICDS-V (new)]. | |
| 3 | **FA Spares -** General spares (not specific to any capital asset)<br>❑ AS 10(R) – Capitalise if it meets PPE criteria (Useful life > 12 Months)<br>❑ ICDS like Pre AS-10 – Spares used with a particular FA & irregularly only must be capitalised – other Spares are Inventory. **Charged to revenue as and when consumed** | |
| 4 | The expenditure incurred on start-up and commissioning of the project needs to be Capitalised. (Para 8 of ICDS-V ) Whether section 43(1) – 'Actual Cost' will override "Intended Use" | |

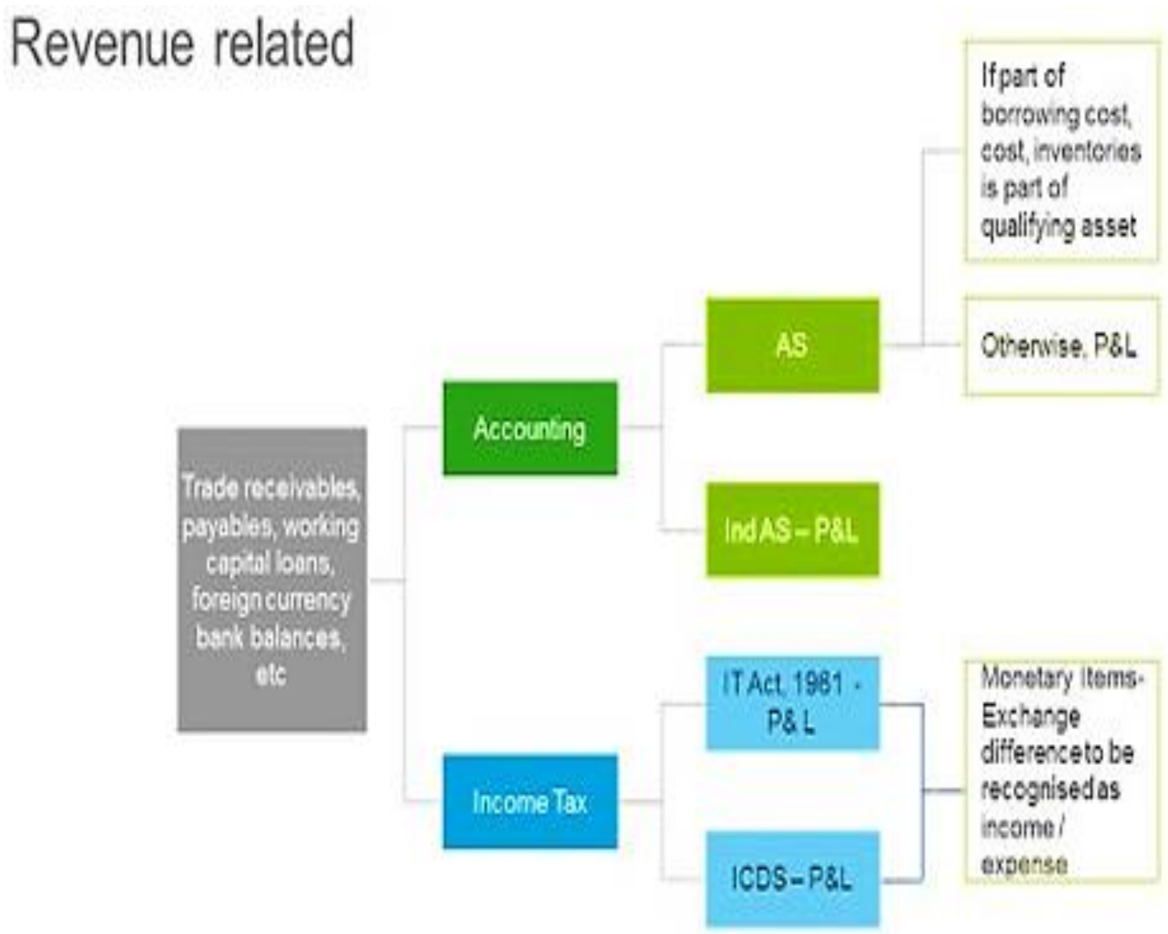
# ICDS – VI Effects of changes in Foreign Exchange Rates

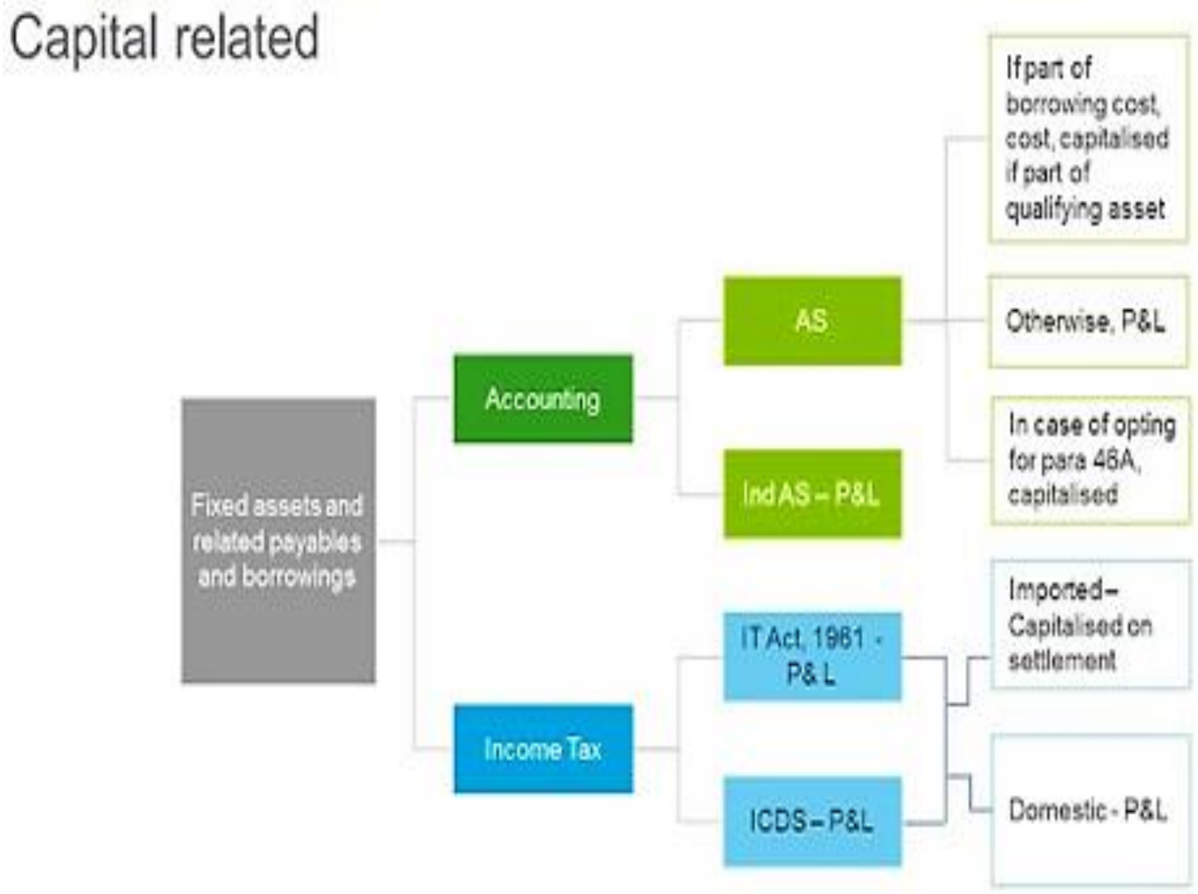
| | **Disallowance – add back** | **Amount** |
|---|---|---|
| 1 | Disallowance of MTM Losses / Gains on Premium, discount or ED intended<br>1. For Trading or Speculation or<br>2. Hedging FC Risk of firm commitment or highly probable forecast transaction<br>[Excl. those entered to hedge FC risk of Existing A/L]<br>*(MTM shall be allowed on such transactions at the time of settlement)* | S. 40A(13) |
| 2 | **Monetary items and non-monetary items**:<br>❑ In respect of monetary items –<br>❑ Revenue items – MTM<br>❑ Capital items – Subject 43A, MTM<br>Whether forex gain/ loss on loans related to domestic assets taxable/ deductible on MTM basis?<br>Is s. 43AA both charging and computation provision? No amendment to s. 2(24) or s. 28<br>❑ In respect of Non-monetary items – No MTM as per ICDS | S. 43AA |

# ICDS – VI Foreign Exchange Difference



# ICDS – VI Foreign Exchange Difference – Monetary items



# ICDS – VII Government Grants

| | Disallowance – add back | Amount |
|---|---|---|
| 1 | Grant received taxable - whether capital or revenue or promoter contribution. (except if pertaining to fixed asset and reduced from its carrying value - Option of Capital approach as in AS-12 not provided in ICDS) | S. 145B r.w.s 2(24)(xviii) |

| S.N | Nature of Grant | Treatment | Analysis |
|---|---|---|---|
| 1 | For depreciable asset | Reduced from actual cost / WDV. | S. 43(1) E 10 |
| 2 | For non-depreciable asset (Subject to fulfilment of obligations) | Recognised as deferred income. *Over which cost of meeting such obligations is charged to income*. | S. 2(24) – N.A. |
| 3 | Other Grants (Residuary clause) | Recognised as income in year of receipt. *s. 2(24)(xviii) amended to align with ICDS.* | |
| 4 | Non-monetary assets given at concessional rate | To be accounted on basis of their acquisition cost | |
| 5 | Govt. Participation in ownership of enterprise. | ICDS not applicable | |

***Reference to "in accordance with ICDS" missing in s. 145B(3)***

# ICDS – VII Government Grants

**Facts**

- ICo receives land worth Rs. 10 Cr. in Year 1 in backward area pursuant to Govt.'s packaged scheme of incentives **Obligation to set up industrial unit & provide certain employment over a period of 5 years.** If it does so, ICo doesn't have to pay anything to Govt. towards land cost
- If ICo defaults, liable to pay pro-rata cost of land to Govt.

| Issues | View 1 | View 2 |
|---|---|---|
| **Issue 1:**<br>Whether taxation can be triggered in Year 1 on receipt basis ahead of perfected entitlement due to s.145B(3) ? | No taxation on receipt basis as s. 145B(3) cannot be considered as a charging provision in absence of amendment to s. 4/5 | Grant can be taxed in the year of receipt in view of clear language of s. 145B(3) which can regulate the timing of recognition of government grant which is an income as per s. 2(24)(xviii) |
| **Issue 2:**<br>If taxation triggered on receipt basis, whether the grant can be recognised on spread over basis as per Paras 5 to 9 of ICDS VII? | • Since S.145B(3) is intended to legitimize ICDS VII, S.145B(3) needs to be read harmoniously with paras 5 to 9 of ICDS VII which require spread over treatment | S.145B(3) clearly provides for full taxation in year of receipt. Once charge is conceded, upfront taxation cannot be avoided<br><br>*Reference to "in accordance with ICDS" missing in s. 145B(3)* |

# ICDS – VIII Securities ICDS Deals with securities held as "Stock-in-trade"

| | Disallowance – add back | Amount |
|---|---|---|
| 1 | Valuation difference routed thro P&L account<br>▪ Unlisted or unquoted listed securities- Cost Basis<br>▪ Listed Securities - cost or NRV of securities - category wise<br>*Comparison to be done category-wise i.e. bucket approach (categories as per ICDS include shares, debt securities, convertible securities and others)*<br>▪ Investment acquired in exchange of Asset - Actual cost of Investment acquired | S. 145A |

| Security | Category | Cost | NRV | Lower of cost or NRV | ICDS Value |
|---|---|---|---|---|---|
| A | Share | 100 | 75 | 75 | |
| B | Share | 120 | 150 | 120 | |
| C | Share | 140 | 120 | 120 | |
| D | Share | 200 | 190 | 190 | |
| | Total | 560 | 535 | 505 | 535 |
| E | Debt Security | 150 | 160 | 150 | |
| F | Debt Security | 105 | 90 | 90 | |
| G | Debt Security | 125 | 135 | 125 | |
| H | Debt Security | 220 | 230 | 220 | |
| | Total | 600 | 615 | 585 | 600 |
| Securities Total | | 1160 | 1150 | 1090 | 1135 |

# ICDS – IX Borrowing Cost

Balance Sheet

| Liabilities | Amount | Specific BC | General BC | Disallowed* | Interest | Net BC |
|---|---|---|---|---|---|---|
| Equity & Reserve | 1,000 | | | | | |
| 10% Debt on Plant & Machinery | 500 | 50 | | | 50 | |
| 12.5% Debentures General | 200 | | 25 | (1.0) | 24 | 63 |
| 13% Cash Credit General | 300 | | 39 | | 39 | |
| Total | 2,000 | 50 | 64 | (1.0) | 113 | |

**Disallowance u/s 40a(ia)*

| Assets | | | Amount | Used from Specific | Used from General | Q.A. | General BC | Specific BC | Allowable |
|---|---|---|---|---|---|---|---|---|---|
| Plant & Machinery | Being Used | 400 | 600 | 333 | 67 | | 2.80 | 33.30 | u/s 36(1)(iii) |
| | CWIP-QA | 200 | | 167 | 33 | 33 | 1.40 | 16.70 | Capitalise |
| Land | Being Used | 200 | 300 | | 200 | | 8.40 | | u/s 36(1)(iii) |
| | CWIP-QA | 100 | | | 100 | 100 | 4.20 | | Capitalise |
| Building | Being Used | 300 | 500 | | 300 | | 12.60 | | u/s 36(1)(iii) |
| | CWIP-QA | 200 | | | 200 | 200 | 8.40 | | Capitalise |
| Inventory | | | 400 | | 400 | | | | |
| Investment | | | 100 | | 100 | | | | |
| Loans and Advances | | | 100 | | 100 | | | | |
| Total | | | 2,000 | 500 | 1,500 | 333 | 14.00 | 16.70 | Capitalise |

| | | |
|---|---|---|
| General Borrowing Cost | A | BC incurred during PY on General borrowings |
| | B | "QA (*) less QA (*) funded by specific borrowing" |
| | C | Average of "Total assets less Assets funded by specific borrowing" |

***(*) For this para, QA = Asset that necessarily requires > 12 M for its acquisition, construction or production.***

Capitalization of general borrowings cost as per formula below:

$$A x \frac{B}{C} \qquad 63 \quad X \quad \frac{500-167}{2000-500} = \frac{333}{1,500} = 14.0$$

# ICDS – IX Borrowing Cost

## Land – Put to use

How to determine the date of put to use in case of land?

- "Intended Use"
- Land is purchased out of the specific borrowing of Rs.10 Cr. Interest paid is Rs.1 cr. The land is acquired for construction of corporate house. The construction completed within 9 months.
  - ICDS IX will be applicable. Interest attributable for 9 months needs to be capitalised.
  - (Capital Gain on sale of Land- can we claim BC capitalised as cost of Capital Asset?)
- Land is acquired but there is no immediate intention of construction on it.
  - No capitalisation of Borrowing cost.
- Land is held as Stock in trade and construction takes place around 11 months only.
  - ICDS IX is not applicable.

# ICDS – X Provisions/ Cont Assets & Liabilities

| | **Disallowance – add back** | **Amount** |
|---|---|---|
| 1 | Disallowance of Provision for loss on Onerous Contracts. | |
| 2 | Disallowance of Provision in P&L due to its existence considered as Probable as per AS-29 Vs. Reasonable certainty as per ICDS Ex: Provision for warranty at higher than the past trend done out of extra caution / prudence. | |
| 3 | Effect of recognizing contingent asset to asset & related income due to its Inflow of economic benefits being "Reasonably certain" as in ICDS Vs. Virtual certainty as per AS-29 Reimbursement recognize Under ICDS when reasonably certain but under AS when virtually certain. | |


Thank You!