PRACTICAL IMPLICATIONS

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Shared at

Ludhiana Branch of NIRC of ICAI

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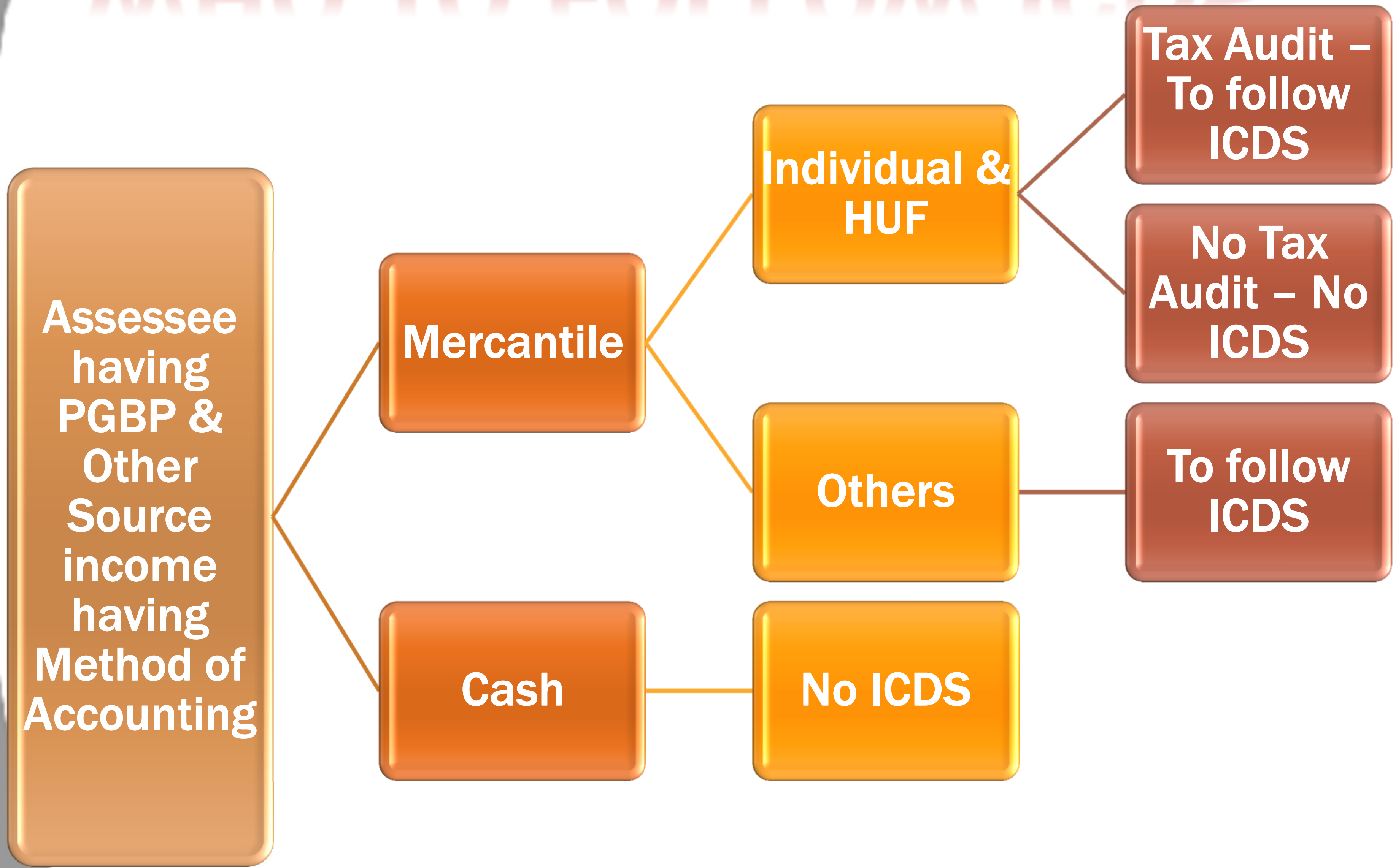
WHO TO FOLLOW ICDS



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

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CORRESPONDING AS / IND AS

ICDS	Name of ICDS	Corresponding 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

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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 assesse 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
- ICDS
- RULES
- JUDICIAL PRECEDENTS

STRUCTURE

- Preamble
- Scope
- Contents
- Transitional Provisions
- Disclosure

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.

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WHAT TO DO

1. Get the FS prepared complying AS / Ind AS
2. Check & List out the applicable ICDS
3. Is there any adjustment required in computation from Profit as per Books & IT?
4. Does any of those relate to any ICDS?
5. If yes, disclosure may be required in 3CD & ITR too
6. Also note difference in accounting policy as per AS in books and ICDS
7. If different, effect on profit to be disclosed in Form 3CD & ITR
8. Verify related ICDS disclosure in Form 3CD
9. 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

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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

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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	
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.

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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

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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

- No deduction of expected losses or marked to marked 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 – 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.

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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	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
I	Accounting Policies	• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements

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II – VALUATION OF INVENTORIES

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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

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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.

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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 – DISCLOSURES

- Accounting policies adopted in measuring inventories including the cost formulae used. <u>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</u>;
- The total carrying amount of inventories and its classification appropriate to a person.
- AS – same as above except underlined content

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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

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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	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
II	Valuation of Inventories	• 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

III – CONSTRUCTION CONTRACTS

ICDS III – CONSTRUCTION CONTRACTS

- Retention money being part of overall contract to be recognised subject to reasonable certainty of its ultimate collection as per para 9 – FAQ –Q11
- Contract Costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue .
- AS 7 does not mention these, but gives examples that can be reduced of sale of surplus materials, disposal of Plant etc at end of contract.

ICDS III – CONSTRUCTION CONTRACTS

- During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognised only to the extent of costs incurred. Same as AS 7
- Percentage completion method to be adopted. Same as AS 7 except – when outcome of a construction contract can be estimated reliably
- The early stage of a contract shall not extend beyond 25 % of the stage of completion. outcome of a construction contract estimation not required
- ICDS -Expected losses not to be recognised – AS 7 – to provide on prudence immediately. ICDS is also contrary to *Delhi HC & Gujarat HC judgements*

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ICDS III – CONSTRUCTION CONTRACTS

- Implication of non – allowance of expected loss. Example :-
  - Expected loss in the year 1st year of a 3 year contract was Rs . 300.
  - Actual Loss on completion of the contract in the third year was Rs. 240.

Year	Book Profit	As per Income Tax
1	(300)	(100)
2	-	(100)
3	60	(40)

  - Without any actual income there would be taxable income u/s 115 JB.

ICDS III – DISCLOSURES

- The amount of contract revenue recognised as revenue in the period; and
- The methods used to determine the stage of completion of contracts in progress.
- For contracts in progress at the reporting date, namely:—
  - Amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
  - Amount of advances received; and
  - Amount of retentions.
- AS – same + methods used to determine contract revenue recognized during the period

ICDS III – PRACTICAL IMPLICATIONS

- Retentions to be recognised on percentage completion method through ICDS
- Expected losses to be added back to computation and disclosure through ICDS
- Contract costs not to be reduced by interest, dividends or capital gains. To be charged directly to revenue

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
III	Construction Contracts	10000		10000	• Retentions not charged to revenue -4000 • Expected losses charged to PL as per AS 7 - 6000
	Total			10000	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
III	Construction Contracts	• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements • For amount of contract revenue recognised as revenue in the period refer Note No. _ of PL

IV – REVENUE RECOGNITION

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

- 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

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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. FAQ – Q 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 DEBDT

- 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 – 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

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
IV	Revenue Recognition	2000		2000	• 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	• 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:
		  • 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

- 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 – 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	• Depreciation effect on taking it as per IT Act – Co. Act 20000; IT Act 25000 • Gain on sale of assets 5000 taken on block of asset method
	Total			-10000	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
V	Tangible Fixed Assets	• Refer to the clause 18 of Form 3CD

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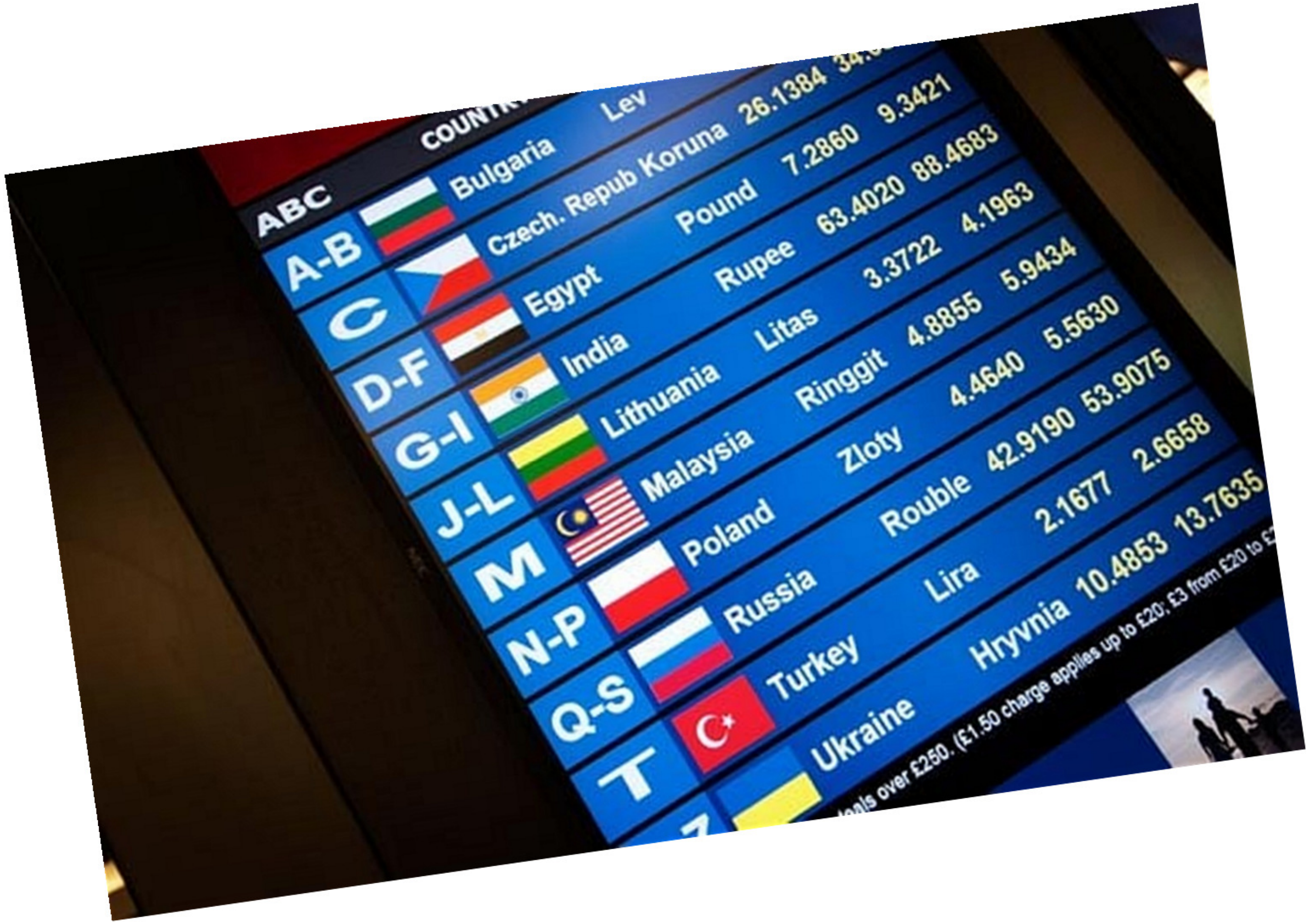
VI
EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES



ICDS VI –
EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

- Foreign Currency Transactions
- Foreign Operations
- Forward Exchange Contracts

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ICDS VI – EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

- Initial Recognition
  - To be recorded in reporting currency by applying exchange rate of the foreign currency at the date of the transaction
- Conversion on last date of previous year
- Recognition of exchange differences has to be subject to s. 43A or Rule 115
- ICDS scope does not exclude exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs.

ICDS VI – CONVERSION AT LAST DATE OF PY

- Monetary items
  - To be converted by applying closing rate
  - Exchange differences arising on settlement or on conversion shall be recognised as income/expense
- Non-monetary items
  - Item which are carried at historical cost to be converted by applying rate at the date of transaction
  - Exchange differences arising on conversion shall not be recognised as income /expense in that PY.
- Non-monetary items being inventory carried at fair value shall be converted at rate prevailing on date when such NRV is determined

ICDS VI – FOREIGN OPERATIONS

- Does not differentiate between integral and non-integral operations. Same translating provisions.
  - FS of a foreign operation shall be translated using the principles and procedures in paras 3 to 6 as if the transactions of the foreign operation had been those of the person himself
- AS - separate provisions for non-integral. Exchange difference on monetary items forming part of enterprise net investment in non-integral operations to be transferred to FCTR

ICDS VI – FORWARD EXCHANGE CONTRACTS

- Any premium or discount arising at inception of a forward exchange contract shall be amortised as expense or income over the life of contract. Provided:
  - is not intended for trading or speculation purposes; and
  - is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction

ICDS VI – FORWARD EXCHANGE CONTRACTS

- Premium, discount or exchange difference on contracts that are
  - intended for trading or speculation purposes, or
  - that are entered into to hedge foreign currency risk of
    - a firm commitment (not including assets and liabilities existing at the end of the previous year) or
    - a highly probable forecast transaction

  to be recognised at time of settlement. AS – provide for Mark to market

ICDS VI – DISCLOSURES

- ICDS – None
- AS – A few

ICDS VI – PRACTICAL IMPLICATION

- Difference in translation of non-integral operations, if any
- Foreign Currency Translation Reserve (FCTR) balance as on 1.4.2016 pertaining to exchange differences monetary items for non-integral operations to be recognized to the extent not recognized in income computation in past
- Mark to market of forward exchange contracts for speculation
- Would 43A implications be disclosed in ICDS now?

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
VI	Effect of Changes in Foreign Exchange Rates	2500	5000	-2500	• FCTR of non-Integral Operations - 2000 • Foreign Exchange Fluctuation loss on borrowing costs as per AS 16 – 5000 • Mark to market loss on FEC – 500
	Total			-2500	

VII – GOVERNMENT GRANTS

ICDS VII – GOVERNMENT GRANTS

- AS -12 permits two approaches, depending on the nature of the grant:
  - Capital approach – owner's funds
  - Income approach
- ICDS – only income approach
- Recognition Criteria:
  - Not be recognised until there is reasonable assurance that
    - Person shall comply with conditions attached to them; &
    - Grants shall be received
  - Not to be postponed beyond actual date of receipt.

ICDS VII – GOVERNMENT GRANTS

- AS-12 – To be recognised on satisfaction of related conditions & achieving reasonable certainty of receipt.
- AS -12 - Government grant with respect to depreciable FA may be either reduced from gross block or may be transferred to PL in proportion..
- ICDS - Government grant with respect to depreciable fixed asset always required to be reduced from the actual cost of depreciable fixed assets.

ICDS VII – GOVERNMENT GRANTS

- AS 12 - Government grants in respect of non depreciable fixed assets are required to be credited to the capital reserve account where there is no obligation to be fulfilled. However ICDS is silent over this & requires to be recognized as income over the period over which cost of meeting such obligation is charged
- ICDS have annulled 'The Purpose Rule' that was established by several Case laws pronounced like Rasoi Ltd. Now even the subsidy is for capital purpose the same is exposed to taxability.

ICDS VII – DISCLOSURE

- Nature and extent of Government grants recognised during PY:
  - By way of deduction from actual cost of the asset or assets or from the WDV of block of assets during the PY;
  - As income;
  - By way of deduction from actual cost of asset(s) or from WDV of block of assets and reasons thereof;
  - Not recognised during the PY as income and reasons thereof.
- AS – totally different

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ICDS VII – PRACTICAL IMPLICATION

- Disclosures required
- If transferred to owner's fund – adjustment required and disclosure in ICDS
- If grant for depreciable assets charged to revenue in proportion.. Disclosure as per ICDS – reduce from FA
- If grant for non-depreciable assets transferred to capital reserve.. Disclosure as per ICDS – charge to revenue
- If complying as per IT Act, no other implication

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
VII	Government Grants	2000	3000	-1000	• Grant recognised as Capital Reserve - 2000 • Grant on FA recognised as revenue as per AS 12 - 3000
	Total			-1000	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
VII	Government Grants	Nature and extent of Government grants recognised during PY: ✖ By way of deduction from actual cost of the asset or assets or from the WDV of block of assets during the PY; ✖ As income; ✖ By way of deduction from actual cost of asset(s) or from WDV of block of assets and reasons thereof; ✖ Not recognised during the PY as income and reasons thereof.

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VIII SECURITIES

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ICDS VIII – BUCKET METHOD

Security	Category	Cost	NRV	Lower of Cost or NRV	ICDS Value
1	Share A	1000	750	750	
2	Share B	1200	1500	1200	
3	Share C	1400	1200	1200	
4	Share D	2000	1900	1900	
	Total	5600	5350	5050	5350
5	Deb. E	1500	1600	1500	
6	Deb. F	1050	900	900	
7	Deb. G	1250	1350	1250	
8	Deb H	2200	2300	2200	
	Total	6000	6150	5850	6000
Total		11600	11500	10900	11350

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ICDS VIII – BUCKET METHOD

Security	Cost	NRV	Lower of Cost or NRV	ICDS Value
1	1000	20	20	
2	1000	100	100	
3	1000	100	100	
4	1000	200	200	
5	1000	200	200	
6	1000	5000	1000	
Total	6000	5620	1620	5620

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ICDS VIII – BUCKET METHOD

Security	Cost	NRV	Lower of Cost or NRV	ICDS Value
YEAR 1				
1	1000	500	500	
2	1000	100	100	
3	3000	3500	3000	
Total	5000	4100	3600	4100
YEAR 2				
1	1000	2000	1000	
2	1000	500	500	
3	3000	4000	3000	
Total	5000	6500	4500	5000

ICDS VIII – PRACTICAL IMPLICATION

- No Disclosures
- One can value its inventories of securities in books of accounts as per Bucket method as no specific AS on same. Consequently no ICDS adjustment thereof.

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
VIII	Securities	4000		4000	Securities valued at cost or NRV scrip-wise
	Total			4000	

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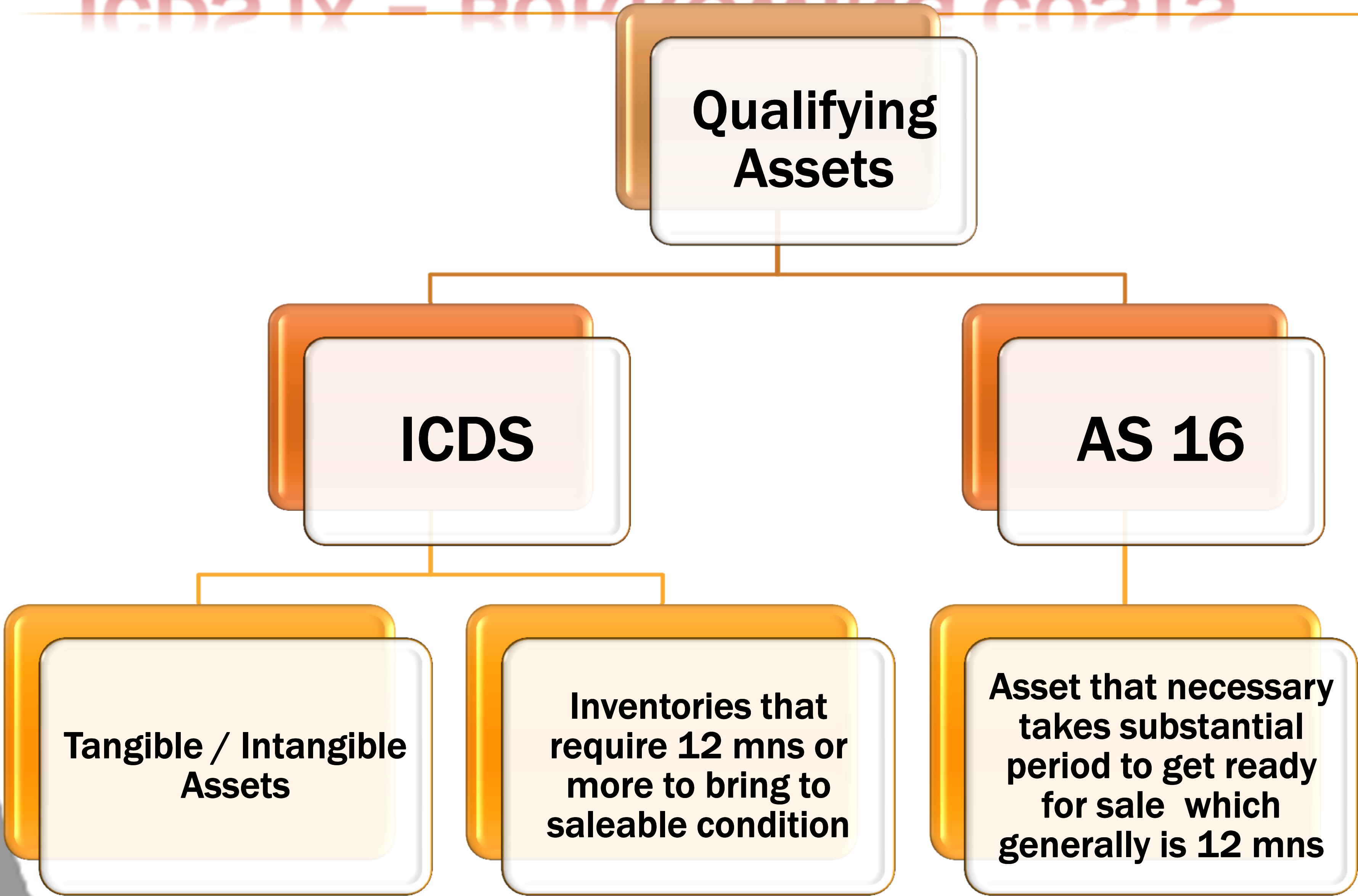
IX – BORROWING COSTS

ICDS IX – BORROWING COSTS



ICDS IX – BORROWING COSTS

- Specific Borrowing:
  - Actual borrowing costs incurred during period on funds so borrowed from the date funds borrowed
- Other than specific borrowing:
  - Capitalization of general borrowing costs as per para 6 of ICDS IX formula to be done on asset-by-asset basis. FAQ – Q 22
  - A X B / C
  - A = borrowing costs incurred except on specific borrowings

ICDS IX – BORROWING COSTS

- B = (excluding directly funded by specific borrowing)
  - average of costs of qualifying asset as appearing in B/S of a person on 1st day & last day of PY;
  - in case the qualifying asset does not appear in the B/S of a person on 1st day, half of the cost of qualifying asset; or
  - in case the qualifying asset does not appear in the B/S of a person on last day of PY, average of costs of qualifying asset as appearing in B/S of a person on 1st day of PY and on date of put to use or completion, as case may be
- C = average of amount of total assets as appearing in B/S of a person on 1st day & last day of PY, other than assets to the extent they are directly funded out of specific borrowings

- For this formulae qualifying asset - if it requires 12 months or more for acquisition or construction or production)
- If less than 12 months… no capitalization?

ICDS IX – BORROWING COSTS

- ICDS – 1^{st} put to use
- AS 16 – Cessation when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete, i.e. when the asset is ready to be put to use
- Difference between ready to be put to use and put to use is important…
- Loan for vehicle. Interest between loan taken and vehicle on road… capitalise

ICDS IX – BORROWING COSTS

- FAQ - Q 20 -Borrowing costs disallowed u/s 14A, 43B, 40(a)(i), 40(a)(ia), 40A(2)(b):
  - Capitalization shall exclude those borrowing costs which are specifically disallowed under specific provision of the Act
  - Capitalization of borrowing costs shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act
- Finance Act, 2015 already inserted proviso to sec 36(i)(iii) that the interest expenses incurred for acquisition of capital asset upto put to use shall not be deductible.

ICDS IX – DISCLOSURE

- Accounting policy adopted for borrowing costs
- Amount of borrowing costs capitalised during the previous year.
- AS - Similar

ICDS IX – PRACTICAL IMPLICATIONS

- Disclosure … same as per AS
- Capitalize Interest if charged to revenue:
  - For Qualifying assets as per AS as well as ICDS
    - From date of ready to be put to use and put to use
  - For Qualifying asset as per ICDS but not a Qualifying assets as per AS:
    - Interest charged to revenue as per books to be capitalized upto the date of put of use including for loan taken for vehicles from date of loan taken till put on road

ICDS IX – PRACTICAL IMPLICATIONS

- Exchange differences arising from foreign currency borrowings to the extent .. interest cost
  - In books revenue
  - In computation
    - If related to s. 43A – capitalize
    - If related to revenue – not borrowing but exchange difference

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
IX	Borrowing Costs	10000		10000	• Qualifying assets as per AS & ICDS – intt from date of ready for use to date of put to use - 2000 • Qualifying assets as per ICDS but not as per AS upto put to use -3000 • Exchange Fluctuation loss being borrowing cost as per AS 16 - 5000
	Total			10000	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
IX	Borrowing Costs	• Refer to the significant accounting policies mentioned at Note No. _ to the Financial Statements

X

PROVISIONS
CONTINGENT LIABILITIES
CONTINGENT ASSETS

ICDS X – DISCLOSURE

- Provisions in respect of each class of provisions:
  - Brief description of the nature of the obligation;
  - Carrying amount at the beginning and end of the PY;
  - Additional provisions made during the PY, including increases to existing provisions;
  - Amounts used, that is incurred and charged against the provision, during the PY;
  - Unused amounts reversed during the PY; and
  - Amt. of any expected reimbursement, stating amt of asset that is recognised for that expected reimb.
- AS – SME exempted from these. But many other disclosures in AS

ICDS X – DISCLOSURE

- Contingent Assets:
  - Brief description of the nature of the asset and related income;
  - Carrying amount of asset at the beginning and end of the PY;
  - Additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and
  - Amount of asset and related income reversed during the PY.
- AS – no such disclosures, but have of liabilities, etc

ICDS X – PRACTICAL IMPLICATIONS

- Disclosures
- Provisions, which are not as per ICDS to be disclosed in ICDS like:
  - Doubtful Debts
  - Investments

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FORM 3CD –CLAUSE – 13(E)

ICDS	Name of ICDS	Increase in Profit	Decrease in Profit	Net (Rs.)	Description
X	Provisions, contingent Liabilities & Contingent Assets	5000		5000	• Provision for doubtful debts – 2000 • Provision for diminution in value of long term investments - 3000
	Total			5000	

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FORM 3CD –CLAUSE – 13(F)

ICDS	Name of ICDS	Disclosures
X	Provisions, contingent Liabilities & Contingent Assets	Provisions in respect of each class of provisions: • Brief description of the nature of the obligation; • Carrying amount at the beginning and end of the PY; • Additional provisions made during the PY, including increases to existing provisions; • Amounts used, that is incurred and charged against the provision, during the PY; • Unused amounts reversed during the PY; and • Amt. of any expected reimbursement, stating amt. of asset that is recognised for that expected reimbursements

TAKE CARE

Certificate of ICDS is now through Form 3CD

KEEP INCREASING YOUR VALUE

THANK YOU!

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