Income Computation and Disclosure Standards:
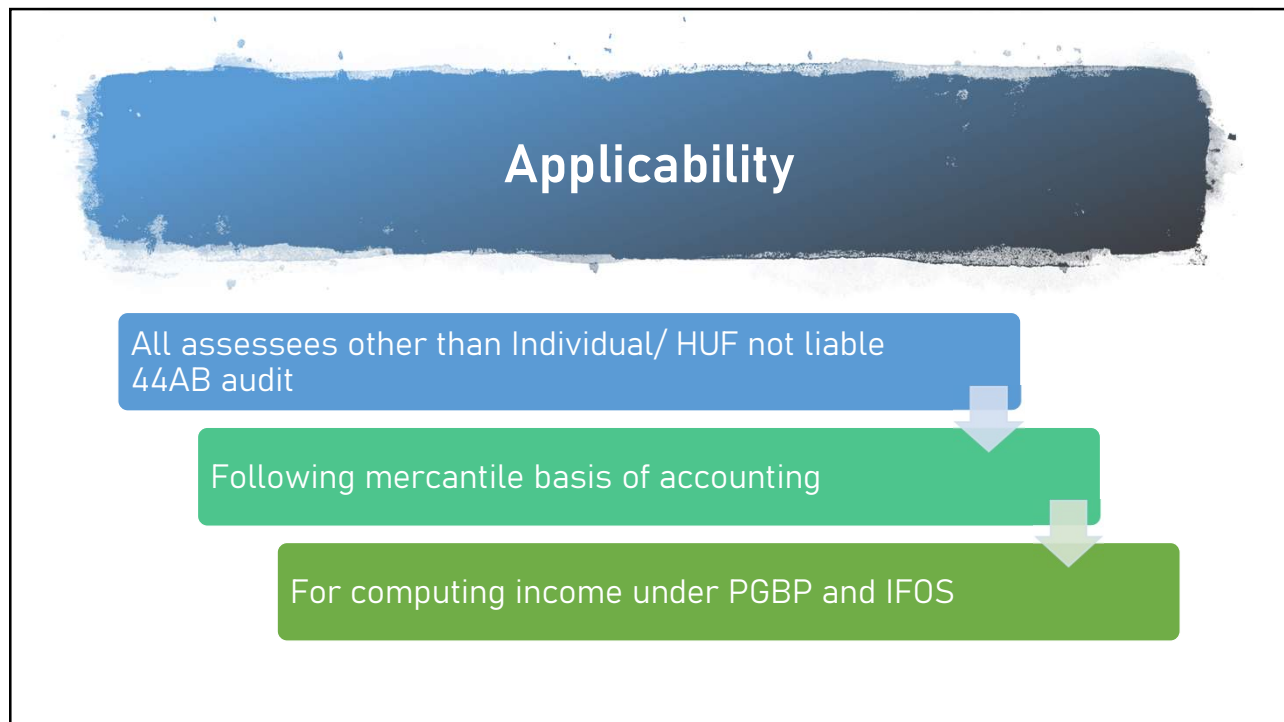## A Pragmatic Approach

CA. Amal Paul, ACA, DipIFR

1

Why ICDS?

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

Introduction of Indian Accounting Standards (Ind AS)

2

Applicability

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

Following mercantile basis of accounting

For computing income under PGBP and IFOS

3

Major concerns regarding applicability

Who are not required to follow ICDS?

Whether ICDS applicable for persons opted for presumptive taxation?
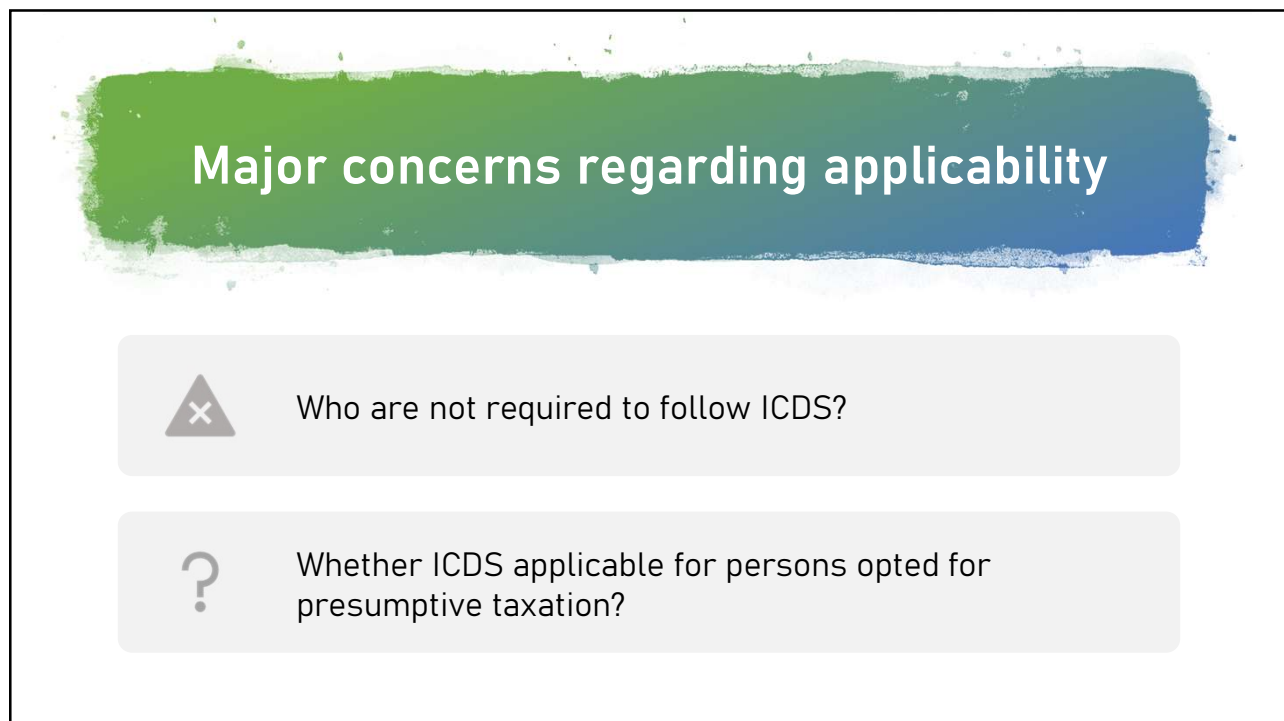
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General features

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.

5

Conflicts with ICDS provisions

Conflict with Act?

Conflict with Rules?

Conflict with judicial precedents?

6

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

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ICDS I– Accounting Policies

8

Major points to be considered

Selection of Accounting Policy
Prudence & Materiality not considered.

Change in accounting policy
reasonable cause

Disclosures
Similar to AS 1

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ICDS II– Valuation of Inventories

10

Major points

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

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Tax audit perspective

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

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Practical illustration

Details for the financial year 2018-19					
Particulars	Qty	Amount	Tax rate	Tax	Amount including tax
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
Show the impact of 145A/ ICDS 2 adjustment.					

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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		
TOTAL	2,13,000	TOTAL	2,13,000

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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		
TOTAL	**2,35,500**	**TOTAL**	**2,35,500**

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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
Adjusted profits as per ICDS 2		**34,000**

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Disclosure

Clause 13(e) v/s clause 14

Accounting policy

17

ICDS III– Construction Contracts

18

Significant change

Expected loss	Point of recognition of revenue	Specific treatment on retention money
· Only actual losses can be recognised and not expected losses	· Shift from outcome to collectability assessment	· AS 7 is silent. · ICDS considers as part of Revenue

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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?

20

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.

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ICDS IV– Revenue recognition

22

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?

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Special provisions

Interest on refund of any tax, duty or cess	Discount or premium on any securities

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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.

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ICDS V– Tangible fixed assets

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Major concerns

01	02	03	04
ICDS V IS BASED ON OLD AS 10-ACCOUNTING FOR FIXED ASSETS	ICDS V DOES NOT EXCLUDE BIOLOGICAL ASSETS AND WASTING ASSETS FROM ITS SCOPE	NO CONCEPT OF MATERIALITY; CONSIDER CONCEPT OF ENDURING BENEFIT	STANDBY EQUIPMENT AND SPARES

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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

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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

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ICDS VI– The effects of changes in Foreign Exchange Rate

30

Major points

Exchange gain or loss on acquisition of Tangible fixed assets–	Exchange gain or loss on foreign operation
Para 46/ 46A of AS 11– Optional	AS 11– Integral FO & Non-integral FO
Para 6 of ICDS VI– Mandatory (Section 43A & Rule 115)	ICDS VI– No classification; for all FO– Like Integral FO

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Audit perspective

In case of Foreign branches	In case of imported machinery
· Reconciliation for exchange differences– As part of audit documentation– each year	· Reconciliation of exchange differences will be required · If FC loan exists– every year · If no FC loan– In the year of purchase

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ICDS VII– Government Grants

33

Major points

1	2
Recognition of grant cannot be postponed beyond actual receipt	Double taxation – Interplay of ICDS, AS 12 and MAT

34

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

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Disclosures

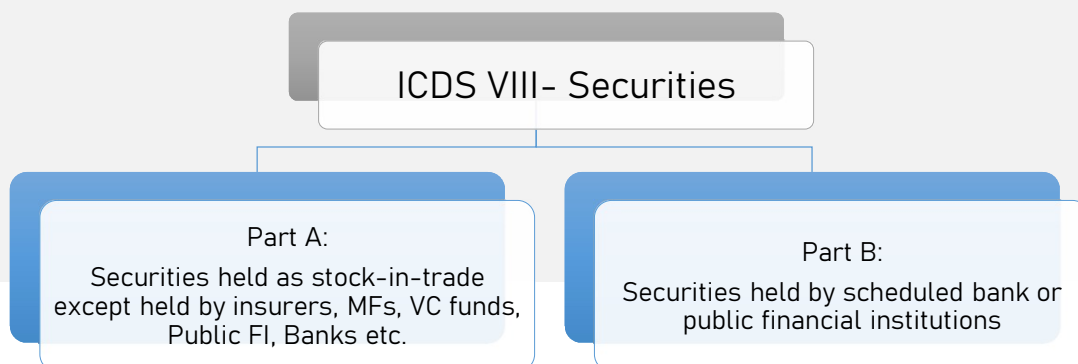| Government grants relating to specific assets:	Other grants:
· Nature and amount recognized as deduction from actual cost/WDV of block of assets during previous year and · Nature and amount not recognized as deduction and reasons thereof.	· Nature and amount recognized during previous year as income and · Nature and amount not recognized as income and reasons thereof

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ICDS VIII– Securities
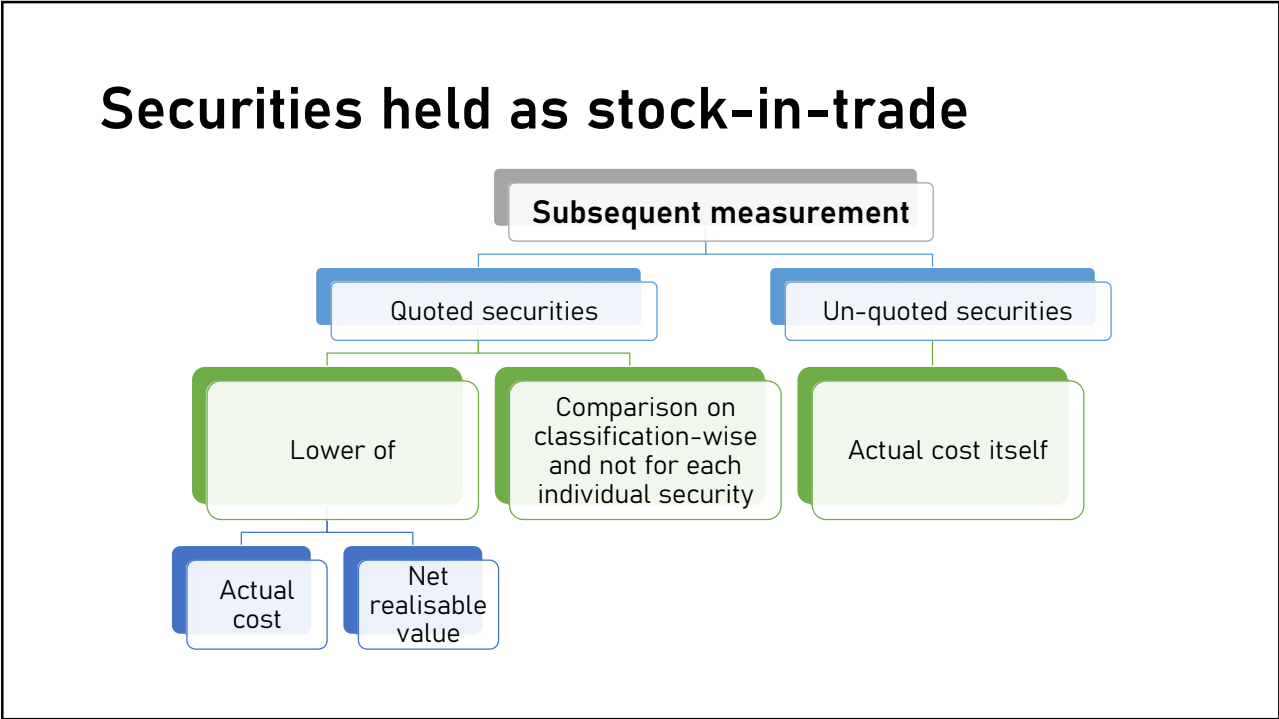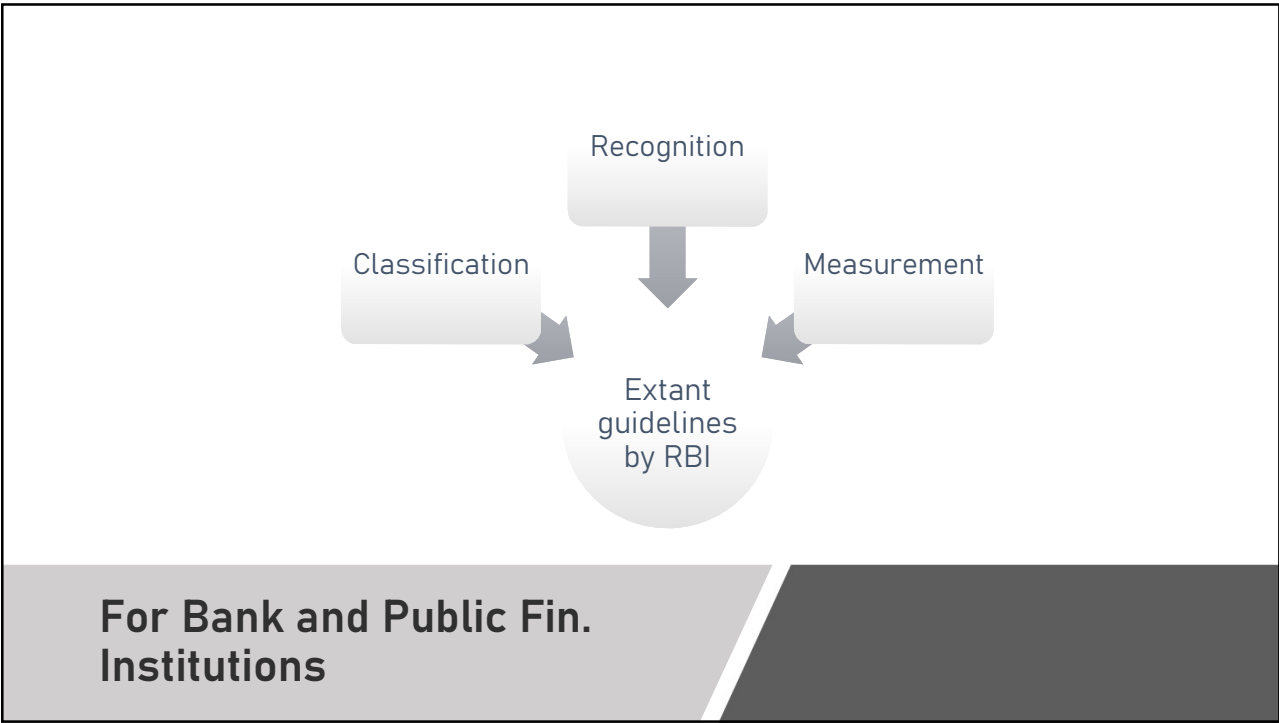
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ICDS VIII– Securities

ICDS VIII– Securities

Part A:
Securities held as stock-in-trade except held by insurers, MFs, VC funds, Public FI, Banks etc.

Part B:
Securities held by scheduled bank or public financial institutions

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Securities held as stock-in-trade

Subsequent measurement

├── Quoted securities
│   ├── Lower of
│   │   ├── Actual cost
│   │   └── Net realisable value
│   └── Comparison on classification-wise and not for each individual security
│
└── Un-quoted securities
    └── Actual cost itself

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Recognition

Classification   Measurement

Extant guidelines by RBI

For Bank and Public Fin. Institutions

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ICDS IX– Borrowing Costs

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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

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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

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Disclosures

The accounting policy adopted for borrowing costs and

The amount of borrowing costs capitalised during the previous year.

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ICDS X–Provisions, Contingent Liabilities and Contingent Assets

45

Major points

₿	Criteria for provision– Shift from Probable outflow to reasonably certain
⚖	Reimbursements – Virtual certainty to reasonable certainty

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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
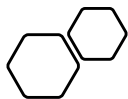
Unused amounts reversed during the previous year and

The amount of any expected reimbursement, stating the amount of any asset that has been recognized for that expected reimbursement.

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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

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Thank you...!

CA. Amal Paul, ACA, DipIFR
Email: amalpaul@icai.org
Mob. No.: +91 9961 120532

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