The Institute of Chartered Accountants of India

(Set up by an act of Parliament)

AHMEDABAD BRANCH OF WICASA OF WIRC OF ICAI

"અંશ"

EDITION: SEPTEMEBER '17

CA CHINTAN N. PATEL

CHAIRMAN,

AHMEDABAD BRANCH OF WIRC OF ICAI

Dear Students,

Ahmedabad Branch of WIRC of ICAI is the second largest branch in India having more than 9,000 members and 30,000 students. The student wing in the branch is represented by 'Ahmedabad Branch of WICASA' where the activities are managed by elected representatives of students.

WICASA is a platform provided by the ICAI to the students to learn, share, participate and perform, with a visualization to build networking, social circle and sharpen leadership skills.

The theme of branch for the year 2017-18 is **'ICE: *Innovate – Change – Excel*'** which signifies the need of innovation, constant change and doing best in what you do. Theme of Ahmedabad Branch of WICASA is ***'Together We Can'*** that signifies '*Alone we can do so little; Together we can do so much*'.

In addition to seminar on topics related to studies, motivational lectures, sports, quiz/elocution competition and many more are arranged round the year. I invite all the students pursuing the Chartered Accountancy course to take active part in the activities of WICASA.

My compliments to the team WICASA for publishing Newsletter that provides a platform to the students for expressing their creativity, sharing articles, thereby acts as a source of motivation.

Wishing you all the best and enjoy reading!

AHMEDABAD BRANCH OF WICASA WISHES YOU A VERY HAPPY DIWALI AND A PROSPEROUS NEW YEAR !!

CA. PURUSHOTTAM KHANDELWAL

Regional Council Member,

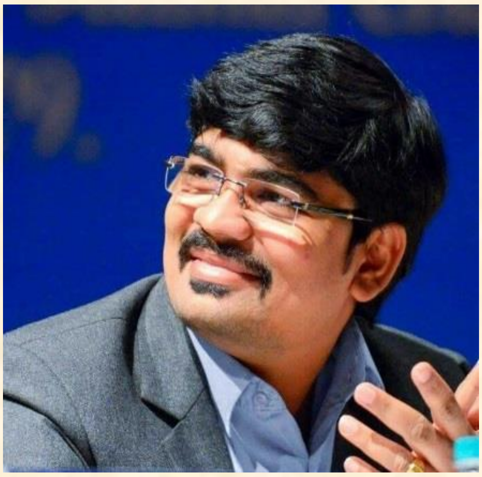
Chairman, Ahmedabad Branch of WICASA

of ICAI

The month of September was fully divine and spiritual with the warm blessings of Ambe Maa, hectic and burdensome due to Tax Audit season and completely enjoyable due to the extension in dates for filing the same.

With all the positivity and enthusiasm towards holistic life, I pen down few things that are worth knowing for the Youth of this Profession. Firstly, despite so much of tension or stress have a focused life. Secondly, take time to meditate and believe in yourself. God and Time, both eternal forces resolve the toughest phases of life. Thirdly, in order to enhance the professional pursuits it is highly recommended that you take your articleship seriously. Gone are the days where a CA earns through routine audits. A variety of new opportunities are being added day in and day out. Times are getting tough, so are the compliances that various stakeholders demand.

Above all, take time to acknowledge the lives, energies and efforts your parents put in, render them respect and devote at least half hour a day. These are some real stress boosters. This profession will be sailing smooth as it is now without you but what shall stay are your parents and family. I shall never discourage you all from having materialistic approaches towards life, they are part and partially the complete life depending forces. But with this stress gainer month, I would recommend having a spiritual life too.
With all big hearts and zillions of smile, I wish to have Satisfied Chartered Accountants at first place rather than Successful yet Depressed ones. Hoping to further see number of Professional Workmates this November and expand this Vibrant Family.



CA. FENIL SHAH

Chairman, Students Committee of Ahmedabad Branch of WIRC of ICAI

Treasurer, Ahmedabad Branch of WIRC of ICAI

Dear Students,

“मनुष बली नहि होत है, समय होत *बलवान*| भीलन लूटी गोपिका, *वही अर्जुन वही*बान ||”

The above lines convey that what is constant in the present scenario is the change. If we don’t change our skills then probably it may be difficult for us to survive. Change is taking place so fast that if we want to survive and succeed then we have to change with change or before change but if we don’t change then change will change us. Changes in form of amendments are such now a days that it requires not only to learn new things but also to unlearn and relearn old things. ICDS & IND AS is one of such changes which has given our profession new opportunities. But in order to take the advantage of those opportunities and to serve the nation, we need to equip ourselves with the knowledge of the same.

Special appreciation for the efforts poured by Maulin Shah, Editor & Akshay Sedani, Vice-Chairman WICASA under the guidance of CA. Purushottam Khandelwal, RCM & Chairman WICASA of Ahmedabad Branch of WIRC of ICAI to make this newsletter very useful for students fraternity. Wish you HAPPY NAVRATRI in advance.

Coming together is a Beginning.
Keeping together is Progress
Working together is Success

Dear colleagues,

Hope you all are enjoying extension in Tax Audit which must have allowed you to celebrate Navratri late nightly. I wish you all belated Happy Dushera & Durga Ashtami. With this issue of E-newsletter we at Ahmedabad branch of WICASA wants to provide you a glimpse of many things may it be curricular or extra-curricular. May this issue enlighten your Further TAX Audit work along with spices of GST returns and ICDS disclosures. While enjoying Tax audit season and preparing for November attempt whether it be IPCC or FINAL Ahmedabad Branch will always be at your service with the continuous Revision Lectures, Mock Test Rounds, Web Casts and so on. I hope you all will provide same level of participation and involvement as you have shown in last month's events like Revision Lectures, RRC at ABU Road, Navratri Celebration etc.

Warm Regards,
AKSHAY AMITBHAI SEDANI
Vice-Chairman & Co-Editor,
Ahmedabad Branch of WICASA of WIRC of ICAI.

Dear Friends,
It gives us unbound pleasure to bring September 2017 edition of Ansh to you through which we have covered topics like Income Computation and Disclosure Standards, Goods and Service Tax, etc.
We would like to express our gratitude to our dynamic friends from all over the nation who have worked extensively in contributing their valuable Write-ups, Responses and Suggestions. This magnetizing participation of our friends is the factual motivation for us to keep going ahead in bringing more and more activities which could prove to be a greater platform to explore our hidden interests and talents.
This September, unlike other Septembers, was a very blissful and rejoicing month being Navratri Celebration as a radicle substance for the bliss and buzz of all the students as shared in the glimpses of this Newsletter.
WICASA is something which is absolutely for the students, of the students and by the students. And thereupon, your WICASA looks forward towards your continuing participations at all the levels henceforth.

With profound regards,
KARTIKI YASHWANT KALBHOR
Joint Secretary & Co-Editor,
Ahmedabad Branch of WICASA of WIRC of ICAI

"The roots of all goodness lie in the soil of appreciation for goodness"

- Dalai Lama

Dear friends,

Happy Diwali well in advance !

It give us immense pleasure to publish second edition of "Ansh". We thank all of you for continuous support for this e-newsletter venture. This month was poured with numerous events that majorly included revision test series on different subjects for upcoming examinations in month of November.
We appreciate the response which we receive, but out of many articles we have selected a few having substantial information on the topics and published it. We hope that it would be a wonderful experience reading this newsletter.
We here at Ahmedabad Branch of WICASA welcome new ideas and suggestions as and when you desire to be communicated. Further, this edition of "Ansh" includes articles on Ind-AS and ICDS which will help you in gaining comprehensive knowledge in this areas. With this note I would like to conclude and thank all of you for your never ending support.

I wish you all a very Happy New year !

Best wishes,
MAULIN AMITBHAI SHAH
Treasurer & Co-Editor,
Ahmedabad Branch of WICASA of WIRC of ICAI

MAHARSHI SHUKLA

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INTRODUCTION

"The Ministry of Finance has issued **Ten Income Computation and Disclosure Standards (ICDS)**, operationalising a new framework for computation of taxable income. The Central Board of Direct Taxes (CBDT) notified these standards **under Section 145(2) of the Income-tax Act, 1961 vide 'Notification No. 33/2015 dated 31 March 2015'**.

The notification with 10 ICDS has been issued on 31st March,2015. Post receipt of concerns of various stakeholders the Government had deferred the applicability of ICDS by one year and re-notified under Notification no. 87 dated 29 September, 2016 the amended ICDS to be applicable w.e.f AY 2017-18. Now, Finally the Board has issued various clarifications on the amended ICDS by issuance of a circular no. 10/ 2017 dated 23 March, 2017.

With the notification of ICDS, there is certainty on the path that has been chosen by the CBDT.

I. Latest Circular No. 10/2017 dated 23rd March, 2017

- **Interplay between ICDS I and Maintenance of Books of Account :** It is clarified that ICDS are not applicable to maintenance of books of account. The Accounting Policies in ICDS I are applicable for computation of income
- **Inconsistency between judicial precedents and ICDS :** The ICDSs have been notified after examination of judicial views for bringing certainty on issues covered by it. As the CBDT has now provided certainty by notifying ICDS, the provisions of ICDS shall be applicable to the transactional issues dealt therein from AY 2017-18 and onwards.
- **Persons covered by presumptive scheme of taxation (eg. Sec 44AD, 44AE, 44ADA, 44B, 44BB, 44BBA of the Income-tax Act, 1961) :** It has been clarified that ICDS is applicable to persons having income chargeable under the head 'Profits or gains of business or profession' or 'Income from other sources'. Therefore the relevant ICDS shall also apply to persons computing income under the relevant presumptive taxation scheme.
- **Applicability to companies which adopted Ind-AS** : ICDS is applicable for computation of taxable income under the Income-tax Act, 1961 ('Act') irrespective of the accounting standards adopted by the companies i.e., either Accounting standards or IND-AS.
- **Whether applicable to computation under MAT and AMT** : As the provisions of ICDS are applicable for computation of income under the regular provisions of the Act, the

provisions **of ICDS shall not apply for computation of book profit under section 115JB of the Act.** However, as AMT is computed on adjusted total income derived by making specified adjustment to total income computed under regular provisions of the Act, the provisions of **ICDS will apply for computation of AMT.**

- ✓ **Applicability to Banks, Non-banking financial institutions, Insurance companies, Power sector etc :** The general provisions of ICDS shall **apply to all persons** unless there are sector specific provisions contained in the ICDS or the Act. (Example: ICDS VIII contains specific provisions for Banks or certain financial institutions and Schedule I of the Act contains specific provisions for Insurance business).
- ✓ **Applicability of ICDS to income liable to tax on gross basis :** The provisions of ICDS shall also be applicable for computation of income on gross basis (e.g. interest, royalty, fees for technical services under section 115A of the Act) for arriving at the amount chargeable to tax.
- ✓ **Conflict between the provisions of ICDS and Income Tax Rules, 1962 :** As ICDS provides for general principles for computation of income, in case of conflict between the provisions of the Rules and ICDS, the provisions of Rules which deal with specific circumstances, shall prevail (e.g. 9A, 9B etc.).

Presentation of computation of income after introduction of ICDS:

COMPUTATION OF TOTAL INCOME		
AS PER NORMAL PROVISIONS		
Net profit as per profit and loss account		XX
Add: Adjustment pertaining to ICDS	XX	
Less: Adjustment pertaining to ICDS	(XX)	XX
Net profit after giving effect to ICDS		**XX**
Add: Disallowables / Items considered separately under the Act	XX	
Less: Allowables / Items considered separately under the Act	(XX)	XX
Taxable Total Income		**XX**
Tax at normal rates (A)		**XX**
AS PER MINIMUM ALTERNATE TAX ('MAT') PROVISIONS		
Net profit as per profit and loss account		**XX**
Add: Additions as per section 115JB of the Act	XX	
Less: Reductions as per section 115JB of the Act	(XX)	XX
Book Profit as per section 115JB of the Act		**XX**
Tax at MAT rates (B)		**XX**
Tax payable (Higher of A or B)		**XX**

II. THE TEN STANDARDS

STANDARD	PARTICULARS	CORRESPONDING AS	CORRESPONDING IND-AS
ICDS I	Accounting Policies	AS-1& -5	IndAS-1 & -8
ICDS II	Valuation of Inventories	AS-2	IndAS-2
ICDS III	Construction Contracts	AS-7	IndAS-115
ICDS IV	Revenue Recognition	AS-9	IndAS-109
ICDS V	Tangible Fixed Assets	AS-10	IndAS-16
ICDS VI	Effects of Changes in Forex Rates	AS-11	IndAS-21
ICDS VII	Government Grants	AS-12	IndAS-20
ICDS VIII	Securities	AS-13	IndAS-109
ICDS IX	Borrowing Costs	AS-16	IndAS-23
ICDS X	Provisions, Contingent Liabilities & Contingent Assets	AS-29	IndAS-37

III. KEY AFFECTED AREAS – WHAT'S DIFFERENT ?

Summary of Significant Deviations created by ICDS –

- **ICDS I - Accounting Policies** (Versus AS-1 & 5)

⇒ ICDS recognizes three accounting concepts – going concern, consistency and accrual. But ICDS **does not recognize the concept of prudence**.

⇒ **Expected losses or mark-to-market losses shall not be recognized** unless permitted by any other ICDS.

⇒ **Accounting policies shall not be changed without a reasonable cause** whereas AS permits change if it is required by statute or for compliance of AS or if the change would result in a more appropriate presentation.

⇒ Further, *as per FAQ 8 dated 23rd March, 2017* issued by CBDT, **expected gains or mark to market gains** shall not be recognized unless permitted by any other ICDS and same principle as contained above **shall apply mutatis mutandis apply to MTM gain or an expected profit.**

- **ICDS II – Valuation of Inventories** (VersusAS-2)

⇒ As per ICDS II inventories are valued at inclusive of duties & taxes.Even Section 145A also says the same so now this ICDS is in line with section 145A.

⇒ **Method of valuation of inventory once adopted** by a taxpayer in any tax year shall **not be changed without a reasonable cause.**

⇒ Recording of inventory is **now required for service providers too.**

⇒ **According to ICDS, in case of dissolution of a partnership firm or association of person or body of individuals, *notwithstanding whether business is discontinued or not*, the inventory on the date of dissolution shall be valued at the *net realizable value*.**

⇒ ***Thus, following caselaws are overruled –***

- **Sakthi Trading Co. Vs CIT**
- **A. L. A. Firm Vs CIT**

- **ICDS III - Construction Contracts** (VersusAS-7)

⇒ ICDS III applies prospectively i.e new contracts after 1/04/2016.

⇒ Recognition of Retention money:

As *per FAQ 11 of circular*, "Retention money, being part of overall contract revenue, & shall be recognised as revenue subject to resonable certainity of its ultimate collection & condition contained in para 9 of ICDS III on construction contract . And the same shall not be covered under AS 7

⇒ **Once a contract crosses 25% of the completion stage, the revenue in respect of such contract shall be required to be recognized but the same is not the case currently under AS 7.**

⇒ **Losses incurred on a contract shall be allowed only in proportion to the stage of completion**. As per Committee, future or **anticipated losses shall not** be allowed, unless such losses are actually incurred.

⇒ **Thus, following caselaws are overruled by ICDS –**

- **CIT Vs Triveni Engineering & Industries Ltd**. also, **CIT Vs Advance Construction Co. Ltd.**

- **ICDS IV - Revenue Recognition** (VersusAS-9)

⇒ Revenue from service transactions shall be recognized by following '**percentage completion method**' alone. AS permits adoption of either 'completed service contract method' or'percentage completion method'.

⇒ Sale of goods shall be recognized **when all significant risks and rewards of ownership are transferred.** Claims for **escalation of price and export incentives can be postponed to theextent of uncertainty involved.**

⇒ **Interest** will be recognized on time basis, **dividend** as per provisions of the Act and **royalty** as per terms of the relevant agreement.

✹ **ICDS V - Tangible Fixed Assets**(VersusAS-10)

⇒ In case of **acquisition of an asset in exchange for another asset**, shares or other securities, **fair value of tangible fixed asset acquired shall be recorded as actual cost of the asset.**

⇒ AS 10 read with guidance note on Machinery for Spares, provides for charge to P/L, however spares to specific asset should be capitalised and shall form part of that Asset whereas **ICDS provides that machinery spares which can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, shall be capitalized.**

⇒ Existing AS **permits capitalization of foreign exchange difference along with the underlying asset** under certain circumstances. **ICDS reiterates the fact that capitalization of exchange difference** relating to fixed asset shall be in accordance with the Section 43A and other provisions of the Income Tax Act.

✹ **ICDS VI - Effects of Changes in ForexRates**(VersusAS-11)

⇒ ***Revenue monetary items (like trade receivables, payables, bank balance, etc.):*** As per AS 11 It should be Reported using the closing rate and exchange difference recognized in P/L A/c. ,the same treatement given in case of ICDS

⇒ ICDS provides that the exchange differences on translation of non-integral foreign operations to be recognized as an **income or expense as against accumulation in foreign currency translation reserve** in Balance Sheet as prescribed under AS.

⇒ ***Capital monetary items – relating to Non Imported assets:*** Option of capitalization as per Para 46 & 46A of AS -11, exchange differences arising in case of long-term foreign currency monetary items shall be either adjusted to capital asset or accumulated in Foreign Currency Monetary Item Translation Difference Account (FCMITDA) whereas in ICDS No such option will be available.

✹ **ICDS VII Government Grants**(VersusAS-12)

⇒ Grant should be recognized On reasonable assurance of compliance of attached conditions and reasonable certainty of ultimate collection, Mere receipt is **not sufficient However, ICDS goes one step further stating that Recognition cannot be postponed beyond date of actual receipt**

⇒ ICDS **does not permit the capital approach for recording of government grants**. Therefore, Government grants should **either be treated as revenue receipt or should be reduced from the cost of fixed assets** based on the purpose for which such grant or subsidy is given.

✹ **ICDS VIII – Securities**(VersusAS-13)

⇒ Since ICDS deals with computation of income under Business or Other Sources heads, **ICDS only deals with securities held as stock-in-trade**.

⇒ Securities should be **valued at lower of cost or net realizable value (NRV)**. Comparison of cost and NRV shall be done **category-wise (and not for each individual security)**, for which securities shall be classified into the following categories: (a) Shares (b) Debt securities (c) Convertible securities (d) Any other securities not covered above.

⇒ **Unlisted or thinly traded securities shall be valued at cost.**

⇒ In case of acquisition of securities in exchange for issue of shares or other securities, **fair value of shares or securities acquired shall be recorded as actual cost of the securities.**

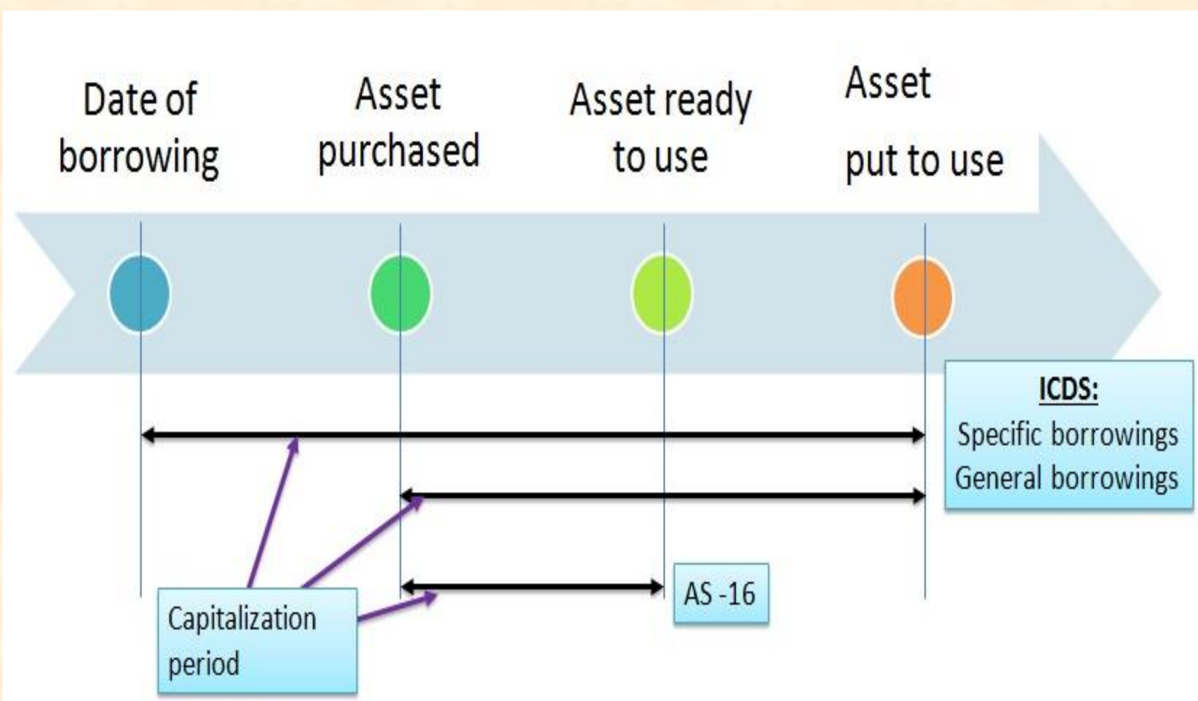
✹ ICDS IX -Borrowing Costs(VersusAS-16)

⇒ Borrowing cost **will not include exchange differences arising from foreign currency borrowings**, whereas AS includes such differences to the extent that they are regarded as anadjustment to interest costs.

⇒ Unlike AS 16, ICDS **does not define any minimum period for classification of an asset as a qualifying asset** (with the exception of inventories). Borrowing Cost may need to be capitalized even if an asset does not take substantial period of time to construct.

⇒ ICDS has prescribed **a new formula for capitalization of borrowing cost on general borrowings** which involves allocating the total general borrowing cost incurred in the ratio ofaverage cost of qualifying asset on the first day and last day of the previous year and the average cost of total asset on the first and last day of the previous year, except assetsfunded from specific borrowings.

⇒ **Capitalization** of "Specific Borrowing" and "General Borrowing" as per ICDS IX are as describe below



- **ICDS X - Provisions, Contingent Liabilities &Contingent Assets**(Versus AS-29)

  ⇒ A provision can be recognized when it is **"reasonably certain" that an outflow of economic resources** will be required to settle an obligation As against condition of "probable" under AS.

  ⇒ A contingent asset can be recognized when the **realization of related income is "reasonably certain"** as against condition of "virtual certainty" under AS.

DISCLOSURE REQUIREMENTS

- ✓ Net effect on the income due to application of ICDS is to be disclosed in the Return of Income as well as under **clause 13(e) of Form 3CD.**
- ✓ The disclosure required under ICDS shall be made under **clause 13(f) of Form 3CD.**
- ✓ However, there shall **not be any separate disclosure** requirements for the **persons who are not liable to tax audit.**

WINGS OF HOPE OR DOOMSDAY DESPAIR

In my opinion –

- ✓ The **taxable income now might be visibly delinked from the accounting income** as both will be computed underdifferent set of standards and principles.
- ✓ **ICDS has been drafted keeping the existing AS as abase.** There are significant differences between IndAS and existing AS. With Indian companies moving into IndAS in phases from 1 April 2015 onwards, **there would be additional adjustments required to be made** to the accounting profit calculated using Ind-AS to arrive at the taxable income as per the Act.
- ✓ ICDS has **not adequately addressed certain areas** such as financial instruments, share-based payments, etc.,which are quite prevalent in today's business environment.
- ✓ Some of the **judicial pronouncements which were in favour of the assessees** might no longer be operative.
- ✓ While standard setters **have clarified that additional set of books of accounts will not be required for ICDS**, however, the differences between the two standards may give rise to additional computations and reconciliations, which inessence **could result in the need for maintaining additional set of records** especially for large and multi-location companies.

MAHAK DHIRAWAT

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Income Computation and Disclosure Standards: An impact analysis

Background:

Finance Act, 1995 empowered the central government to notify **Tax Accounting Standards (TAS)** under Income Tax Act, In 1996 CG notified two TAS under section 145(2) of Income Tax Act which was in existence from 1st April 1997. After that in 2002, CG constituted a committee for drafting further TAS. In 2010 CG constituted new committee to suggest Tax standards, As a result CG published 14 standards for public comments.

In 2014, section 145(2) was amended and the word Tax standard was substituted with **"Income computation and disclosure standards"** and published 12 standards, out of which 10 standards were notified by government on 31st March, 2015. ICDS are issued with the aim of bringing uniformity in accounting policies governing computation of income in accordance with tax related provisions. The government specified a deferment of one year from the date of implementation of these standards; the notified ICDS will be applicable from the financial year 2016-17.

ICDS related to **"Intangible assets" & "Lease"** is yet to notify. Further in March, 2017 CG has issued clarification on ICDS for guidance to public by way of FAQs. In May, 2017 CG has issued draft ICDS related to **"Real Estate Transactions"** for public comment which is expected to be notify in future.

Preamble:

ICDS is applicable for computation of Income chargeable under the heads of "Business & Profession" and "Income from other source". These standards, are applicable to assessee **following mercantile accounting** system, **except** Individual or HUF, who is not required to get his accounts audited in accordance with provisions of section 44AB.

As objective of ICDS is to bring uniformity in computation of income of all tax payers, so this standards are applicable for computation of income, and are not for maintenance of books of accounts.

ICDS are notified by CG by way of notification is **delegated legislation** so it can't override the act so Act should prevail to the extent. So, In case of conflict between the provision of Income Tax Act, 1961 and this ICDS, provision of Act shall prevail to the extent. However, In case of conflict between ICDS and **Judicial pronouncement**, provisions of ICDS shall be applicable to the transactional issue dealt therein in relation to A.Y. 2017-18 and subsequent A.Y.

Summary of significant deviations of ICDS from ICAI AS

ICDS	Equivalent AS	Deviation From AS	Impact
ICDS: 1 – Accounting Policies	AS:1 – Disclosure of Accounting Policies	a) ICDS consider three accounting concepts – going concern, consistency and accrual. But ICDS does not consider the concept of prudence. b) Expected losses or mark-to-market losses shall not be recognized unless permitted by any other ICDS. c) Accounting policies shall not be changed without a reasonable cause.	a) According to the prudence or conservatism expected losses should be recognized immediately but ICDS do not permit this. Treatment of transactions and events are governed by substance not merely by legal form. b) Expected gains and MTM gains should also be treated mutatis mutandis. c) AS permits change in accounting policies if it is required by statute or for compliance of AS or if the change would result in a more appropriate presentation.
ICDS: 2 – Valuation of Inventories	AS:2 – Valuation of Inventories	a) According to the principle of ICDS that the value of inventory of a business as on the beginning of a tax year shall be the same as the value of inventory at the end of the immediately preceding tax year. Similarly, cost of inventory, if any, on the day of commencement of business will be opening inventory where business has commenced during the relevant tax year. b) ICDS requires valuation of inventory as well as services at cost or net realizable value, whichever is lower. Service cost includes labour and other costs of personnel directly engaged in providing service including	a) ICDS has specially provided valuation method for services, however there is no method specified in accounting standards. So in case of service provider entities valuation of services should be valued at cost or NRV whichever is lower. b) Method of valuation of inventory once adopted by a taxpayer in any tax year shall not be changed without a reasonable cause.

		supervisory personnel and attributable overheads. c) Inventory on the date of dissolution of a partnership firm, association of persons and body of individuals shall be valued at net realizable value regardless of whether business is discontinued or not.	
ICDS: 3 – Construction Contract	AS: 7 – Construction Contract	a) **Retention money** shall be included in contract revenue on percentage completion basis. b) Pre-construction income such as interest, dividend and capital gain should not be deducted from contract cost. c) Once a contract crosses 25% of the completion stage, the revenue in respect of such contract shall be required to be recognized on percentage completion basis.	a) Retention money will be part of contract revenue and will be taxable on percentage completion basis. b) Any receipt of income like interest, dividend from non-construction activity should not be deducted from cost of contract, however it should be disclosed and taxed separately in computation of income.
ICDS: 4 – Revenue Recognition	AS: 9 – Revenue Recognition	a) Sale of goods shall be recognized when all significant risks and rewards of ownership are transferred. Claims for escalation of price and export incentives can be postponed to the extent of uncertainty involved. b) Revenue from service transactions shall be recognized by following "percentage completion method alone. c) Duty credit entitlement received by exporter from government (as a percentage of foreign exchange earned In previous financial year) to	a) In case on service provider entities, AS permits adoption of either "Percentage completion method" or "Completed service contract method". Moreover disclosure of service in process should also be disclosed and necessary adjustment to computation should be given. b) Duty Drawback is considered as government grant, so it should be treated as per the provision of ICDS VII.

Together We Can

		be treated as REVENUE GRANT and taxable as income in accordance with provisions of ICDS VII.	
ICDS:5 – Tangible Fixed Assets	AS: 10 – Property, Plant and equipment	a) In case of acquisition of an asset in exchange for another asset, shares or other securities, fair value of tangible fixed asset acquired shall be recorded as actual cost of the asset. b) Income arising on transfer of a tangible fixed asset and depreciation shall be computed in accordance with the provisions of the Income Tax Laws.	a) In case where assets have been purchased by transfer shares or other securities, addition to that block of fixed assets will be fair value of shares, securities or assets transferred.
ICDS:6 – Effect of change in foreign exchange rates	AS: 11 – The effect of change in foreign exchange rates	c) All gains or losses on forward exchange or similar contracts entered into for trading or speculation contracts shall be recognized only on settlement. d) On last date of financial year, monetary items should be converted by applying closing rate, and exchange difference should be recognize as income or expense in previous year. However, in case of non-monetary items exchange difference should not be recognized as income or expenses.	a) In recognition of forward exchange Contract intended for trading and speculation purpose, exchange differences on such contracts should not be recognize on MTM basis. b) Any income or expenses arising from conversion of foreign currency should be recognize subject to provisions of section 43A of Income Tax Act or rile 115 of Income Tax Rule, as the case may be.
ICDS: 7 – Government Grant	AS: 12 Government Grant	a) Government grants should either be treated as revenue receipt or should be reduced from the cost of fixed assets based on the purpose for which such grant or subsidy is given.	a) ICDS does not permits the capital approach for recording government grant. No option is given to recognize grant as deferred income.

		b) Recognition of Government grants shall not be postponed beyond the date of actual receipt.	b) ICDS VII deals with treatment of government grant, where government grants are sometimes called as other name such as subsidies, cash incentives, Duty drawback etc.'
ICDS: 8 - Securities	AS: 13 Accounting for Investments	a) This ICDS only deals with securities held as stock in trade. b) Securities id to be valued as cost or NRV whichever is lower (Category-wise). Category specified in ICDS is Shares, Debt Securities, Convertible Securities and others. c) In case of securities are acquired by exchange of other securities or assets; cost of acquisition of new security will be fair value of assets transferred or given.	c) Valuation of securities is to be done category wise i.e. lower of cost or NRV of each category should be taken as cost of securities and necessary adjustment to computation should be given. d) Where cost of securities is unable to ascertain than FIFO method should applied in valuation of securities. Moreover in case of unlisted securities where NRV cannot be ascertainable then cost of such securities should be taken.
ICDS: 9 – Borrowing Cost	AS: 16 – Borrowing Cost	a) Income on temporary investments of borrowed funds cannot be reduced from borrowing costs eligible for capitalization in ICDS. Moreover, borrowing cost will not include exchange differences arising from foreign currency borrowings. b) ICDS Retains substantial period conditions only for qualifying assets in nature of inventories. However, there is no criteria for qualification defined for tangible and intangible assets. c) A normative pro-ration formula is provided for capitalizing borrowing costs	a) Income in temporary nature i.e. interest, dividend earned from borrowed fund should be disclosed and taxed individually in computation of income. b) In respect to tangible and intangible assets, borrowing cost are allowed for capitalization irrespective of substantial period defined in AS. c) In respect to capitalization of general grant, specific formulae has been given in ICDS where total borrowing cost is capitalized on basis of ratio of average cost of qualifying assets to the total

		relating to general borrowings. d) Capitalization of specific borrowing cost shall commence from date of borrowing.	cost of all assets in the balance sheet of assesse. d) Commencement of capitalization begins from the date of borrowing, however according to AS commencement of capitalization is subject to conditions i.e. incurrence of capital expenditure, incurrence of borrowing costs and preparatory activities being in progress.
ICDS: 10 – Provisions, Contingent Liabilities and Contingent Assets	AS: 29 - Provisions, Contingent Liabilities and Contingent Assets	a) A provision can be recognized when it is "reasonably certain" that an outflow of economic resources will be required to settle an obligation. b) A contingent asset can be recognized when the realization of related income is "reasonably certain"	a) As against ICDS, AS permits recognition of provisions if it is "probable" and contingent assets if it is "virtually certain". b) A provision shall be used only for expenditures for which the provision was originally recognized.

Reporting of ICDS:

1. Adjustments under ICDS:

Application of ICDS would result into adjustments to total income in computation of income of assessee, and the same adjustments either addition/deduction should be given prior to adjustments as per IT Act.

Where to give these adjustments as per ICDS?

Adjustments related to ICDS is to be given in "Schedule ICDS" in ITR Form and whose net effects on income is to be given in "Part-A OI" (Schedule OI is not compulsory for assesses not liable for audit u/s 44AB).

Additionally, Adjustments of ICDS must have been shown in **"PT. 13(E) of Form 3CD".**

2. Disclosure under ICDS:

Income Computation and Disclosure Standards is clear from its name itself that it requires adjustments to computation of income as well as disclosure for computing income. In each ICDS, Disclosure for ICDS should be given except for ICDS-VI & ICDS-VIII, which requires adjustments to Income only.

There is no part given in ITR Forms for disclosure of ICDS. However, Disclosure for ICDS should disclosed in **"PT. 13(F) of Form 3CD", in following manner:**

ICDS	Disclosure
ICDS:1 – Accounting Policies	a) All significant accounting policies adopted by assesse. b) Any change in accounting policy with material effect, if any.
ICDS:2 – Valuation of Inventory	a) The accounting policies adopted in in valuation of inventory including cost formulae used. b) The total carrying amount of inventory and its classification.
ICDS:3 – Construction Contract	a) The total contract revenue recognized during the year including method used to determine stage of completion. b) The contract in process on balance sheet date with cost recognized till date. Amount of advances and retention money.
ICDS:4 – Revenue recognition	a) Transaction involving sale of good, total amount not recognized as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty. b) The amount of revenue from service transactions recognized as revenue during the previous year along with method used in determination of stage of completion and service in process at year end.
ICDS: 5 – Tangible Fixed Assets	a) The disclosure require under this ICDS is same as Pt. 18 of Form 3CD, so we can give reference to Pt. 18 in Pt.13(F) of 3CD.
ICDS:7 – Government Grant	a) Nature and extend of grant recognized during the previous year by way of deduction from actual cost and not recognized by way of deduction from actual cost. b) Total grant recognized during the year as Income and not recognized as income.
ICDS:9 – Borrowing Cost	a) The accounting policies adopted for borrowing cost; and b) The amount of borrowing cost capitalized during the previous year.
ICDS: 10 – Provisions, Contingent Liability & Assets	a) A brief description of the nature of the provisions and assets including their opening balance; addition during the year; provisions utilized during the year and balance at the end of previous year.

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WRO-0591133

Overview:-

- The Government of India in consultation with the ICAI decided to converge and not to adopt International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The decision of convergence rather than adoption was taken after the detailed analysis of IFRS requirements and extensive discussion with various stakeholders. Accordingly, while formulating IFRS-converged Indian Accounting Standards (IND AS), efforts have been made to keep these standards, as far as possible, in line with the corresponding IAS/IFRS and departures have been made where considered absolutely essential.

- Various steps have been taken to facilitate the implementation of IFRS-converged Indian Accounting Standards (IND AS). Moving in this direction, the Ministry Of Corporate Affairs has issued the Companies (Indian accounting standards) rules, 2015 vide notification dated February 16, 2015 covering the revised roadmap of implementation of IND AS for companies other than banking companies, insurance companies and NBFCs. As per the notification, Indian Accounting Standards (IND AS) converged with International Financial Reporting Standards (IFRS) shall be implemented on voluntary basis from 1st April, 2015 and mandatorily from 1st April, 2016. Further, the MCA on March 30, 2016, has also notified the roadmap for implementation of IND AS for scheduled commercial banks, insurance companies and NBFCs from 1st April, 2018 onwards and also amendments to IND AS in line with the amendments made in IFRS/IAS vide Companies (Indian accounting standards) amendment rules, 2016.

Applicability:-

- **Voluntary Adoption**
  - Companies can voluntarily adopt IND AS for accounting periods beginning on or after 1st April, 2015 with comparatives for period ending 31st march, 2015 or thereafter. However, once they have chosen this path, they cannot switch back.
- **Mandatory Applicability**

1. **PHASE I:-** IND AS will be mandatorily applicable to the following companies for periods beginning on or after 1stapril 2016, with comparatives for the period ending 31 march 2016 or thereafter:
   - Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of 500 crores INR or more.
   - Unlisted companies having net worth of 500 crores INR or more.
   - Holding, subsidiary, joint venture or associate companies of companies covered above.
2. **PHASE II:-** IND AS will be mandatorily applicable to the following companies for periods beginning on or after 1stapril 2017, with comparatives for the period ending 31 march 2017 or thereafter:
   - Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than rupees 500 crores.
   - Unlisted companies other than those covered in phase I and phase II whose net worth are more than 250 crores INR but less than 500 crores INR.
   - Holding, subsidiary, joint venture or associate companies of above companies.

Note:-Once a company starts following Indian accounting standards on the basis of specified criteria, it shall be required to follow such standards for all the subsequent financial statements even if any of the criteria specified in this rule does not subsequently apply to it.

Impact on companies:-

- It will impact how key financials such as revenue, operating profit, net profit, book value, goodwill, and return on equity will be computed. For instance, under the existing rules, sales are calculated after deducting excise duty. Under the new norms, excise duty will be treated as a tax on manufacturing activity. Hence, it should be a part of revenue. This will increase the revenue of companies, but depress operating margin. However, EPS will remain unchanged.

Major impacting sector:-

- Revenue recognition
- Depreciation and amortization adjustments
- Taxes
- Financial instruments
- Leases

Revenue recognition:-

- Under IND AS, revenue arising from the sale of goods is recognized when an entity transfers the ownership or control, if economic benefits are likely to flow to the entity and the amount of revenue and costs can be measured reliably.

- Revenue from the rendering of services is recognized when the outcome of the transaction can be estimated reliably. This is done by reference to the stage of completion of the transaction at the balance sheet date, using requirements similar to those for construction contracts. The outcome of a transaction can be estimated reliably when the amount of revenue can be measured reliably, it is probable that economic benefits will flow to the entity; the stage of completion can be measured reliably; and the costs incurred and costs to complete can be reliably measured.

Depreciation and amortization Adjustments:-

Some of the key reasons for adjustments noted in this area were:

- Under INDIAN GAAP, there is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years, whereas under IND AS, the life of intangible asset can be finite or indefinite.
- Some companies have not availed of the exemption of using previous INDIAN GAAP cost as deemed cost of tangible and intangible assets. They have opted to use fair value as the carrying value of such assets at the transition date, resulting in an impact on depreciation and amortization.
- Change in the method for depreciation from full cost method (FCM) to successful efforts method (SEM).

Taxes:-

- Under IND AS, deferred taxes are recorded based on the temporary difference as opposed to timing differences under INDIAN GAAP. This approach under IND AS is broader and results in deferred taxes on more items, and also additional deferred taxes on some items. Moreover, the lower recognition threshold under IND AS compared to the virtual certainty supported by convincing evidence presently required to recognize deferred tax assets on carried forward losses under INDIAN GAAP has also resulted in the reporting of increased deferred tax assets/tax credits under IND AS.

❖ Financial instruments:-

➢ Under INDIAN GAAP, investments are classified as current or long-term. Current investments are carried at lower of cost and fair value, whereas long-term investments are carried at cost less impairment, if any. IND AS significantly changes this where except for certain debt instruments, financial assets are recorded at fair value. Under IND AS, investments in equity instruments held for trading will always be measured at Fair Value. For all other equities, the management has the ability to make an irrevocable election on the initial recognition on an instrument-by-instrument basis, to present the changes in fair value in other comprehensive income (OCI) rather than Profit or Loss. If this election is made, all fair value changes, excluding dividends that are return on investment, will be included in OCI. There will be no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity.

❖ Leases (including embedded leases):-

➢ Under IND AS, escalation of operating lease rentals which is in line with the expected general inflation so as to compensate the lessor for expected inflationary cost is not recognized as expense on a straight-line basis. This is also a difference between IND AS and IFRS.

➢ Recognition of arrangements that may not have been legally termed as leases but in substance are right to use underlying assets have been accounted as embedded leases under IND AS. INDIAN GAAP does not include such guidance.

Fundamental difference between existing and new standards:-

- The new accounting standards recognize substance over form and importance of the fair value to compute financial statements. This means accurate reporting will gain importance over just complying with legal provisions and it should reflect the most current picture of financials.

Conclusion:-

- The transition to IND AS has an organization wide impact, and not just accounting. Companies need to plan in advance and invest time. Given the pervasive nature of the impact of these new standards, in addition to the financial reporting impacts, companies will also have to access impact on other stakeholders such as investors and analysts. Companies would also have to determine the impact of the standards on areas such as tax planning, incentive plan, funding, etc. This would also require changes to systems and processes including, sales and contracting processes, IT systems, internal controls, etc.

SNEHA GANDHI

ANA AND ASSOCIATES

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CRO-0552039

Income Computation and Disclosure Standards (ICDS) were issued by the Government of India in exercise of powers conferred to it under section 145(2) of The Income Tax Act, 1961.

ICDS were issued with the aim of bringing uniformity in accounting policies governing computation of income in accordance with tax related provisions, and also reducing the irregularities amongst them. The ICDS were developed using Generally Accepted Accounting Principles (GAAPs) with assistance from the Institute of Chartered Accountants of India.

The Form 3CD (Tax Audit Report) is already been revised for making mandatory disclosures in compliance with ICDS.

CBDT's CLARIFICATION ON ICDS:-

Sub Section (1) of Section 145 of the income tax Act,1961 (the act) provides that the income chargeable under the head " Profits and Gains of business or profession" or "income from other sources" shall, subject to the provision of sub section (2),be computed in accordance with either cash or mercantile system of accounting regularly employed by the assesses. Sub-Section (2) of section 145 provides that the Central Government may notify Income Computation and Disclosures Standards (ICDS) for any class of assessee or for any class of income accordingly, the Central Government notified 10 ICDS vide Notification No.SO892 (E) dated 31st March, 2015 w.e.f .AY 2016-2017.

After Notification of ICDS it has been brought to the notice of the Central Board of Direct Taxes {the Board} by the stakeholders that certain provision of ICDS may require amendments/clarifications for proper implementation. The matter was referred to an expert committee.

The committee after consulting stakeholders in this regard has recommend a twofold approach for the smooth implementation of ICDS, they are as under;-

1 amendment to the provision of ICDS in respect of certain issues
2 issuance of clarification by way of FAQ's for rest of the issues.

Accordingly, vide Notification No. 87 dated 29th September, 2016 Central Government notified amended ICDS w.e.f .the A.Y.2017-18.

Further the issues require clarification has been considered by the Board.

Now moving forward in this direction let us discuss the applicability of ICDS.

<u>APPLICABILITY OF ICDS;-</u>

The notified ICDS shall come into force w.e.f.1st day of April2016, and shall apply to the A.Y.2017-18 and subsequent Assessment years.

ICDS applicable to assesses following mercantile system of accounting:-

The income computation and Disclosure standards are required to be followed by all assesses following the mercantile system of accounting

For the purpose of computation of income chargeable to income tax under the head "profit and gains of business or profession "or "Income from other source". **Thus ICDS shall not apply to assesses following cash system of accounting.**

After understanding applicability criteria, a question arises whether these ICDSs will apply to assessees covered under presumptive taxation under section 44 AD, 44ADA, and 44AE?

The Income computation and disclosure standards are required **"to be followed by all assessees, following the mercantile system of accounting".** The assesses opting for presumptive taxation are not required to maintain any accounts .so they can't said to be following any system of accounting whether mercantile or cash, So it appears that these ICDS shall not apply to computation of income under the head "profit and gains of business or profession" under section 44AD,44ADA,and 44AE. In any case, assessees {being individuals and HUfs}opting presumptive taxation are not liable to get their accounts audited under section 44 AB and would be out of the ambit of tax audit and hence exempt complying with ICDSs.

A very common doubt prevailing w.r.t ICDS is that whether it is applicable to Banks, Non-Banking Financial Institution, Insurance companies, power sector etc.

The general provision of ICDS shall apply to all persons unless there is sector specific provision contained in the ICDS or the Act, for example, ICDS VIII contains specific provision for banks and certain financial institution and Schedule I of the Act contains specific provision for insurance business.

What happens when there is any conflict of ICDS with Provision of Act:-

The preamble of every ICDS provides that, in case of conflict between the provisions of the Income Tax Act, 1961'the Act' and this Income Computation and Disclosure Standards, the provision of the Act shall prevail to that extent.

An issue which requires clarifications has been considered by Board and following clarifications are issued by the Board:-

1. Is there is any Interplay between ICDS and maintenance of books of account?

- ICDS is not meant for maintenance of books of accounts or preparing financial statements. Person is required to maintain books of a/c and prepare financial statement as per accounting policy applicable to them.

2. Do judicial precedents prevail over ICDS?

- ICDS have been notified after due deliberation and after examining judicial views for bringing certainty on the issues covered by it. Certain judicial pronouncements were pronounced in the absence of authoritative guidance on these issues under the Act for computing income under the head PGBP or IFOS. Since certainty is now provided by notifying ICDS u/s 145(2). The provision of ICDS shall be applicable to the transactional issues dealt there in relation to AY 2017-18 and subsequent AY's.

3. How is ICDS applicable to companies which adopted Ind-AS?

- ICDS shall apply for computation of taxable income under the head PGBP or IFOS under the IT Act. This is irrespective of accounting standard adopted by companies i.e. either AS or Ind –AS.

4. Whether ICDS shall apply to computation of MAT u/s115JB of the Act or AMT u/s 115JC?

- MAT u/s115JB is computed on the book profit i.e. Net Profit as shown in the P/L account prepared under the Companies Act subject to certain specified adjustments. Since the provision of ICDS are applicable for computation of income under the regular provision of the Act, the provision of the ICDS shall not apply for computation of MAT.

  AMT u/s 115JC of the Act computed on adjusted total Income is derived by making specific adjustment to total income computed as per regular provision of the Act, the provision of the ICDS shall apply for computation of AMT.

5. Whether Bill discounting charges and other similar charges would fall under the definition of borrowing cost?

- The definition of borrowing cost is an inclusive definition. Bill discounting and other similar charges are covered as borrowing cost.

6. Whether the tax player is obliged to account for taxation of interest, royalty, dividend even when the collection is uncertain?

➢ As a principle, Interest accrues on time basis and royalty accrues on basis of contractual terms. Subsequent non-recovery in either case can be claimed as deduction in view of amendment to sec 36(1) (vii). Further, the provisions of the Act shall prevail over the provisions of ICDS.

7. Whether ICDS is applicable to revenues which are liable to tax on gross basis like interest, royalty and fees for technical services for non-residents u/s 115A of the Act?

➢ Yes, the provision of ICDS shall apply for computation of these incomes on gross basis for arriving at the amount chargeable to tax.

Pictograph 1 : Revision Test Series on IDT for students of November'17 attempt

Pictograph 2 : Seminar on Tax Audit and ICDS by CA Mehul Thakkar Sir

Pictograph 3 : Students of WICASA participated in Live Talk Show with Shri Amit Shah, BJP President and discussed problems pertaining to CA students

Pictograph 4 : Students of WICASA along with WICASA managing committee participated in Residential Refreshment Course (RRC) at Abu Road

Pictograph 5 : Glimpses of Dandiya Beats (Garba Night) on 30th September'17

"સફર"

પોતાના પર જ હવે હસતાં શીખી લીધું છે મેં,
જિંદગીસંગ પ્રશ્નોત્તરી કરતાં શીખી લીધું છે મેં.

નથી મળતી ખુશી હર વખત ભીડમાંથી,
તેથી જ એકલતા સંગ રમતાં શીખી લીધું છે મેં.

દરરોજની મુલાકાતમાં ન મળ્યો મિલનનો પ્રેમ,
માણસના હૈયામાં જ વસતાં શીખી લીધું છે મેં.

ખુદની હાજરી ડંખે છે ખુદને જે સભાઓમાં,
વખતસર ત્યાંથી ખસતાં શીખી લીધું છે મેં.

એણે ભલેને નથી માગ્યા જવાબ કર્મોના કિન્તુ;
ખુદાથી નહિ ખુદથી ડરતાં શીખી લીધું છે મેં.

સફરે છું જયારે જિંદગીની રાહ ખોળવાની 'પક્ષ',
ખોટી દિશાએથી પાછા ફરતાં શીખી લીધું છે મેં.

-પક્ષાલ પટેલ 'પક્ષ'

The Institute of Chartered Accountants of India
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