

# **COMPUTATION OF INCOME IN LIGHT OF ICDS**

## **[ INCOME COMPUTATION & DISCLOSURE STANDARDS ]**



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## **INCOME COMPUTATION AND DISCLOSURE STANDARDS**

Section 145(2) of the Income Tax Act allows Central Government to notify accounting standards to be followed by any class of assessee or any class of income. Upto A.Y. 2016-17 accounting standard relating to (i) ***disclosure of accounting policies***, and (ii) ***disclosure of prior period and extraordinary items and changes in accounting policies***, have been notified since 1996.

ICAI has issued 32 accounting standards (out of which AS-8 accounting for research and development has been withdrawn in consequence of issuance of, AS-26 intangible assets, thus effectively 31 AS are there), only 29 AS are mandatory. Out of this only AS-1 and AS-2 (old) were made applicable under Income Tax Act.

Ministry of Corporate Affairs specified Ind-AS [Companies (Ind-AS) Rules, 2015]] to be followed in preparation and audit of financial statements, voluntarily from 1-4-2015 and mandatory from 1-4-2016 for companies listed or not listed having net worth of 500 crores or more and mandatory from 1-4-2017 for companies listed having net worth of less than 500 crores and for unlisted companies having

net worth of 250 crores or more but less than 500 crores, all other companies will follow Accounting Standards (rules 2006) .

Now since Ind-AS are applicable and profit reflected in these financial statement shall not serve the purpose of **correct computation of income** for the purpose of income tax, in supersession of aforesaid AS-1 & 2 which were applicable under Income Tax, w.e.f. **financial year starting from 1-4-2016 i.e. Assessment Year 2017-18, Ten ICDS-Income Computation and Disclosure Standards**, have been notified.

All these 10 ICDS are :- **to be followed by all assesses** (other than an individual or HUF who is not required to get his accounts of the previous year audited under provisions of Section 44AB of the Act) even following presumptive scheme of taxation u/s 44AB, 44AE, **following mercantile system of accounting, for the purposes of computation of income chargeable to income tax under the head “Profit and gains of business or profession” or “Income from other sources”**.

In case of conflict between provisions of Income Tax Act and ICDS, the provisions of the Act shall prevail to that extent.

If these ICDS are not followed by the assessee, then as per Sec. 145(3) the Assessing Officer may make best judgment assessment U/s 144 of the act.

The brief overview of these ICDS is as follows :-

## **ICDS- I      —————>      RELATING TO ACCOUNTING POLICIES**

### **➤ Fundamental accounting assumption :-**

(a) Going Concern:- Continuing business or profession

(b) Consistency:- Accounting policies are consistent

(c)Accrual :- Revenues and costs are accrued and recorded in P.Y. to which they relate.

- **Accounting Policies** :- means specific accounting principles and the methods of applying those principles adopted by a person.
- **Considerations in the Selection and Change of Accounting Policies** :- Accounting policies shall be such so as to represent a true and fair view of the state of affairs and income of business or profession or vocation. For this purpose :-
  - (i) The treatment and presentation of transactions and events shall be governed by their **substance and not merely by the legal form**, in case of conflict between “substance” and “form” of a transaction, the substance of transaction will prevail over its form (“substance” relates to content of a transaction whereas “form” relates to its presentation, in assessments assessing authority always go by substance and not by mere presentation, so that revenue is not at loss), and
  - (ii) Marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other ICDS. MTM gain or expected profit shall also not be recognized in the same way.
- An accounting policy shall not be changed without reasonable cause.
- All significant accounting policies adopted by a person shall be disclosed.
- Any change which has material effect and its monetary effect / effect due to change, shall be disclosed.
- If fundamental accounting assumption is not followed, the fact shall be disclosed, if followed then no need to disclose its compliance i.e. if not disclosed it will be assumed that fundamental accounting assumption has been followed in preparation of financial statement.
- ICDS-I (relating to accounting policies) takes into consideration **substance over form and doesn't recognize marked to market loss or expected loss whereas AS-1 (disclosure of accounting policies)** takes into consideration

**Prudence, Substance over form and materiality** and recognize marked to market loss or an expected loss.

- The said ICDS-I shall be applicable to all contract or transactions pending on 1-4-2016 or entered into on or after 1-4-2016 after taking into account all income, expenses or losses recognized on or before 31-3-2016.

## **ICDS-II —————> VALUATION OF INVENTORIES**

This ICDS shall be applied for valuation of inventories, **except** :-

- (a) WIP for construction contract, because separate ICDS for it;
  - (b) WIP dealt by other ICDS;
  - (c) Shares, debenture and other financial instruments held as stock in trade because dealt by ICDS on securities;
  - (d) Producer's inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value;
  - (e) Machinery spares for tangible fixed assets, if its use is irregular, will be dealt by ICDS on tangible fixed assets.
- ***AS-2 (Valuation of Inventories) does not apply to WIP arising in ordinary course of business for service providers i.e. Incomplete consultancy services, Medical services in progress, whereas ICDS-II relating to valuation of inventories does not exclude it.***
  - **Inventories** are (i) held for sale in the ordinary course of business, (ii) in the process of production for such sale, (iii) material or supplies to be consumed in the production process or in the rendering of services.

- **Net Realisable Value**:- estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.
- Inventories shall be **valued at** cost, or net realisable value, whichever is lower.
- **Cost of inventories** :- comprise of all costs of purchase, costs of services, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- **Cost of Purchase** :- includes duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.
- **Cost of services** :- consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.
- **Costs of conversion** of inventories :- include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting material into finished goods. *Fixed production overheads* :- those indirect costs of production that remain relatively constant regardless of the volume of production.  
*Variable production overheads* :- those indirect cost of production that vary directly or nearly directly with the volume of production.
- **Allocation of fixed production overheads** :- based on normal capacity of the production facilities. Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant. Unallocated overhead shall be recognised as an expense in the period in which they are incurred. If there is abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production

overheads shall be assigned to each unit of production on the basis of the actual use of the production overheads.

- **More than one product** :- produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis. **Where by-products, scrap or waste material are immaterial, they shall be measured at net realisable value and this value shall be reduced from the cost of the product.**
- **Other costs** :- included in cost of inventory if they are incurred in bringing the inventory to their present location and condition.
- **Interest and other borrowing costs** :- shall not be included in cost of inventories, unless they are as component of cost specified in ICDS on borrowing costs.
- **Exclusion from cost of inventory**:- (a) abnormal amount of wasted materials, labour or other production costs, (b) storage costs, unless those costs are necessary in the production process prior to a further production stage, (d) administrative overheads that do not contribute to bringing the inventories to their present location and condition, (d) selling costs.
- **Cost formulae** :- Cost of inventories of items that are not ordinarily interchangeable, and goods or services produced and segregated for specific projects shall be assigned by specific identification of their costs.
- **Specific identification of cost** :- means specific costs are attributed to identified items of inventory, where there are large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.

- **FIFO and weighted average cost formula** :- cost of inventory, other than inventory dealt with in just preceding 2 paras (*Cost formulae, Specific identification of cost* ), shall be assigned by using the FIFO or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. The weighted average cost shall be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances.
- **Techniques for the measurement of cost** :- **(1)** Standard cost method or the retail method, may be used for convenience if the results approximates the actual cost. It takes into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilization. **(2) Retail method** :- where it is impracticable to use the FIFO or weighted average or standard costing methods, retail method can be used for large number of rapidly changing items that have similar margins. Reduce from sale value of inventory, appropriate percentage of gross margin. An average % for each retail department is to be used.
- **Net Realisable Value** :- Inventories shall be written down to net realisable value on an item by item basis. Events occurring after the end of previous year shall also be considered. ***AS-2 provides that comparison between cost and net realizable value should be made item by item or by group of items.***
- **Materials and other supplies** :- for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost.
- **Value of opening inventory** :- (i) cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year, and (ii) in any other case, the value of the inventory as on the close of the immediately preceding previous year.

- **Change :-** Method of valuation of inventories once adopted by a person shall not be changed without reasonable cause.
- **Valuation in case of dissolution :-** in case of dissolution of partnership Firm, AOP or BOI, whether business is discontinued or not inventory shall be valued at net realisable value. **AS-2 is silent on this issue.** Supreme Court in the case of ***Sakthi Trading Co. V. CIT, Madras 250 ITR 871*** held that in case of reconstituted partnership where business is not discontinued inventory shall be valued at cost or market value whichever is lower. Now this judgement is negated due to this ICDS.
- **Section 39 of Partnership Act :** Dissolution of a firm.—The dissolution of partnership between all the partners of a firm is called the ‘dissolution of the firm’.
- **Sec 187 of Income Tax Act *Change in constitution of a firm.***
  - (1) *Where at the time of making an assessment under section 143 or section 144 it is found that a change has occurred in the constitution of a firm, the assessment shall be made on the firm as constituted at the time of making the assessment.*
  - (2) *For the purposes of this section, there is a change in the constitution of the firm—*
    - (a) *if one or more of the partners cease to be partners or one or more new partners are admitted, in such circumstances that one or more of the persons who were partners of the firm before the change continue as partner or partners after the change ; or*
    - (b) *where all the partners continue with a change in their respective shares or in the shares of some of them :*

***Provided that nothing contained in clause (a) shall apply to a case where the firm is dissolved on the death of any of its partners.”***

Change in constitution doesn’t mean dissolution and if the partnership deed contains a clause that death of any of the partners will not be treated as dissolution of firm but the firm will be continued to be carry on by the surviving partners with or without taking any of the heirs of the deceased partner, as mutually decided, then also firm will not be treated as dissolved.
- **Transitional provisions :-** Interest and other borrowing cost which were not to be included as per ICDS, but included before 1-4-2016, then for

determining cost of such inventory, such cost shall continue to remain part of such inventory.

- **Disclosure** :- The accounting policies adopted in measuring inventories including the cost formulae used, and the total carrying amount of inventories and its classification appropriate to a person, shall be disclosed. Where standard costing has been used as a measurement of cost, details of such inventories and a confirmation that such cost approximates actual cost. **AS-2 states that classification should be :- like finished goods, WIP, raw material, spare parts and its carrying amount.**

## ICDS- III —————> CONSTRUCTION CONTRACTS

- Applicable in determination of income for a construction contract of a contractor.
- **Definition** :- **(a)** Construction contract :- contract specifically negotiated for the construction of an asset or combination of assets, contract for rendering services – project managers and architects, contract for destruction or restoration of assets/environment following demolition of assets. **(b)** Fixed price contract :- fixed contract price or a fixed rate per unit, subject to cost escalation clauses. **(c)** Cost plus contract :- contractor is reimbursed for allowable or otherwise costs, plus a mark up on these costs or a fixed fee. **(d)** Retentions :- progress billing which are not paid until the satisfaction of conditions or till defects are rectified. **(e)** Progress billing :- amount billed for work performed **(f)** Advances :- amount received before work is performed.
- **Type of contracts** :- (i) Fixed price contracts and (ii) Cost plus contracts.
- **Contract Revenue** :- Contract revenue shall be recognized when there is reasonable certainty of its ultimate collection. It shall comprise of initial amount of revenue agreed in the contract, including retentions. This ICDS

has negated the judgement of **Guj High Court** in the case of **Amarshiv Construction P. Ltd. V. DCIT (2014) (3) TMI 940** which held that retention money even if released on the basis of bank guarantee money cannot be liable to income tax until it is released unconditionally. In the case of **CIT V. Kerala State Drug & Pharma Ltd. (1991) 192 ITR 1 Kerala HC** held that even under the mercantile system of accounting only accrual of real income and not hypothetical income was chargeable to tax. In **CIT V. Excel Industries Ltd. (2013) 358 ITR 295 Hon'ble Supreme Court** also held that real income to be taxed.

- **Uncollectible contract revenue** :- Contract revenue recognized as income subsequently written off as uncollectible shall be an expense and not as adjustment of the amount of contract revenue.
- **Contract cost** :- comprise of : **(a)** costs that relate directly to the specific contract; **(b)** costs attributable to contract; **(c)** costs specifically chargeable to customer under terms of contract; **(d)** allocated borrowing costs as per ICDS on borrowing cost. These costs shall be reduced by incidental income (*As per AS-2 sale of surplus/scrap material, disposal of plant and equipment at the end of contract*), not being in the nature of interest, dividend or capital gains.
- **Recognition of contract revenue and expenses** :-
  - (i) **Percentage completion method** – under this method contract revenue is matched with the contract costs incurred in reaching the stage of completion (proportion of work completed) on reporting date. The stage of completion of a contract shall be determined with reference to; (a) proportion of contract cost incurred for work performed upto the reporting date to estimated total contract costs, or (b) surveys of work performed, or (c) completion of a physical proportion of the contract work. Progress payments and advances received are not determinative of the stage of completion of a contract. Payment to subcontractors in advance of work performed is excluded from contract cost. In view of percentage completion method, it does not

become necessary to offer income even if TDS is deducted on advance payment, the same view has been held in the case of **DCIT 4(1), New Delhi Vs. Lloyd Insulation India Ltd. ITA No. 2400/ Del/11/ A.Y. 2008-09**. Section 199 of the Income Tax Act and rule 37BA also support the view that TDS credit shall be taken in the year in which income is offered for taxation and not in the year in which TDS deducted only and no work done.

ITAT Delhi bench in case of **DCIT 7(1), New Delhi vs Sub Infra Ltd. ITA No. 4572/Del/2009 & 2813/ Del/2010 A.Y. 06-07 & 07-08** held that in case of real estate developers AS-9 is applicable and not AS-7, & project completion method is acceptable.

**(ii) Early stage of a contract** :- where the outcome of a contract cannot be estimated reliably contract revenue is recognized only to the extent of costs incurred. The early stage of a contract shall not exceed beyond **25%** of the stage of completion. **Such specific % is not there in AS-7 (Revised).**

- **Transitional Provision** :- Contract revenue and contract cost associated with the construction contract, which commenced on or after 1<sup>st</sup> day of April, 2016 shall be recognized in accordance with this ICDS. Contracts started on or before 31-3-2016 shall follow method of accounting regularly followed prior to 1-4-2016 and not this ICDS.
- **Disclosure** :- Disclose – amount of contract revenue recognized as revenue in the period, and the methods used to determine the stage of completion of contracts in progress. For contracts in progress disclose amount of costs incurred and recognized profits less recognized losses, amount of advance received and retentions.

ICDS –IV —————> REVENUE RECOGNITION

- **Scope** :- This ICDS deals with sale of goods, rendering of services, the use by others of the person's resources yielding interest, royalties or dividends. If aspects of revenue recognition are dealt by other ICDS then it will not be dealt by this ICDS.
- **Revenue** :- Revenue is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.
- **Sale of goods** :- Revenue shall be recognized when seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of goods. **If transfer of property in goods does not coincide with transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognized at the time of transfer of significant risks and rewards.**
- As per guidance note on Accounting for real estate transactions(Revised 2012). Principles of AS-9 in respect of sale of goods also applies to a real estate project. Accordingly the point of time at which all significant risk and reward of ownership can be considered as transferred is required to be determined on the basis of terms and conditions of sale. The percentage method should be applied in the accounting of all real estate transactions/activities in the situations where the economic substance is similar to construction contracts. In case of real estate sales, the seller usually enters into an agreement for sale with the buyer at initial stages of construction. This agreement for sale is also considered to have the effect of transferring all significant risk and rewards of ownership to the buyer provided the agreement is legally enforceable and subject to the

satisfaction of conditions which signify transferring of significant risk and rewards even though the legal title is not transferred or the possession of the real estate is not given to the buyer. Once the seller has transferred all the significant risks and rewards to the buyer, any acts on the real estate performed by the seller are, in substance, performed on behalf of the buyer in a manner similar to a contractor. Accordingly, revenue in such cases is recognized by applying the percentage of completion method on the basis of the methodology explained in AS 7, Construction Contracts.

- **Revenue** :- In case of sale of goods revenue shall be recognized where there is reasonable certainty of its ultimate collection otherwise revenue shall be postponed to the extent of uncertainty involved. **Such relaxation of uncertainty in interest/royalty or dividend is not there in this ICDS.** Whereas AS-9 allows postponement of recognition of revenue in case of reasonable uncertainty regarding collection of interest also.
- **Services** :- Revenue from service transactions shall be recognized by the percentage of completion method. The ICDS on construction contract shall *mutatis mutandis* apply to the recognition of revenue and the associated expenses for a service transaction. However, when service are provided by an indeterminate number of acts over a specific period of time, revenue may be recognized on a straight line basis over the specific period. Revenue from service contracts with duration of not more than 90 days may be recognized with the rendering of services under that contract is completed or substantially completed. As per AS 9 (Revenue Recognition) there are two methods for recognizing revenue from service transactions :- (i) Completed service contract method, (ii) Proportionate completion method
- **Interest, royalty or dividend** :- Interest shall accrue on the time basis. Royalties shall accrue as per agreement or some other systematic and rational basis. Dividends are recognized in accordance with provisions of the act. Interest on refund of any tax, duty or cess shall be deemed to be the income of the previous year in which such interest is received.

- **Transitional provisions** :- For service transactions entered into on or before 31-3-2016 but not completed, transitional provisions of construction contract shall apply. For other transactions undertaken on or before 31-3-2016 but not completed, shall be recognized in accordance with the provisions of this standard for and from 1-4-2016. The amount of revenue if any recognized for the said transaction for any previous year commencing on or before 1-4-2016 shall be taken into account for recognizing revenue for the said transaction for previous year commencing on 1-4-2016.
- **Disclosure** :- In a transaction involving sale of good, disclose total amount not recognized as revenue during the previous year due to lack of certainty, disclose amount of revenue from service transactions recognized as revenue during the previous year, disclose the method used to determine stage of completion of service transaction in progress.

## **ICDS- V —————> TANGIBLE FIXED ASSETS**

- **Tangible fixed asset** :- Land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.
- **Fair value** :- amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
- **Stand by equipment and spares** :- Stand by equipment and servicing equipment are to be capitalized. Machinery spares shall be charged to revenue as and when consumed. Spares for tangible fixed asset to be capitalized.
- **Components of actual cost** :- Purchase price +import duties+ other taxes - subsequently recoverable duties and taxes + directly attributable expenditure on making asset ready for use – trade discount-rebates.

- **Capitalise** :- expenses incurred on start-up and commissioning of the project, exp. Incurred on test runs and experimental production. Expenses incurred thereafter will be treated as revenue exp. In case of self constructed asset internal profits shall be eliminated.
- **Exchange of asset** :- When a tangible fixed asset is acquired in exchange for another asset, the fair value of the tangible fixed asset so acquired shall be its actual cost. If tangible fixed asset is acquired in exchange for shares or other securities, fair value of tangible fixed asset so acquired shall be its actual cost.
- **Addition to assets** :- An expenditure (improvement and repairs) that **increases the future benefits** from the existing asset beyond its previously assessed standard of performance is **added to the actual cost**. Any addition or extension, which has a separate identity and is capable of being used after existing tangible fixed asset is disposed of, shall be treated as separate asset.
- **Valuation of Joint Assets** :- The proportion in the actual cost, accumulated depreciation and wdv is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the **tangible fixed assets register**.
- **Valuation in case of consolidated purchase** :- Where several assets are purchased for a consolidate price, the consideration shall be apportioned to the various assets on a fair basis.
- **Disclosure** :- (a) description of asset or block of assets, (b) rate of depreciation, (c) actual cost or wdv, as the case may be, (d) addition or deduction during the year with dates, in the case of any addition to asset, date put to use, (e) depreciation allowable (f) wdv at the end of year. This

draft ICDS suggested for fixed asset register but the final ICDS has dispensed with that requirement.

## **ICDS –VIEFFECTS→ OF CHANGES IN FOREIGN EXCHANGE RATES**

- **Scope** :- applicable to transactions in foreign currencies, translating financial statement of foreign operation, treatment of transaction in foreign currency in nature of forward exchange contract.
- **Recording of foreign currency transactions** :- A foreign currency transaction shall be recorded, in reporting currency, by applying to the foreign currency amount the exchange rate **at the date of transaction**. An average rate for a week or a month that approximates the actual rate at the date of transaction may be used for all transaction in each foreign currency occurring during that period. If exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used. For conversion of **monetary items apply closing rate at last day** of each previous year. For **non-monetary** items use exchange rate **at the date of transaction**. Initial recognition, conversion shall be subject to Sec. 43A of the Income Tax Act.
- **Exchange differences** :-
  - (i) Monetary items :- exchange differences arising on settlement or conversion at the last day of the previous year shall be recognized as income or expense in that previous year,
  - (ii) Non-monetary items :- exchange difference at the last day of previous year shall not be recognized as an income or expense.
- **Forward exchange contracts** :- Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or

income over the life of the contract, if the contract is not intended for trading or speculation purposes.

- **Premium, discount** or exchange difference on contracts for trading or speculation purposes, or to hedge the foreign currency risk of a firm commitment of a highly probable forecast transaction shall be recognized at the time of settlement.

## ICDS VII —————> GOVERNMENT GRANTS

- **Government grants** :- similar names : subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc. Assistance by Govt. in cash or kind for past or future compliance with certain conditions.
- **Government means** :- Central Govt., State Govt., agencies and similar bodies.
- **Recognition of grant** :- Govt. grant shall not be recognized until there is reasonable assurance that the person shall comply with the conditions attached to them and the grant shall be received. **Recognition of government grant shall not be postponed beyond the date of actual receipt, this condition is not there in AS-12.**
- **Deduct grant from actual cost of asset** :- **(i)** If govt. grant relates to depreciable fixed asset or assets of a person the grant shall be deducted from the actual cost of the asset or from WDV. **(ii)** If govt. grant relates to non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognized as income over the same period over which the cost of meeting such obligations is charged to income. **(iii)** If govt. grant cannot be directly related to asset acquired, then proportionate grant out of total grant in proportion of specific assets to all the assets, shall be deducted from cost of asset or reduced from WDV of relevant block. Compensation for previous financial year or for immediate financial support shall be recognized as income of the period in which receivable. Govt. grant

in the form of non-monetary assets, given at a concessional rate shall be accounted from on basis of their acquisition cost. **As per AS-12 : Grants related to non-depreciable fixed assets :- (i) Grant is shown as deduction from gross value of fixed assets, or (ii) if the conditions attached to grants are fulfilled (i.e. grants received after fulfillment of the conditions attached to grants), grants are credited to capital reserve account, (iii) if condition are yet to be fulfilled :- grants are credited to income over the same period over which the cost of meeting such conditions is charged to income, unapportioned deferred income is disclosed in the balance sheet as “deferred Govt. Grants”.**

- **Refund of Govt. grant :-** first applied against any unamortized deferred credit remaining in respect of government grant, any excess shall be charged to profit & loss. In respect of depreciable fixed asset or asset shall be recorded by increasing the actual cost or WDV.
- **Disclosure :-** Disclose nature and extent of govt. grant recognized by deducting from cost of asset or WDV during previous year, nature and extent of govt. grant recognized during previous year, govt. grant not recognized by deducting from cost or WDV, govt. grant not recognized during previous year as income and reasons thereof.

## ICDS- VIII —————> SECURITIES

- **Scope :-** deals with securities held as stock in trade. There is separate procedure in ICDS for securities held by a scheduled bank or public financial institution.
- **Fair value :-** is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing buyer in an arm’s length transaction.

- **Securities means** :- as per Sec. 2(h) of Securities Contract (regulation) act 1956, other than derivatives.
- **Recognition** :- a security on acquisition shall be recognized at actual cost (purchase price + brokerage +fees +tax +duty or cess), where a security is acquired in exchange for other securities, the fair value of the security so acquired shall be actual cost, ***whereas AS-13 (Accounting for investments) states that if investment is acquired by issue of shares or other securities then purchase price of investment is the fair value of the securities issued, and if investment is acquired in exchange for another asset then acquisition cost of investment is fair value of the asset given up or fair value of the investment received if it is more clearly evident.*** If unpaid interest included in price- pre-acquisition portion of the interest is deducted from the actual cost.
- **Valuation at year end** :- Securities held as stock in trade shall be valued at actual cost or net realizable value at the year end, whichever is lower. Comparison shall be done category wise and not for each individual security. Categories shall be :- (a) shares, (b) debt securities, (c) convertible securities, and (d) any other securities. ***AS-13 states that carrying amount of each current investment is the lower of cost and realizable value. Any reduction in realizable value is debited in profit & loss A/c; however if realizable value of investment is increased subsequently, the increase in value of current investment to the level of the cost is credited to profit & loss A/c.***
- **Valuation at beginning** :- securities held as stock in trade on the beginning of the previous year shall be the cost of securities available, if any, on the commencement of the business when the business has commenced during the previous year, and in any other case- value of securities of
- the business as on the close of the immediately preceding previous year. Securities not listed or not quoted shall be valued at actual cost. If cost cannot be ascertained by reference to specific identification, then FIFO method shall be used.

## ICDS IX —————> BORROWING COSTS

- **Borrowing costs** :- are interest and other costs incurred by a person in connection with the borrowing of funds and include commitment charges on borrowings, amortised amount of discount or premium (**AS-16 uses word “provisions”**) relating to borrowings, amortised amount of ancillary costs incurred in connection with agreement of borrowings, finance charges in respect of asset acquired under finance leases or similar arrangements.
- **Qualifying asset** :- means (i) **land, building, machinery, plant or furniture**, being tangible assets; (ii) know-how, patents, copyrights, trade marks, licenses, franchises or any other business or commercial rights of similar nature, being **intangible assets**; (iii) **inventories** that require a period of **twelve months** or more (**AS-16 doesn't quantify duration but states “more than one accounting period”**) to bring them to a saleable condition.
- **Recognition** :- Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. Amount of borrowing costs eligible for capitalization shall be determined in accordance with this ICDS. Other borrowing costs shall be recognized in accordance with the provisions of the act.
- **Capitalisation** :- funds specifically borrowed for acquisition, construction or production of a qualifying asset, amount of borrowing costs to be capitalized on that asset shall be the actual borrowing cost incurred during the period on the funds so borrowed. **Whereas AS-16 specifies that actual borrowing cost incurred during the period less any income on the temporary investment of borrowed amount.**
- **Proportionate borrowing cost** :- funds borrowed generally and utilised for qualifying asset, borrowing cost shall be worked out by following formula :-

**B**

$$A \times \frac{\text{---}}{C}$$

Where

**A** = borrowing cost incurred during previous year except on borrowing directly relatable to specific purposes;

**B** =

- (i) the average of cost of qualifying asset in balance sheet on first day and last day of the previous year.
- (ii) If qualifying asset does not appear in balance sheet on first or last or both day of previous year, half of the cost of qualifying asset;
- (iii) In case qualifying asset does not appear in balance sheet on the last day of the previous year, the average of the cost of qualifying asset as appearing in balance sheet on first day of the previous year and on the date put to use or completion, other than qualifying asset which are directly funded out of specific borrowing, or

**C** = average of total asset on first day and last day of previous year, other than those assets directly funded out of specific borrowings.

- **Commencement of capitalization** :- In case of specific borrowing from date on which funds were borrowed, in case of funds borrowed generally from the date on which funds were utilized.
- **Cessation of capitalization** :- in case of qualifying asset other than inventory- when such asset is first put to use, in case of inventory when substantially all the activities necessary to prepare such inventory for its intended sale are complete.
- **Disclosure** :- accounting policy adopted in borrowing costs, and amount of borrowing costs capitalized during previous year.

## ICDS –X —————> PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- **Scope** :- This ICDS deals with provisions, contingent liabilities and contingent assets, except those : (a) resulting from financial instruments, (b) resulting from executor contracts (c) arising in insurance business from contracts with policyholders and (d) covered by another ICDS.
- **Definition** :- (a) **Provision** – is a liability which can be measured by using a substantial degree of estimation, (b) **Liability** – present obligation from past events, (c) **Contingent Liability** – present obligation that arises from past event and existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future event. (d) **Contingent Asset** :- possible asset that arises from past events the existence of which will be confirmed only by occurrence or non-occurrence of one or more uncertain future events. (f) **executory contracts** :- neither party has performed any of its obligation or both parties partially performed their obligation.  
  
(g) **present obligation** :- obligation based on evidence available.
- **Recognition of provisions** :- A provision shall be recognized when a person has a present obligation as a result of a past event, it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation. If these conditions are not met no provision shall be recognized. No provision shall be made for costs that need to be incurred to operate in the future. Where details of a proposed new law have yet to be finalized, an obligation arises only when the legislation is enacted.

- **Recognition of contingent liabilities** :- A person shall not recognize a contingent liability.
- **Recognition of contingent assets** :- A person shall not recognize a contingent asset. Contingent assets are assessed continually and when it becomes reasonably certain that outflow of economic benefit will arise, the asset and related income are recognized in the previous year in which the change occurs.
- **Best estimate** :- The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision/contingent asset shall not be discounted to its present value.
- **Reimbursements** :- reimbursement shall be recognized when it is reasonably certain that reimbursement will be received if the person settles that obligation. The amount recognized for reimbursement shall not exceed the amount of the provision. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.
- **Review** :- provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If no reasonable certainty of outflow/inflow, provision/contingent asset/related income should be reversed.
- **Disclosure in respect of provisions** :- (a) a brief description of the nature of the obligation, (b) the carrying amount at the beginning and end of the previous year, (c) additional provisions made during the previous year, including increases to existing provisions, (d) amounts used, i.e. incurred and charged against the provisions, during the previous year, (e) unused amounts reversed during the previous year, and (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

- **Disclosure in respect of contingent assets** :- (a) a brief disclosure in respect of contingent asset and related income, (b) the carrying amount of asset at the beginning and end of the previous year, (c) additional amount of asset and related income recognized during the year, including increases to assets and related income already recognized, and (d) amount of asset and related income reversed during the previous year.

## Conclusion of ICDS

The aforesaid write up is a brief description of notified ICDS. But it is certain that these are compulsorily to be followed while computing income from business or profession and income from other sources by all the persons whether corporate, non-corporate- (except individual or HUF not liable to audit u/s 44AB) etc., without any turnover criteria. From Assessment Year 2017-18 requirements as to gains or losses arising due to ICDS are to be made in income tax return forms and since information in income tax return forms are kept very brief hence detailed information may have to be given during the course of assessment proceedings, if any, and also information has to be given in tax audit report in form No. 3CD U/s 44AB to incorporate gains/losses arising due to ICDS.