

# Income Computation and Disclosure Standards: A Pragmatic Approach

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# Why ICDS?



Provide specific rules, which would enable computation of income with certainty and clarity



Introduction of Indian Accounting Standards (Ind AS)

# Applicability

All assesseees other than Individual/ HUF not liable  
44AB audit



Following mercantile basis of accounting



For computing income under PGBP and IFOS

# Major concerns regarding applicability



Who are not required to follow ICDS?



Whether ICDS applicable for persons opted for presumptive taxation?

# General features

01

No separate books of account required.

02

Effect of ICDS adjustments to be disclosed in ITR & 3CD

03

ICDS disclosures are to be provided in clause 13 of 3CD

04

No definition in ICDS- Definition as per IT Act to be considered.



# Conflicts with ICDS provisions

Conflict with *Act*?

Conflict with *Rules*?

Conflict with *judicial precedents*?

# INCOME COMPUTATION AND DISCLOSURE STANDARDS

ICDS I- Accounting Policies

ICDS II- Valuation of Inventories

ICDS III- Construction Contracts

ICDS IV- Revenue recognition

ICDS V- Tangible fixed assets

ICDS VI- The effects of changes in Foreign Exchange Rate

ICDS VII- Government Grants

ICDS VIII- Securities

ICDS IX- Borrowing Costs

ICDS X- Provisions, Contingent Liabilities and Contingent Assets

# ICDS I- Accounting Policies





# Major points to be considered



## **Selection of Accounting Policy**

Prudence & Materiality not considered.



## **Change in accounting policy**

reasonable cause



## **Disclosures**

Similar to AS 1

# ICDS II- Valuation of Inventories

# Major points

- Cost includes duties and taxes (both refundable and non-refundable)
- Specific disclosure on Accounting policy followed
- Classification-wise disclosure of inventory



# Tax audit perspective

- Impact of section 145A and ICDS 2 cost determination.
- Separate workings to be prepared.
- Audit documentation

## Practical illustration

Details for the financial year 2018-19				
Particulars	Qty	Amount	Tax rate	Amount including tax
Opening Stock-RM	100	10,000	5%	10,500
Purchases	900	90,000	5%	94,500
Conversion charges				
Wages		50,000	NA	50,000
Services availed		30,000	18%	35,400
Finished goods	800			
Sales	700	1,75,000	12%	1,96,000
Closing stock-FG	100	18,000	50%	18,500
Closing stock-RM	200	20,000	1,000	21,000

Shew the impact of 145A/ ICDS 2 adjustment.

## Treatment in books

TRADING ACCOUNT FOR THE YEAR ENDED MARCH 31, 2019			
Expenses		Income	
	₹		₹
Opening Stock	10,000	Sales	1,75,000
Purchases	90,000	Closing stock	
Wages	50,000	Finished goods	18,000
Direct expenses	30,000	Raw Materials	20,000
Gross Profit carried down	33,000		
<b>TOTAL</b>	<b>2,13,000</b>	<b>TOTAL</b>	<b>2,13,000</b>

## Treatment as per Inclusive method

MEMORANDUM TRADING ACCOUNT (BASED ON 145A/ ICDS 2 ADJUSTMENTS)			
Expenses		Income	
	₹		₹
Opening Stock	10,000	Sales	1,96,000
Purchases	94,500	Closing stock	
Wages	50,000	Finished goods	18,500
Direct expenses (Note 2)	30,000	Raw Materials	21,000
Output tax paid (Note 2)	11,000		
Goods on direct expenses paid (Note 3)	5,000		
Gross Profit carried down	34,000		
<b>TOTAL</b>	<b>2,31,000</b>	<b>TOTAL</b>	<b>2,31,000</b>

## Reconciliation

Particulars	₹	₹
Profit as per books of account		33,000
Add: GST component in closing inventory	1,500	
Less: GST component in opening inventory	(500)	1,000
<b>Adjusted profits as per ICDS 2</b>		<b>34,000</b>

# Practical illustration

<b>Details for the financial year 2018-19</b>					
<b>Particulars</b>	<b>Qty</b>	<b>Amount</b>	<b>Tax rate</b>	<b>Tax</b>	<b>Amount including tax</b>
Opening Stock-RM	100	10,000	5%	500	10,500
Purchases	900	90,000	5%	4,500	94,500
Conversion charges					
Wages		50,000	NA	-	50,000
Services availed		30,000	18%	5,400	35,400
Finished goods	800				
Sales	700	1,75,000	12%	21,000	1,96,000
Closing stock-FG	100	18,000		500	18,500
Closing stock-RM	200	20,000		1,000	21,000
<b>Show the impact of 145A/ ICDS 2 adjustment.</b>					

# Treatment in books

TRADING ACCOUNT FOR THE YEAR ENDED MARCH 31, 2019			
Expenses	₹	Income	₹
Opening Stock	10,000	Sales	1,75,000
Purchases	90,000	Closing stock	
Wages	50,000	Finished goods	18,000
Direct expenses	30,000	Raw Materials	20,000
Gross Profit carried down	33,000		
<b>TOTAL</b>	<b>2,13,000</b>	<b>TOTAL</b>	<b>2,13,000</b>

# Treatment as per Inclusive method

MEMORANDUM TRADING ACCOUNT (BASED ON 145A/ ICDS 2 ADJUSTMENTS)			
Expenses	₹	Income	₹
Opening Stock	10,500	Sales	1,96,000
Purchases	94,500	Closing stock	
Wages	50,000	Finished goods	18,500
Direct expenses (Note 1)	30,000	Raw Materials	21,000
Output tax paid (Note 2)	11,100		
Goods on direct expenses paid (Note 3)	5,400		
Gross Profit carried down	34,000		
<b>TOTAL</b>	<b>2,35,500</b>	<b>TOTAL</b>	<b>2,35,500</b>

# Reconciliation

Particulars	₹	₹
<b>Profit as per books of account</b>		<b>33,000</b>
Add: GST component in closing inventory	1,500	
Less: GST component in opening inventory	(500)	1,000
<b>Adjusted profits as per ICDS 2</b>		<b>34,000</b>



# Disclosure



Clause 13(e) v/s clause 14



Accounting policy

# ICDS III- Construction Contracts



# Significant change

## Expected loss

- Only actual losses can be recognised and not expected losses

## Point of recognition of revenue

- Shift from outcome to collectability assessment

## Specific treatment on retention money

- AS 7 is silent.
- ICDS considers as part of Revenue



## **Write off as Bad debt**

If any amount recognised in earlier years turns out to be uncollectable, whether such write off is allowed as deduction?



# Disclosures



Contract revenue recognized during the period;



Methods used to determine the stage of completion of contracts in progress; and



For Contracts in progress:

- Amount of costs incurred
- Recognized profits/ losses up to the reporting date
- Advances received and
- Retentions.

# ICDS IV- Revenue recognition



# Major concerns

- How revenue from leases and hire-purchase to be accounted for?
- Completed contracts method can be used for services only if duration is less than 90 days
- Whether ICDS IV is applicable for real estate developers, BOT scheme etc?



# Special provisions



Interest on refund of  
any tax, duty or cess



Discount or  
premium on any  
securities





# Disclosures

- For sale of goods, revenue not recognized due to uncertainty in ultimate collection along with nature of uncertainty
- Revenue from service recognized during the previous year
- The method used for stage of completion of service transactions in progress and
- For service transactions in progress :
  - Costs incurred and recognized profits/losses up to end of previous year
  - the amount of advances received and
  - the amount of retentions.

# ICDS V- Tangible fixed assets

# Major concerns

01

ICDS V IS BASED  
ON OLD AS 10-  
ACCOUNTING FOR  
FIXED ASSETS

02

ICDS V DOES NOT  
EXCLUDE  
BIOLOGICAL  
ASSETS AND  
WASTING ASSETS  
FROM ITS SCOPE

03

NO CONCEPT OF  
MATERIALITY;  
CONSIDER  
CONCEPT OF  
ENDURING  
BENEFIT

04

STANDBY  
EQUIPMENT AND  
SPARES

# Cost of asset



Provision for dismantling site restoration, decommissioning and other similar liabilities



Consideration to section 43(1) of the Act



Impact of ICDS IX- Borrowing cost



Subsequent price adjustments, changes in duties etc will be adjusted to cost itself



Impact of ICDS VI- Effects of changes in Foreign Exchange Rates

# Audit perspective



Reconciliation of total addition to fixed assets as per books IT Act



Consideration for impact of ICDS VI & IX since treatments are different



Disclosures same as clause 18 of Form 3CD

# ICDS VI- The effects of changes in Foreign Exchange Rate

# Major points

Exchange gain or loss on acquisition of Tangible fixed assets-

Para 46/ 46A of AS 11-  
Optional

Para 6 of ICDS VI-  
Mandatory  
(Section 43A & Rule 115)

Exchange gain or loss on foreign operation

AS 11- Integral FO & Non-  
integral FO

ICDS VI- No classification;  
for all FO-  
Like Integral FO

# Audit perspective

## In case of Foreign branches

- Reconciliation for exchange differences- As part of audit documentation- each year

## In case of imported machinery

- Reconciliation of exchange differences will be required
  - If FC loan exists- every year
  - If no FC loan- In the year of purchase



# ICDS VII- Government Grants

# Major points

1

Recognition of grant cannot be postponed beyond actual receipt

2

Double taxation - Interplay of ICDS, AS 12 and MAT

# Treatment of Government Grants



Grant related to depreciable asset

Can only reduce from Block of asset  
No deferred income approach



Grant related to non-depreciable asset

Recognised as income over the period over which cost is incurred for meeting conditions



If one-to-one-nexus is not there

Apportion based on relative cost



Grants in the nature of promoter's contribution

Recognise as income in the period in which it is receivable

# Disclosures

## Government grants relating to specific assets:

- Nature and amount recognized as deduction from actual cost/WDV of block of assets during previous year and
- Nature and amount not recognized as deduction and reasons thereof.

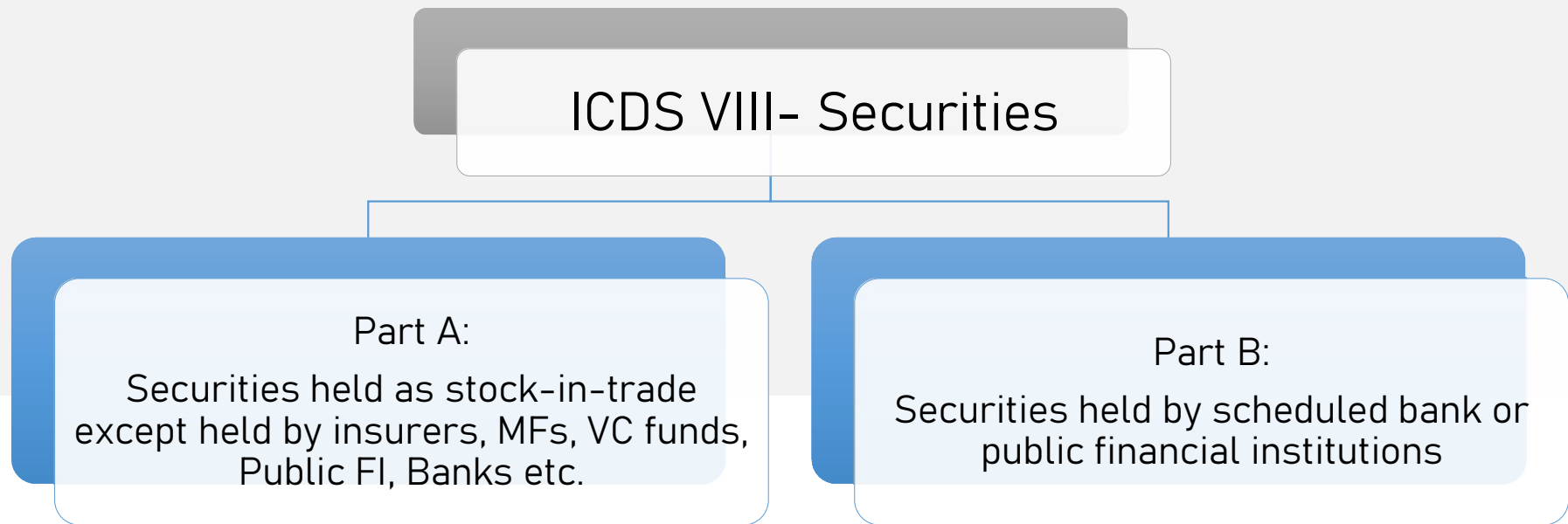
## Other grants:

- Nature and amount recognized during previous year as income and
- Nature and amount not recognized as income and reasons thereof

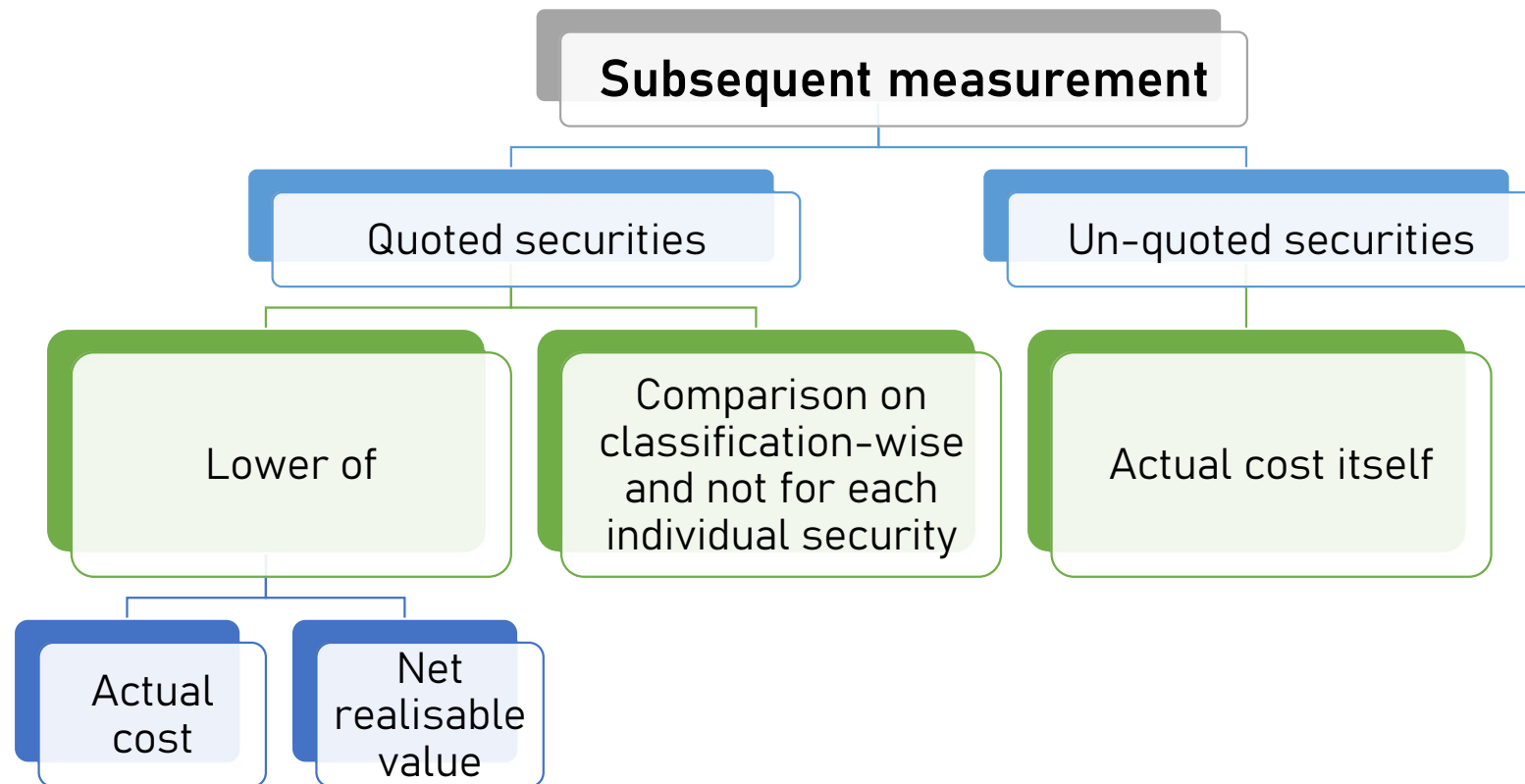
# ICDS VIII- Securities

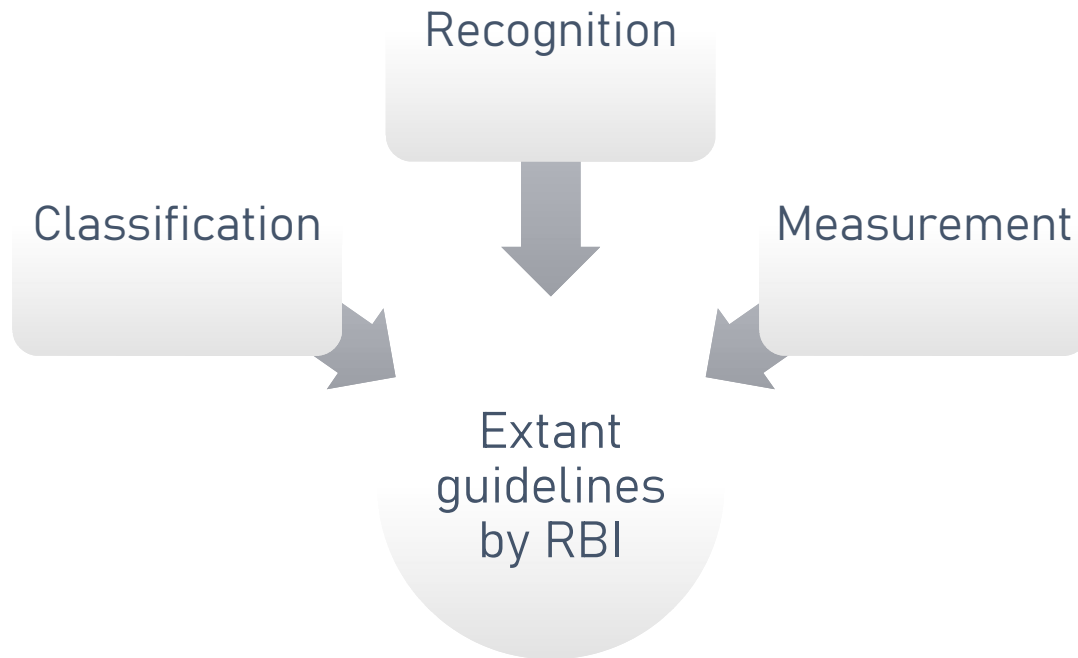


# ICDS VIII- Securities



# Securities held as stock-in-trade





**For Bank and Public Fin.  
Institutions**



# ICDS IX- Borrowing Costs

# Major points



Components of Borrowing Cost



Impact of provisions of section 14A, 40(a)(i)/(ia), 40(A)(2)(b) etc.



Definition of Qualifying Assets



Capitalisation of General Borrowings- Formula, Different meaning for QA



Commencement of capitalisation- Borrowed/ Utilised



Cessation of capitalisation- Put to use/ substantially all activities

# Audit perspective

If there is any capitalisation of Borrowing Cost- extra-caution required.

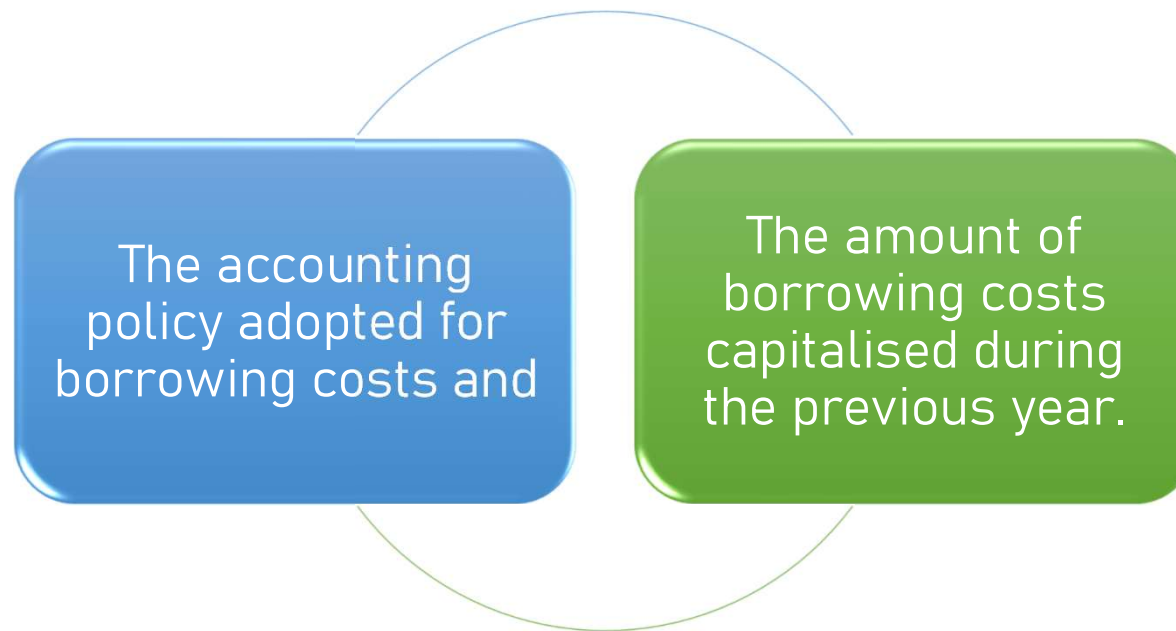


In such cases, capitalisation of BC as per AS and ICDS to be separately computed



Audit documentation

# Disclosures



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# ICDS X-Provisions, Contingent Liabilities and Contingent Assets

# Major points









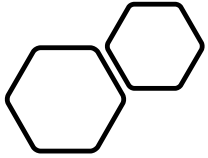
Criteria for provision- Shift from Probable outflow to reasonably certain



Reimbursements – Virtual certainty to reasonable certainty

# Disclosures- Provisions

-  Brief description of the nature of the obligation
-  Carrying amount at the beginning and end of the previous year
-  Additional provisions made during the previous year, including increases to existing provisions
-  Amounts used, that is incurred and charged against the provision, during the previous year
-  Unused amounts reversed during the previous year and
-  The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.



## Disclosures- Contingent assets & related income



Brief description of the nature of the asset and related income



Carrying amount of asset at the beginning and end of the previous year



Additional amount of asset and related income recognized during the year, including increases to assets and related income already recognized



Amount of asset and related income reversed during the previous year





# Thank you...!

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