Income Computation and Disclosure Standards (ICDS)

Lakshit Desai

21 May 2016

Agenda

- Analysis of ICDS I to V
- Key takeaways
- Questions

ICDS analysis

ICDS I to V

I	Accounting policies
II	Valuation of inventories
III	Construction contracts
IV	Revenue recognition
V	Tangible fixed assets

ICDS I:
Accounting Policies

ICDS I – Accounting Policies

Highlights

- **Accounting assumptions**
  - Going concern;
  - Consistency; and
  - Accrual
- **Accounting policies**
  - Treatment and presentation to be **governed by substance** and not merely by legal form
  - **Mark-to-market (MTM) or expected loss shall not be recognized** unless provided by other ICDS
  - **Materiality and prudence are absent** as considerations for selection of accounting policies
- **Accounting policy can be changed** if there is **reasonable cause** to do so

ICDS I – Accounting Policies

Disclosures

Particulars
• All significant accounting policies adopted by the tax payer • Any change in an accounting policy which has a material effect along with the amount by which any item is affected • Where such amount is not ascertainable, wholly or in part, the fact shall be indicated • Change in accounting policies having no material effect for the current year but is reasonably expected to have a material effect in later years, the fact of such change shall be appropriately disclosed in the year of change and the year in which it has material effect for the first time • If any fundamental accounting assumption is not followed, the fact shall be disclosed

ICDS I – Accounting Policies

Key differences between AS and ICDS

Particulars	AS - 1	ICDS
Prudence (a consideration governing the selection and application of accounting policies)	In view of the uncertainty attached to future events, profits are not anticipated but recognised only when realised though not necessarily in cash. Provision is made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information	Not included in the considerations for selection and change of accounting policies
Materiality (a consideration governing the selection and application of accounting policies)	Financial statements should disclose all "material" items, i.e. items the knowledge of which might influence the decisions of the user of the financial statements	Not included in the considerations for selection and change of accounting policies

ICDS I – Accounting Policies

Key differences between AS and ICDS

Particulars	AS - 1	ICDS
Marked to market or expected loss	-	Shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other ICDS
Change in accounting policy	Only if it is required by statute or for compliance with an AS or if it is considered that the change would result in a more appropriate presentation of the financial statements	Shall not be allowed without reasonable cause

ICDS I – Accounting Policies

Key differences between AS and ICDS

Particulars	AS - 1	ICDS
Disclosure of accounting policies	• If a change is made in the accounting policies which has no material effect on the financial statements for the current period but which is reasonably expected to have a material effect in later periods, the fact of such change should be appropriately disclosed in the period in which the change is adopted	• If a change is made in the accounting policies which has no material effect for the current year but which is reasonably expected to have a material effect in later ears periods, the fact of such change should be appropriately disclosed in the year in which the change is adopted and also in the year in which such change has material effect for the first time

Erstwhile tax AS in line with AS

ICDS I – Accounting Policies

Impact on MTM losses

MTM / expected losses recognised in other ICDS

- Inventory
- Foreign exchange differences
- Securities held as stock-in-trade
- Creation of provisions based on “reasonable certainty”

Recognition of loss at a later point in time as compared to accounts

ICDS I – Accounting Policies
Key questions

- **Absence of materiality and prudence** as considerations for selection of accounting policies. **Tax impact?**
- ICDS silent on MTM gain
- Meaning of “expected loss”?
- Meaning of “reasonable cause”?

ICDS II:
Valuation of Inventories

AS 2 – Valuation of Inventories

Highlights

Particulars	ICAI AS 2
Definition of inventories	Inventories are assets: • held for sale in the ordinary course of business (finished goods); • in the process of production for such sale (work in progress); or • in the form of materials or supplies to be consumed in the production process or in the rendering of services (stores, spares and raw material)
Measurement	Inventories should be valued at the **lower of Cost and Net Realisable Value (NRV)**
Cost of inventories	To comprise: • Costs of purchase; • Costs of conversion; and • Other costs incurred in bringing the inventories to their present location and condition **(excluding interest and other borrowing costs)**. Exclusions : Abnormal costs, storage costs, administrative overheads, selling and distribution costs

AS 2 –Valuation of Inventories

Highlights

Particulars	ICAI AS 2
Cost of purchase	Consists of: • Purchase price including **duties and taxes (other than those subsequently recoverable from the authorities)**; • Freight inwards; and • Other expenditure directly attributable to the acquisition.
Not applicable to	• Work in progress arising under construction contracts including directly related service contracts • **Work in progress arising in ordinary course of business of service providers** • Shares, debentures and other financial instruments held as stock in trade • Producers inventories to the extent that they are measured at net realizable value as per well established industry practices Eg. Livestock, mineral oils, etc.

AS 2 –Valuation of Inventories

Cost formulas / techniques

- Specific Identification Method
- First in First out
- Weighted average cost
- Standard Cost
- Retail Method

AS 2 – Valuation of Inventories

Disclosures

Particulars
• The accounting policies adopted in measuring inventories including the cost formula used; and • The total carrying amount of inventories and its classification appropriate to the enterprise (i.e. raw materials and components, work in progress, finished goods, stores and spares, and loose tools).

ICDS II – Valuation of Inventories

Highlights

Particulars	ICDS II
Definition of Inventories	Inventories are assets: • held for sale in the ordinary course of business; • in the process of production for such sale; • in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Measurement	Inventories to be valued at **cost or NRV whichever is lower**
Cost of inventories	To comprise: • Costs of purchase; • **Costs of services**; • Costs of conversion; and • Other costs incurred in bringing the inventories to their present location and condition **(including interest and other borrowing costs if they meet recognition criteria under ICDS-IX)** Exclusions : In line with AS-2
Cost of purchase	To consist of: • Purchase price **including duties and taxes;** • Freight inwards; and • Other expenditure directly attributable to the acquisition

ICDS II – Valuation of Inventories

Highlights

Particulars	ICDS II
Cost of services (in case of a service provider)	To consist of: • Labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads
Valuation of opening inventory	• Cost on the day of commencement of business (when business has commenced during the year); and • Value of inventory as on the close of the immediately preceding year, in any other case.
Others	• Work in progress (WIP) of service providers not excluded from scope • Inventory in case of **certain dissolutions** to be valued at NRV notwithstanding whether business is discontinued or not

ICDS II – Valuation of Inventories

Cost formulas / techniques

- Specific Identification Method
  - for goods that are not interchangeable and are meant for specific projects
- First in First out
- Weighted average cost
- ~~Standard Cost~~
- Retail Method
  - for retail trader where it is impracticable to use any of the above methods

Method of valuation not to be changed without reasonable cause

ICDS II – Valuation of Inventories

Disclosures

Particulars
• 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

ICDS II – Valuation of Inventories

Key departures from AS

Issue	AS 2	ICDS II
Specific exclusions	Does not apply to WIP arising in the ordinary course of business of service providers	ICDS II does not cover the said exclusion
Cost of inventory	Does not include : • costs of services • duties and taxes subsequently recoverable from tax authorities • Interest / other borrowing costs	Includes : • costs of services • duties and taxes even if subsequently recoverable from tax authorities • Interest / other borrowing costs (if meets recognition criteria a per ICDS-IX)
Techniques for measurement of cost	Recognises "standard costing" as a technique for measurement of cost	Does not recognise 'standard costing' as a technique for measurement of costs
Value of opening inventory	AS is silent	Mechanism for valuing the opening inventory specifically provided in ICDS II
Valuation in case of certain dissolutions	As is silent	At NRV whether or not the business is continued

Section 145A of the Income Tax Act, 1961

Method of accounting in certain cases

Notwithstanding anything to the contrary contained in section 145,—

the valuation *of purchase and sale of goods and* ***inventory for the purposes of determining the income chargeable*** *under the head "Profits and gains of business or profession" shall be—*

(i) in accordance with ***the method of accounting regularly employed by the assessee;*** *and*

(ii) further adjusted ***to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods to the place of its location and condition as on the date of valuation.***

Explanation.—For the purposes of this section, any tax, duty, cess or fee* ***(by whatever name called)*** *under any law for the time being in force,* ***shall include all such payment notwithstanding any right arising as a consequence to such payment;***

ICDS-II in line with Section 145A

ICDS II – Valuation of Inventories

Key questions

Applicability to service providers

- Cost of inventories include cost of service
- Cost of services – explained only with reference to a service provider
- Inventories defined as assets:
  - held for sale in the ordinary course of business;
  - in the process of production for such sale;
  - in the form of materials or supplies to be consumed in the production process or in the rendering of services
- Practical difficulties in inventory valuation of services
- Will there be any inventory valuation required in view of ICDS III being applicable to service transactions?

Valuation of opening inventory

- Rationale for clarification?
- What if the assessing officer makes an adjustment to closing inventory?

ICDS II – Valuation of Inventories

Key questions

Applicability to certain securities held as stock in trade

- ICDS II does not apply to shares, debentures and other financial instruments held as stock-in trade which are specifically dealt by ICDS VIII relating to Securities
- ICDS VIII does not apply to securities held by persons engaged in insurance business, mutual funds, venture capital funds, banks and public financial institutions
- Whether ICDS II will be applicable for the securities held as stock-in-trade by the above mentioned concerns?
- Derivatives excluded from the definition of “Securities” under ICDS – VIII
- Will derivatives be governed by ICDS-II?

ICDS II – Valuation of Inventories

Key Considerations

Valuation method

- Standard costing method not permitted under ICDS – difference (if any) in stock valuation has to be taken into account in tax computation
- No change in valuation method allowed without reasonable cause

Service providers

- No clarity on applicability

Dissolution of partnership – Whether or not business continued

- Inventory to be recorded at NRV

Valuation of opening stock

- Opening inventory to be same as closing inventory of previous year

Cost of Purchases

- Purchase price includes duties and taxes whether or not subsequently recoverable.
- In line with 145A of the Act

Borrowing cost

- To be capitalized for inventories if required under ICDS IX on borrowing costs

ICDS III:
Construction Contracts

AS 7 – Construction Contracts

Highlights

Particulars	AS 7
Scope	Should be applied in accounting for construction contracts in the financial statements of **contractors**

Contract revenue	To comprise:
	• The initial amount of revenue agreed in the contract; and
	• Variations in contract work, claims and incentive payments –
	    – to the extent that it is probable that they will result in revenue; and
	    – they are capable of being reliably measured.

Contract cost	• To comprise:
	    – Direct costs;
	    – Allocation of general costs (including borrowing costs); and
	    – Costs specifically chargeable to the customer as per the contract
	• To be reduced by incidental income

AS 7 – Construction Contracts

Highlights

Particulars	AS 7
Recognition of revenue and expenses	• 'Percentage of completion method' if the outcome can be estimated reliably • Else, revenue to be recognized only to the extent of contract costs incurred • Stage of completion to be determined based on cost, physical work or surveys of work performed
Expected loss	To be recognized immediately

AS 7 – Construction Contracts
Highlights

Types of contract

Fixed price contract

- A fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

Cost plus contract

- A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs plus percentage of these costs or a fixed fee.

AS 7– Construction Contracts

Combining and Segmenting Construction Contracts

Particulars
• AS 7 shall be applied separately to each construction contract subject to the following parameters • Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when: - separate proposals have been submitted for each asset; - each asset has been subject to separate negotiation; and - the costs and revenues of each asset can be identified. • A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when: - the group of contracts is negotiated as a single package; - the contracts are closely interrelated; and - the contracts are performed concurrently or in a continuous sequence

AS 7– Construction Contracts

Combining and Segmenting Construction Contracts

Particulars
• Construction of an additional asset to be treated as a separate construction contract when: - the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; - the price of the asset is negotiated without having regard to the original contract price

AS 7 – Construction Contracts

Disclosures

For revenue recognized in the accounting period

- The amount of contract revenue recognized in the period;
- The methods used to determine the contract revenue recognized in the period; and
- The methods used to determine the stage of completion of the contracts in progress;

For contracts in progress at the reporting date

- The aggregate amount of costs incurred and recognized profits (less recognized loss) upto the reporting date;
- The amount of advance received; and
- The amount of retentions

Others

- Gross amount due from customers for contract work as an asset; and
- Gross amount due to the customers for contract work as a liability

ICDS III – Construction Contracts

Highlights

Particulars	ICDS III
Scope	Should be applied in determination of income for a construction contract of a **contractor**

Contract revenue	To comprise:
	• The initial amount of revenue agreed in the contract, **including retentions**; and
	• Variations in contract work, claims and incentive payments –
	  – to the extent that it is probable that they will result in revenue; and
	  – they are capable of being reliably measured.

Contract cost	• To comprise:
	  – Direct costs;
	  – Allocation of general costs;
	  – Costs specifically chargeable to the customer as per the contract; and
	  – Allocated borrowing costs in accordance with the ICDS IX
	• To be reduced by incidental income **(except interest, dividend, capital gains)**

ICDS III – Construction Contracts

Highlights

Particulars	ICDS III
Recognition of revenue and expenses	• Contract revenue to be recognized when there is a reasonable certainty of its ultimate collection • Contract revenue and contract costs to be recognized by percentage of completion method • Relaxation in case of early stages of contract • The **early stage of a contract shall not extend beyond 25%** stage of completion • Stage of completion to be determined based on cost, physical work or surveys of work performed
Expected loss	ICDS is silent

ICDS III – Construction Contracts

Disclosures

Particulars
• The amount of contract revenue recognised as revenue in the period; • The methods used to determine the stage of completion of contracts in progress; and • The following for contracts in progress at the reporting date, namely:— a) amount of costs incurred and recognised profits (less recognised losses) upto the reporting date; b) the amount of advances received; and c) the amount of retentions

ICDS III – Construction Contracts

Key departures from AS

Issue	AS 7	ICDS III
Contract revenue	Does not include retentions	Includes retentions
	Clarifies that variation may lead to an increase or decrease in contract revenue	ICDS is silent
Recognition of contract revenue	When outcome of the contract can be estimated reliably	When there is a reasonable certainty of its ultimate collection

ICDS III – Construction Contracts

Key departures from AS

Issue	AS 7	ICDS III
Recognition of contract revenue to the extent of costs incurred (when outcome cannot be estimated reliably)	Does not restrict to early stages of contract	Restricts to early stages of contract (i.e. upto 25%)
Expected loss	Allows recognition as an expense immediately	ICDS is silent

ICDS III – Construction Contracts

Real Estate Developers – whether covered?

- AS 7 does not apply to real estate developers
  - Governed by the ICAI Guidance note on accounting for ‘Real Estate Transactions’

- Non-applicability of AS 7 to real estate developers upheld in various rulings
  - ACIT v. National Builders (137 ITD 277)(Ahd)
  - Awadesh Builders v. ITO (37 SOT 122)(Mum)
  - Krish Infrastructure Pvt. Ltd. v. ACIT (58 SOT 127)(Jaipur)(URO)

- ICDS III deals with determination of income for construction contract of a **contractor**

- ICDS committee has recommended notification of a **separate ICDS** on real estate developers.

ICDS III should not apply to real estate developers

ICDS III : Construction Contracts

Retention Money

Retention money

- A Ltd. entered into a contract with B Ltd at an agreed contract revenue of Rs. 100 crores. As per the terms of the contract, an amount of Rs. 10 crores is to be retained by B Ltd. and would be paid after fulfillment of certain conditions mentioned in the contract.

FY 2015-16

↓

Contract Revenue = 100 crore

↓

Retention Money = 10 crore

Issue:

- ICDS provides that contract revenue shall include retention money

ICDS III : Construction Contracts

Retention Money

- Income can be held to accrue only when assessee acquires right to receive that income
  - CIT vs. Ashokbhai Chimanbhai [56 ITR 42] [SC]
  - J. P. Shrivastava & Sons (Bhopal) (P.) Ltd. vs. CIT [SC]
  - E.D. Sassoon & Co. Ltd. vs. CIT [26 ITR 27] [SC]
  - Godhra Electricity Co. Ltd. vs. CIT [91 Taxman 351] [SC]

- Retention money may not ultimately accrue to the assessee if assessee fails to discharge the related obligations

- Retention money should not be taxed till the right to receive it crystalizes upon fulfilment of obligations

- Various rulings support the above view:
  - CIT vs. Simplex Concrete Piles India (P) Ltd [45 Taxman 370] [Cal]
  - CIT vs. P & C Constructions (P.) Ltd. [318 ITR 113] [Mad]
  - CIT vs. East Coast Constructions & Ind. Ltd. [160 Taxman 399] [Mad]
  - CIT vs. Associated Cables Ltd [286 ITR 596] [Bom]
  - Amarshiv Construction (P) Ltd. vs. DCIT [45 taxmann.com 429] [Guj]

Can it be argued that there is no reasonable certainty of ultimate collection ?

ICDS III – Construction Contracts

Recognition of expected loss

- AS 7 permits recognition of expected loss at any stage of the contract
- The above treatment has also been followed for tax purposes
  - CIT v. Triveni Engineering & Industries Ltd [239 CTR 216] [Del]
  - Jacobs Engineering India (P) Ltd v. ACIT [30 DTR 614] [Mum ITAT]
- ICDS III does not permit the recognition of expected loss at any stage of the contract
- Expected loss to be claimed only in proportion to the stage of completion

Can upfront provision of expected loss be claimed based on following Supreme Court cases?

- Metal Box Co. of India Ltd. V. Their Workmen [73 ITR 53]
- Rotork Controls India (P.) Ltd. [180 TAXMAN 422]

ICDS III – Construction Contract
Recognition of expected loss - Impact

Illustration

- Contract revenue – 100
- Contract cost originally estimated – 80
- Revised probable estimated contract cost – 130
- Cost incurred during year 1 – 40
- Percentage of completion at end of year 1 – ~30% (40 of 130)
- Other unrelated income earned - 35
- Cost incurred during year 2 – 90
- Percentage of completion at end of year 2 – 100%
- Other unrelated income in year 2 - 35

Year 1		Books	ICDS
Revenue	100 x 30%	30	30
Other Income		35	35
Less: Cost incurred during the year		(40)	(40)
Less: Provision for expected loss on construction contracts		(30)	NIL
Net profit		**(5)**	**25**

Year 2		Books	ICDS
Revenue	100 x 70%	70	70
Other Income		35	35
Less: Cost incurred during the year		(60)	(90)
Net profit		**45**	**15**

ICDS III : Construction contracts

Transitional Provisions

- Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognized as revenue and costs respectively in accordance with the provisions of this standard.

- **The amount of contract revenue, contract costs or expected loss, if any, recognized for the said contract for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account** for recognizing revenue and costs of the said contract for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

ICDS III : Construction contracts

Impact of transitional provisions on expected loss

Particulars	Amount
Estimated Contract cost	500
Estimated Contract revenue	400
Estimated Loss from contract	100

FY	% completion	Revenue to be Recognized (cumulative)	Cost incurred (cumulative)	Loss (cumulative)	Books	Tax Comp
					Loss to be recognized	Loss to be recognized
14-15	40	160	200	40	100(40+60)	100
15-16	80	320	400	80	-	Nil or (-) 20 ?
16-17	100	400	500	100	-	Nil or 20?

ICDS III : Construction contracts

Impact of transitional provisions on revenue recognition

Particulars	Amount
Estimated Contract cost	400
Estimated Contract revenue	500
Estimated Profit from contract	100

Assessee has been following completed contract method

FY	% Completion	Cost (cumulative)	Revenue (cumulative)	Books	Tax Comp
				Loss to be recognized	Loss to be recognized
14-15	40	160	200	Nil	Nil
15-16	80	320	400	Nil	40 or 80?

ICDS III – Construction Contracts

Key considerations

Summary

- Contract revenue and cost to be recognized on percentage completion method irrespective of the method followed for accounting (subject to relaxation given in ICDS)
  - Applicable to contracts commenced before 1 April 2015 as well
- Inclusion of retention money in contract revenue
- Adjustment for expected loss recognised for accounting purposes
- Interest, dividends or capital gains adjusted against contract costs in books - to be considered as income

ICDS IV:
Revenue Recognition

ICDS IV – Revenue Recognition

Highlights

Income	Recognition
Sale of goods	When all significant risks and rewards of ownership are transferred
	Revenue to be recognized when there is reasonable certainty of its ultimate collection
Rendering of services	As per percentage completion method (ICDS on “construction contracts” to apply)
Interest	On time basis
Royalty	As per the terms of the relevant agreement (unless substance of transaction warrants some other basis)
Dividend	In accordance with the provisions of the Act
Discount / premium on debt securities held	To be accrued over the period of maturity

Concept of “reasonable certainty” not applicable to interest, royalty and dividend

ICDS IV – Revenue Recognition

Disclosures

Particulars
• In a transaction involving sale of good, total amount not recognised as revenue during the previous year due to lack of reasonable certainty of its ultimate collection along with nature of uncertainty; • The amount of revenue from service transactions recognised as revenue during the previous year; • The method used to determine the stage of completion of service transactions in progress; and • For service transactions in progress at the end of previous year: a) amount of costs incurred and recognised profits (less recognised losses) upto end of previous year; b) the amount of advances received; and c) the amount of retentions

ICDS IV – Revenue Recognition

Key departures from AS

Issue	AS 9	ICDS IV
Exclusions from applicability	Hire purchase / lease agreements specifically excluded	Hire purchase / lease not specifically excluded
Revenue from services	Recognises both percentage completion and completed contract methods	Recognises only percentage completion method
Interest, royalties, dividend from foreign countries	Revenue recognition to be postponed if exchange permission is required and uncertainty in remittance is anticipated	-

ICDS IV : Revenue Recognition
Applicability to finance lease

- Accounting of leases governed by AS 19
- A separate ICDS on leases was recommended by the Committee
  - Although not notified
- ICDS IV excludes revenue recognition of items specifically dealt by other ICDS
- Scope of ICDS IV restricted to specified incomes
- Possible to argue that ICDS IV does not apply to finance lease arrangements

ICDS IV – Revenue Recognition

Service contracts - Impact

Illustration

- Contract revenue – 1000
- Percentage of completion at end of year 1 – 50%
- Percentage of completion at end of year 2 – 100%
- The assesse is following completed contract method for accounting.

Year 1	Amount
Revenue as per books	Nil
Revenue as per ICDS	500
MAT	Nil
Regular tax*	150

Year 2	Amount
Revenue as per books	1000
Revenue as per ICDS	500
MAT*	185
Regular tax*	150

*excluding surcharge and cess

ICDS IV – Revenue Recognition
Discount / premium on debt securities

Discount / premium on debt securities

- As per ICDS, discount / premium is recognized over the maturity period rather than receipt
- CBDT clarification on deep discount bonds – still valid? Circular provides-
  - Annual increase in market value taxable as interest / business income
  - Difference on redemption - also taxable as interest
  - Profit on transfer of bonds before maturity – short term capital gains

ICDS not in line with CBDT Circular on deep discount bonds

ICDS IV : Revenue Recognition
Discount / premium on debt securities

- In case of debt securities other than deep discount bonds, the discount or premium is normally factored in determining the taxable capital gains
- The above tax treatment will also be altered
- Tax benefits may be diluted on account of re-characterization of income from capital gains to interest

Can it be argued that discount / premium is of capital nature?

ICDS IV – Revenue Recognition

Key considerations

Summary

- Recognition of revenue on sale of goods when significant risks and rewards of ownership are transferred to the buyer
- Adjustment where revenue for services rendered is recognised on completed service contract method for accounting purposes
- Discount or premium on debt securities to be recognised as accruing over the period to maturity
- Royalty agreement vs. substance of the transaction

ICDS V:
Tangible Fixed Assets

ICDS V – Tangible Fixed Assets

Highlights

- “Tangible fixed asset” defined as an asset –
  - being land, building, machinery, plant or furniture
  - held with the intention of being used for the purpose of producing or providing goods or services, and
  - not held for sale in the normal course of business
- Actual cost of a tangible fixed asset to comprise -
  - purchase price,
  - import duties and other taxes (excluding those subsequently recoverable); and
  - any expenditure specifically / directly attributable to bringing the asset to workable condition
- Expenditure on start-up and commissioning of a project (including test run) to be capitalized

ICDS V – Tangible Fixed Assets

Highlights

- Expenditure post commencement of commercial production to be expensed
- Tangible fixed asset to be recorded at its fair value if acquired for non-monetary consideration
- Consolidated price for acquiring group of assets to be apportioned on fair basis
- Depreciation and income on transfer of asset will be as per the Act

ICDS V – Tangible Fixed Assets

Disclosures

Particulars
• Description of asset or block of assets;
• Rate of depreciation;
• Actual cost or written down value, as the case may be;
• Additions or deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of— a) Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004; b) Change in rate of exchange of currency; c) Subsidy or grant or reimbursement, by whatever name called;
• Depreciation allowable; and
• Written down value at the end of year.

ICDS V – Accounting Policies

Key departures from AS

Particulars	AS - 10	ICDS
Applicability	Applies to all fixed assets (except specific exclusions)	Applies only to tangible fixed assets i.e. land, building, machinery, plant or furniture
Materiality	An enterprise may decide to expense an item which could otherwise have been included as fixed asset, because the amount of the expenditure is not material	-
If commercial production is prolonged	All expenses incurred during this period are charged to P&L Account. Amortisation is also done in some cases	-

ICDS V – Accounting Policies

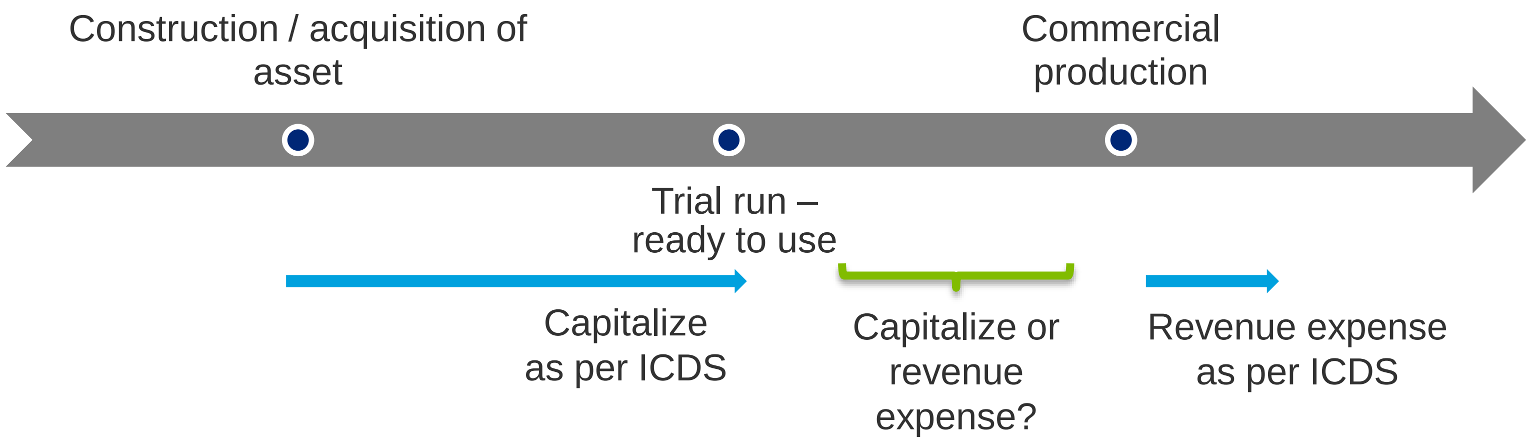
Key departures from AS

Particulars	AS - 10	ICDS
Cost in non-monetary consideration (asset in exchange for another asset)	If a fixed asset is acquired in exchange for another asset, its cost is FMV or NBV of asset given up. It may be appropriate to consider FMV of the asset acquired if that is more clearly evident.	FMV of tangible fixed asset acquired shall be its actual cost in such case.
Cost in non-monetary consideration (asset in exchange for shares or other securities)	FMV of the asset or FMV of the securities issued, whichever is more clearly evident	FMV of tangible fixed asset acquired shall be its actual cost in such case.
Purchase of several assets for a consolidated price	Consideration to be apportioned to various assets on a fair basis as determined by competent valuer	Consideration to be apportioned to various assets on a fair basis.

ICDS V – Tangible Fixed Assets

Key issue

Illustration: Expenses between trial run and commercial production



Whether start-up and commissioning of a project means ready-to-use stage or commercial production stage?

ICDS V – Tangible Fixed Assets

Key questions

- Actual Cost – Impact to provisions of section 43(1) of the Act?
- What method may constitute as “fair basis” for apportionment of assets purchased at consolidated price?
- Treatment of assets purchased on hire purchase basis not clarified
- Determination of “fair value” in case of asset purchased with non-monetary consideration

ICDS V – Tangible Fixed Assets

Key considerations

Summary

- Actual cost for tangible assets to be determined as per the provisions of ICDS
- Expenditure between the period project is ready for commencement and actual commencement may have to be capitalized
- Assets expensed out in books under materiality concept to be capitalized
- Assets acquired for non-monetary consideration to be recorded at their fair value

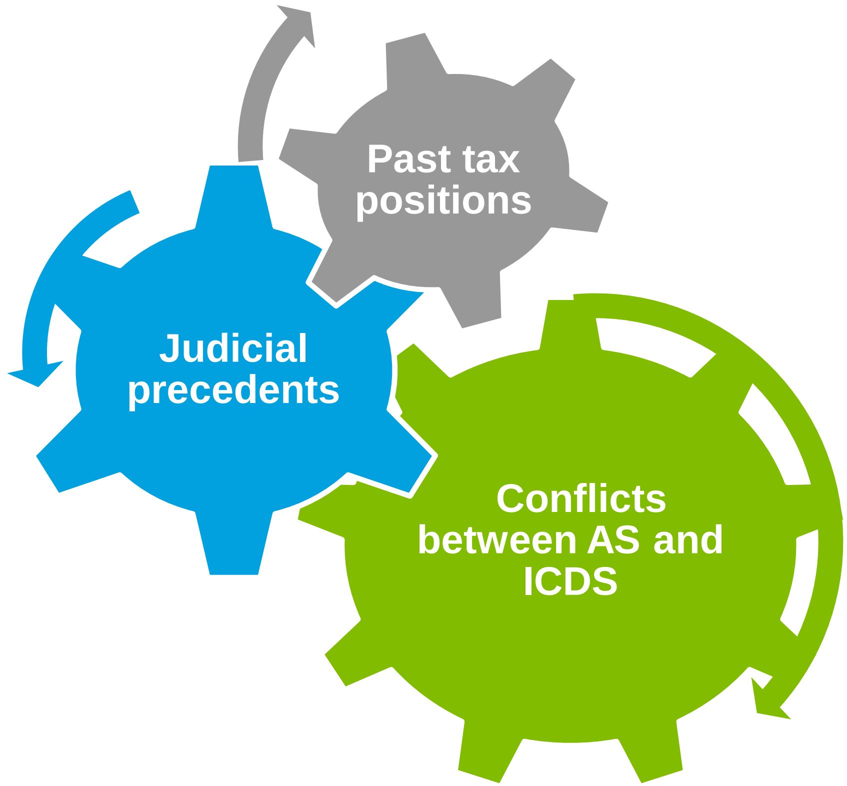
Key takeaways

ICDS vs AS

ICDS	Accounting Standards
Postponement of expenses / losses	Recognise all possible losses / liabilities
Earlier recognition of revenue	Recognise revenue only when realised

Principles of “Prudence” and “Materiality” absent in ICDS

ICDS immediate impact points

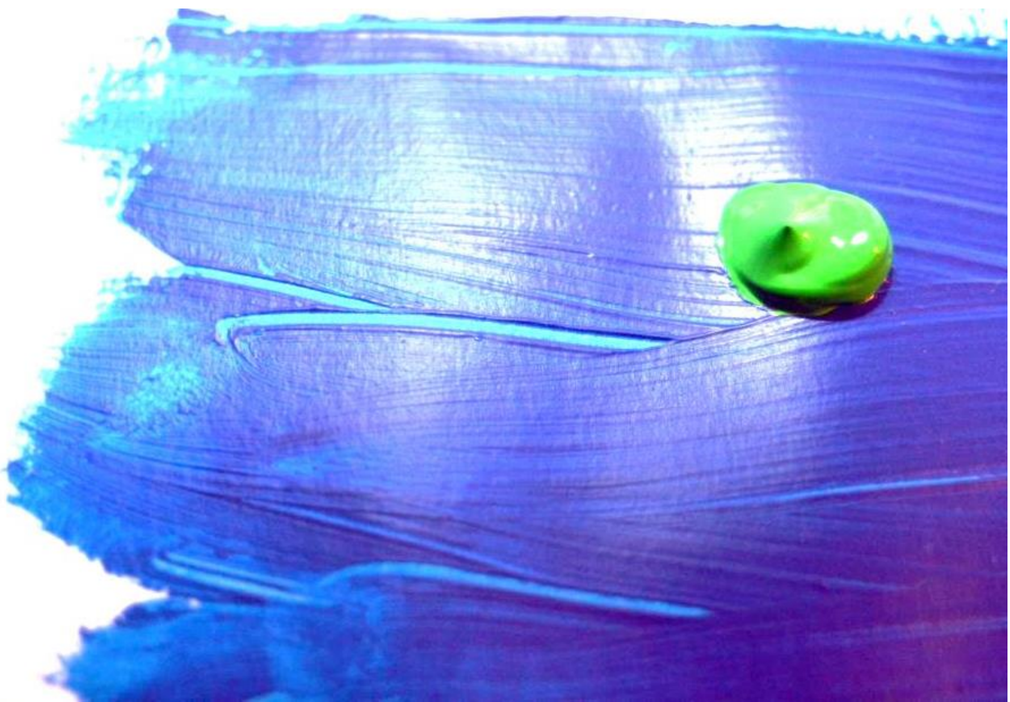


ICDS likely to increase litigation

CBDT to issue comprehensive guidance / clarifications

Questions

Thank You



Lakshit Desai
Contact No. (022) 6185 4049