Income Computation And Disclosure Standards (ICDS)

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Care, Pair, and Share

KNOWLEDGE THAT MATTERS. EXPERIENCE THAT COUNTS.

Need for ICDS

- CIT vs. Excel Industries (SC) CIVIL APPEAL NO.125 OF 2013

- As the dispute was only as to the year of taxability and as the rate of tax remained the same the dispute raised by the Revenue is entirely academic or at best may have a minor tax effect. There was, therefore, no need for the Revenue to continue with this litigation when it was quite clear that not only was it fruitless (on merits) but also that it may not have added anything much to the public coffers. It is hoped that the Revenue implements its litigation policy a little more practically and a little more seriously.

Agenda

- Overview of ICDS
- Constitutional Validity
- Accounting Policies – ICDS I vis-à-vis AS 1
- Securities – ICDS VIII
- Tax Audit perspective and reporting

What if not followed?

- Sec. 145(3) authorizes AO to make best judgment assessment if the income has not been computed in accordance with ICDS

  - Whether in all respect?

  - Or only to the extent it is not followed?

- Can One error make accounts unreliable?

Who is supreme – ICDS or Act?

- Preamble of each ICDS –

- Examples –
  - Sec. 43A providing for adjustment of forex gain/loss
  - Sec. 43D providing for taxability of interest on NPAs
  - Sec. 145A(2) providing for taxability of interest on compensation

Court Decisions – still valid?

- Conflict with the judiciary principles laid down by the Courts
  - Retention money
  - Export incentives
  - Exchange fluctuation on capital field [other than imported assets]
  - Accrual of interest on sticky loans
  - Accrual of interest only on due dates

ICDS - Key Impact Areas

Whether SC decisions are affected by ICDS?

✓ Article 141 of the Constitution of India provides that the law declared by SC shall be binding on all Courts in India

- The SC explains provisions of the Act

✓ All SC decisions dealing with identification, recognition, determining the nature of receipt, etc. should continue to govern the computation of total income

- ICDS may apply in respect of quantification of income

✓ ICDS may have impact on those decisions which relied on commercial principles and accounting practices then followed; e.g.:

- Woodward Governor India Private Limited [(2009)(312 ITR 254)(SC)]

ICDS should not affect the principles laid down by SC decisions - except those decisions which relied on commercial principles and accounting practices then followed

ICDS - Key Impact Areas

Scope of Delegated Legislations

✓ ICDS notified by the Central Government is a piece of delegated legislation.

✓ Such delegated legislation cannot override the provision of the Act

- **Assam Co. Ltd. & Anr. Vs. State Of Assam & Ors. - 248 ITR 567(SC)**

  "A delegate cannot override the Act either by exceeding the authority or by making provision which is inconsistent with the Act. Any rule made in exercise of such delegated power has to be in consonance with the provisions of the Act, and ***if the rule goes beyond what the Act contemplates, the rule becomes in excess of the power delegated under the Act, and if it does any of the above, the rule becomes ultra vires of the Act****"*

✓ **Notification that goes beyond the statute** – curtailing the scope of deduction **(CIT vs. Sirpur Paper Mills Etc. 237 ITR 41(SC)]** or imposing a tax without the authority of law cannot be held to be valid **[District Council Of Jowai Autonomous Distt & Ors. Vs. Dwet Singh Rymbai & Ors 169 ITR 468(SC)]**

Can ICDS modify the basis of taxation hitherto upheld by the Apex Court?

Court Decisions – still valid?

Interpretation of the specific provision of the Act	ICDS may not override
In case of conflict	Act shall prevail
Commercial accounting principles in the absence of contrary provision of the Act	ICDS may override

Woodward Governor India (P) Ltd. 312 ITR 254 (SC)

- *As profits for income-tax purposes are to be computed in accordance with ordinary principles of commercial accounting, unless, such principles stand superseded or modified by legislative enactments …….. At this stage,* ***we need to emphasise once again that the above system of commercial accounting can be superseded or modified by legislative enactment. This is where s. 145(2) comes into play.*** *Under that section, the Central Government is empowered to notify from time to time the Accounting Standards to be followed by any class of assessees or in respect of any class of income. In other words,* ***Accounting Standard which is continuously adopted by an assessee can be superseded or modified by legislative intervention. However, but for*** *such intervention or in cases falling under s. 145(3), the method of accounting undertaken by the assessee continuously is supreme.*

Value of Opening Inventory

Dissolution of firm….

- (i) the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

- (ii) the value of the inventory as on the close of the immediately preceding previous year, in any other case.

Dissolution of firm

- 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 realisable value.

- Section 45 (4) – Capital Asset

- ICDS VIII – Securities

- In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Law Vis-à-vis Notification

- Contrary to law settled by hon'ble Apex court in the case of ***Sakthi Trading Co. v. CIT*** 250 ITR 871 / 118 Taxman 301 [2001] (SC)

- Law – Authority of Legislature

- Notification – Executive Powers conferred

ICDS v. AS

AS and ICDS at par	No Conflict
Provision of AS Negated by ICDS	ICDS may override
Provision of AS NOT Negated by ICDS (ICDS silent)	AS may override

ICDS v. AS

- Prudence
- Materiality
- Income from Temporary investments in borrowing costs

ICDS & Presumptive Schemes

- Presumptive Scheme - Altogether a different base for computing the income

- Only ‘turnover’ or ‘gross receipts’ is required to be computed and not the income

- ICDS is for computation of income

- ICDS IV – Recognition of Revenue – Gross Inflow of cash, receivables, or other consideration – 28 (iv)

- Provisions of the Act to prevail over ICDS

Impact on Books of Account

- AS 22 – Accounting for Taxes on Income

- ICDS - result into early recognition of income or deferment of expenses / losses

- Timing differences except few cases; e.g., recognition of government grant in the nature of promoters' contribution as income

- Mostly will result in recognition of Deferred Tax Asset

Introduction - ICDS

- Notification No.33/2015 [F. No.34/48/2010-TPL] / SO 892(E) dated 31 March 2015
- Jan 2015 - Revised draft of 12 ICDS (earlier referred to as TAS) in public domain for comments and suggestions
- Notified 10 ICDS (ICDS on Leases and Intangible asset not notified)
- Deferral for one year
- ICDS shall be applicable from 1st April, 2016 (Assessment Year 2017-18)

Notification No. S.O. 3079 (E) dated September 29, 2016

Introduction

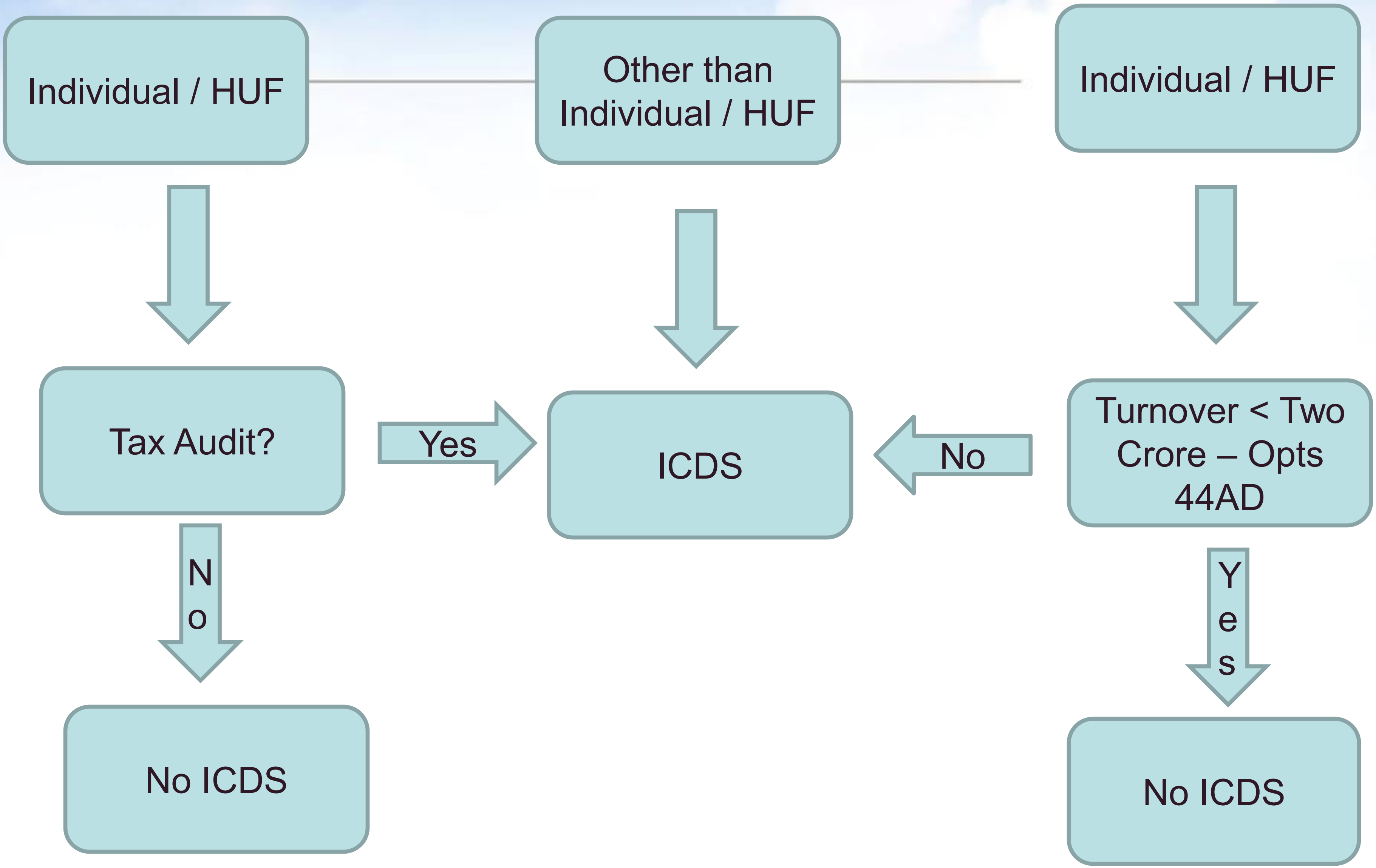
- Conflict between the Income Tax Act 1961 and ICDS, the Act to prevail

- 9 out of 10 ICDS - transitional provision to avoid any double taxation/ non taxation in pre and post ICDS periods

- ICDS shall apply to all assessees (except Individuals / HUFs not under audit under section 44AB) following Mercantile System of accounting and offering income under the head Business or Other sources

- No need to maintain separate books of account or follow ICDS for book keeping – AS to follow

- Only computation of income


Individual / HUF
Other than Individual / HUF
Individual / HUF
Tax Audit?
Yes
ICDS
No
Turnover < Two Crore – Opts 44AD
No
No ICDS
Yes
No ICDS

Standards

- AS by ICAI
- AS by MCA
- Ind AS by MCA
- ICDS….
- ICDS on Real Estate Transactions – Press Release dated May 11, 2017

FAQs.

- Circular No. 10/2017 dated March 23, 2017

- 25 FAQs.

- **Question 2: Certain ICDS provisions are inconsistent with judicial precedents. Whether these judicial precedents would prevail over ICDS?**
  - The 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.

FAQs.

- **Question 4: If there is conflict between ICDS and other specific provisions of the Income-tax rules,1962(`the Rules') governing taxation of income like rules 9A, 9B etc. of the Rules, which provisions shall prevail?**

    – ICDS provides general principles for computation of income. In case of conflict, if any, between the provisions of Rules and ICDS, the provisions of Rules, which deal with specific circumstances, shall prevail.

FAQs.

- **Question 6: Whether ICDS shall apply to computation of Minimum Alternate Tax (MAT) under section 115JB of the Act or Alternate Minimum Tax (AMT) under section 115JC of the Act?**
  - **MAT under section 115JB of the Act is computed on 'book profit' that is net profit as shown in the Profit** and Loss Account prepared under the Companies Act subject to certain specified adjustments. Since, 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 MAT.

FAQs.

- **Question 8: Para 4(ii) of ICDS-I provides that Market to Market (MTM) loss or an expected loss shall not he recognized unless the recognition is in accordance with the provisions of any other ICDS. Whether similar consideration applies to recognition of MTM gain or expected incomes?**
  - Same principle as contained in ICDS-I relating to MTM losses or an expected loss shall apply *mutatis Mutandis to MTM gains or an expected profit.*

FAQs.

- **Question 11: Whether the recognition of retention money, receipt of which is contingent on the satisfaction of certain performance criterion is to be recognized as revenue on billing?**
  - Retention money, being part of overall contract revenue, shall be recognised as revenue subject to reasonable certainty of its ultimate collection condition contained in pars 9 of on Construction contracts.

FAQs.

- **Question 13: The condition of reasonable certainty of ultimate collection is not laid down for taxation of interest, royalty and dividend. Whether the taxpayer is obliged to account for such income even when the collection thereof is uncertain?**
  - As a principle, interest accrues on time basis and royalty accrues on the basis of contractual terms. Subsequent non recovery in either cases can be claimed as deduction in view of amendment to 5.36 (1) (vii). Further, the provision of the Act (e.g. Section 43D) shall prevail over the provisions of ICDS.

FAQs.

- **Question 15: Para 8 of ICDS-V states expenditure incurred on commissioning of project, including expenditure incurred on test runs and experimental production shall be capitalized. It also states that expenditure incurred after the plant has begun commercial production i.e., production intended for sale or captive consumption shall be treated as revenue expenditure. What shall be the treatment of expense incurred after the conduct of test runs and experimental production but before commencement of commercial production?**
  - As clarified in Para 8 of ICDS-V, the expenditure incurred till the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as capital expenditure.
  - Ready to use vis-à-vis put to use

FAQs.

- **Question 20: There are specific provisions in the Act read with Rules under which a portion of borrowing cost may get disallowed under sections like 14A, 43 (11), 40(a)(i), 40(a)(ia), 40A(2)(b), etc of the Act. Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions?**
  - Since specific provisions of the Act override the provisions of ICDS, it is clarified that borrowing costs to be considered for capitalization under ICDS IX shall exclude those borrowing costs which are disallowed under specific provisions of the Act. Capitalization of borrowing cost shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act.

FAQs.

- **Question 24: Expenditure on most post-retirement benefits like provident fund, gratuity, etc. are covered by specific provisions. There are other post-retirement benefits offered by companies like medical benefits. Such benefits are covered by AS-15 for which no parallel ICDS has been notified. Whether provision for these liabilities are excluded from scope of ICDS X?**
  - It is clarified that provisioning for employee benefit which are otherwise covered by AS 15 shall continue to be governed by specific provisions of the Act and are not dealt with by ICDS-X.

Validity of ICDS

- Constitutional validity of ICDS was challenged before hon’ble Delhi HC

- W.P.(C) 5595/2017 & CM APL 23467/2017

- Date of decision: November 08, 2017

Constitutional Validity

Observations of hon'ble Delhi High Court	Action Taken in the Finance Act 2018
Section 145 (2), as amended, has to be read down to restrict power of the Central Government to notify ICDS that do not seek to override binding judicial precedents or provisions of the Act. The power to enact a validation law is an essential legislative power that can be exercised, in the context of the Act, only by the Parliament and not by the executive. If Section 145 (2) of the Act as amended is not so read down it would be ultra vires the Act and Article 141 read with Article 144 and 265 of the Constitution.	Amendments in the Income-tax Act 1961 carried out

Constitutional Validity

The ICDS is not meant to overrule the provisions of the Act, the Rules there under and the judicial precedents applicable thereto as they stand.	No action taken
ICDS I which does away with the concept of 'prudence' is contrary to the Act and binding judicial precedents and is therefore unsustainable in law.	No action taken

Constitutional Validity

ICDS I – Marked to Market Loss (M to M) – Not dealt with by hon'ble HC.	Section 36 amended to provide that marked to market loss or other expected loss as computed in the manner provided in income computation and disclosure standards notified under sub-section (2) of section 145, shall be allowed deduction.

Constitutional Validity

ICDS-VI which states that marked to market loss/gain in case of foreign currency derivatives held for trading or speculation purposes are not to be allowed, is not in consonance with the ratio laid down by the Supreme Court in Sutlej Cotton Mills Limited v. CIT (supra), insofar as it relates to marked to market loss arising out of forward exchange contracts held for trading or speculation purposes. It is, therefore, held to be ultra vires the Act and struck down as such (Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement.).	Section 40A amended to provide that no deduction or allowance in respect of marked to market loss or other expected loss shall be allowed except as allowable under newly inserted clause (xviii) of sub-section(1) of section 36.

Constitutional Validity

	Insertion of new section 43AA in the Act to provide that, subject to the provisions of section 43A, any gain or loss arising on account of effects of changes in foreign exchange rates in respect of specified foreign currency transactions shall be treated as income or loss, which shall be computed in the manner provided in ICDS as notified under sub-section (2) of section 145. Therefore M To M loss on derivative contracts on securities will not be allowed. M To M loss on foreign derivative contracts will not be allowed – ICDS VI

Constitutional Validity

ICDS II pertaining to valuation of inventories eliminates the distinction between a continuing partnership business after dissolution from one which is discontinued upon dissolution is contrary to the decision of the Supreme Court in Shakti Trading Co. (supra). It fails to acknowledge that the valuation of inventory at market value upon settlement of accounts of the outgoing partner is distinct from valuation of the inventory in the books of the business which is continuing. ICDS II is held to be ultra vires the Act and struck down as such.	No action taken

Constitutional Validity

The treatment to retention money under Paragraph 10 (a) in ICDS-III will have to be determined on a case to case basis by applying settled principles of accrual of income. By deploying ICDS-III in a manner that seeks to bring to tax the retention money, the receipt of which is uncertain/conditional, at the earliest possible stage, irrespective of the facts, the Respondents would be acting contrary to the settled position in law as explained in the decisions referred to in para 68 and to that extent para 10 (a) of ICDS III would be rendered ultra vires.	New section 43CB inserted in the Income-tax Act 1961 to provide that profits arising from a construction contract or a contract for providing services shall be determined on the basis of percentage of completion method except for certain service contracts, and that the contract revenue shall include retention money, and contract cost shall not be reduced by incidental interest, dividend and capital gains. Answer to Question No. 11 **Circular No. 10/2017** F. No 133/23/2016-TM dated March 23, 2017 will have to be revisited / rethought of – "Retention money, being part of overall contract revenue, shall be recognised as revenue subject to reasonable certainty of its ultimate collection condition contained in pars 9 of on Construction contracts."

Constitutional Validity

Para 12 of ICDS III read with para 5 of ICDS IX, dealing with borrowing costs, makes it clear that no incidental income can be reduced from borrowing cost. This is contrary to the decision of the Supreme Court in CIT v. Bokaro Steel Limited (supra) and is therefore struck down.	Section 43CB (New)

Constitutional Validity

Para 5 of ICDS-IV requires an Assessee to recognize income from export incentive in the year of making of the claim if there is 'reasonable certainty' of its ultimate collection. This is contrary to the decision of the Supreme Court in Excel Industries (supra), and is, therefore, ultra vires the Act and struck down as such.	Insertion of new section 145B - the claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.

Constitutional Validity

As far as para 6 of ICDS IV is concerned, the percentage completion method as well as the contract completion method have been recognized as valid method of accounting under the mercantile system of accounting by the Supreme Court in CIT v. Bilhari Investment Pvt. Ltd. (supra) and this Court in CIT v. Manish Buildwell Pvt. Ltd and Paras Buildtech India Pvt. Ltd. v. CIT (supra). Therefore, to the extent that para 6 of ICDS-IV permits only one of the methods, i.e., percentage completion method, it is contrary to the above decisions, held to be ultra vires the Act and struck down as such.	Section 43CB (New)

Constitutional Validity

ICDS VII which provides that recognition of government grants cannot be postponed beyond the date of receipt is in conflict with the accrual system of accounting. To that extent it is held to be ultra vires the Act and struck down as such.	Section 145B

Constitutional Validity

ICDS VIII pertains to valuation of securities. For those entities not governed by the RBI to whom Part A of ICDS VIII is applicable, the accounting prescribed by the AS has to be followed which is different from the ICDS. In effect, such entities will be required to maintain separate records for income tax purposes for every year since the closing value of the securities would be valued separately for income tax purposes and for accounting purposes. To this extent Part A of ICDS VIII is held to be ultra vires the Act and is struck down as such.	Section 145A of the Income-tax Act 1961 amended to provide that, for the purpose of determining the income chargeable under the head "Profits and gains of business or profession,— (a) the valuation of inventory shall be made at lower of actual cost or net realizable value computed in the manner provided in income computation and disclosure standards notified under (2) of section 145.

	(b) the valuation of purchase and sale of goods or **services** and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation. (c) inventory being securities not listed, or listed but not quoted, on a recognised stock exchange, shall be valued at actual cost initially recognised in the manner provided in income computation and disclosure standards notified under (2) of section 145.

	(d) **inventory being listed securities, shall be valued at lower of actual cost or net realisable value in the manner provided in income computation and disclosure standards notified under (2) of section 145 and for this purpose the comparison of actual cost and net realisable value shall be done category-wise.**

Insertion of New Section 145B

- Interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received.

- The claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realisation is achieved.

- Income referred to in section 2(24)(xviii) [Relating to Government Grants, Subsidies, etc.] shall be deemed to be the income of the previous year in which it is received, if not charged to income tax for any earlier previous year.

AS 1 / ICDS 1 – ACCOUNTING POLICIES

Objective

- Disclosure of significant accounting policies

- Views presented in the financial statements (FS) of its state of affairs and of the profit or loss can be significantly affected by the accounting policies followed in the preparation and presentation of FS

- ICDS - Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation.

Objective - Comparision

- Better understanding of FS

- Establishing through an AS disclosure of significant accounting policies, and

- The manner in which accounting policies are disclosed in FS

Fundamental Accounting Assumptions

- Disclosure is necessary if they are not followed.
  - Going Concern
  - Consistency
  - Accrual

Specific Principles – Cash System

- “It is the policy of the Assessee to prepare his financial statements on the cash receipts and disbursements basis. On this basis, revenue and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. In our opinion……….”

Accounting Policies – meaning

- Specific accounting principles, and
- The methods of applying those principles adopted
- Choice to adopt different AP – Generally Acceptable Accounting Principles….

Areas in Which Differing Accounting Policies are Encountered

- Methods of depreciation, depletion and amortization – AS 6……..Now AS-10

- Treatment of expenditure during construction

- Conversion or translation of foreign currency items

- Valuation of inventories

- Treatment of goodwill

Areas in Which Differing Accounting Policies are Encountered

- Valuation of investments
- Treatment of retirement benefits
- Recognition of profit on long-term contracts
- Valuation of fixed assets….Property, plant and Equipment
- Treatment of contingent liabilities.

Considerations in the Selection of Accounting Policies

- Represent a true and fair view of the state of affairs and income of the business, profession or vocation.

- ~~Prudence~~

- Substance over Form

- ~~Materiality~~

Considerations in the Selection of Accounting Policies

- Marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

- MTM / expected loss recognized by other ICDS:
  - Inventory valuation loss
  - Valuation loss in securities held as stock-in-trade (subject to bucket approach)
  - Foreign exchange difference
  - Provision based on reasonable certainty

Considerations in the Selection of Accounting Policies

- Derivatives MTM Loss –
- All types of derivatives
- Shares F & O
- Commodities F & O (even if meant for hedging)
- Excluding forex derivatives meant for hedging – covered by ICDS VI
- Distinction between ‘expected loss’ and ‘expected expenditure’

Change in accounting policy

- When can an accounting policy be changed?
  - AS:
  - if it is required by statute
  - for compliance with an AS
  - if it is considered that the change would result in a more appropriate presentation of the financial Statements

- ICDS – only for a reasonable cause….Principle of Prudence

Disclosure of Accounting Policies

- Any change in an accounting policy which has a material effect shall be disclosed.

  - AS – only in the year in which such change is adopted

  - ICDS – not only in the year in which such change is adopted but also in the year in which such change has material effect for the first time

Disclosure of Accounting Policies

- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item in the accounts.

Securities
Investment
Financial
Woori
industry
Nonghyup
billion
won
trillion
approximately
likely
Company
companies
business
year
years
equity
capital
contract
package
securities
firms
stock
Holding
Group
giant
Yang
Tong
deal
well
sector
due
get
new
number
predicted
board
come
reorganization
explained
none
present
capable
earnest
acquired
temporary
Hanmag
largest
second
financial
discounted
Apple
near
signaling
held
meetings
profitability
means
research
shut
employees
landscape
analyst
penetrate
subject
adding
price
variety
Life
change
progress
percent
Taiwan
except
history
wrap
NH
losses
lead
turn
insider
branches
disposal
conclusion
deteriorating
last
unrivaled
Hyundai
Insurance
takeover
return
reshaping
diligence
Park
Yuanta
attractive
size
recently
overseas
start
acceleration
company
million
Savings
transaction
directors
severe
combined
LIG
soon
Heungkuk
scheduled
expected
plans
small
liquidated
Leading
authorities
acquire
end
accelerate
result
example
pending
future
targets
eTrade
Aviva
alone
Hye-jin
merge
emerge
derivatives
Golden
Also
Korea
respectively
Korean
Bank
highly
restructuring
IM
markets
marginal
red
Bridge
Kyobo
enough
six
sale

ICDS VIII – SECURITIES

- PART A – Securities held as stock-in-trade

- PART B –Securities held by
  - A scheduled Bank
  - Public Financial Institutions formed under a Central or a State Act or so declared under Companies Act.

Exclusions from Part A ….

- The bases for recognition of interest and dividend - covered by ICDS on Revenue Recognition
- Securities held by a person engaged in the business of insurance
- Securities held by mutual funds, venture capital funds, banks and financial institutions (covered in Part B)

Definition- “fair value”

- Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction

Definition- “Securities”

- “Securities” shall have the meaning assigned to it in clause (h) of Section 2 of SC(Regulation) Act, 1956 and shall include share of a company in which public are not substantially interested <u>but shall not include derivatives</u> referred to in sub-clause (ia) of that clause (h)

“Securities” under SCRA

- Securities - Include
- (i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate;
- (ia) derivative;
- (ib) units or any other instrument issued by any collective investment scheme to the investors in such schemes;]
- [(ic) security receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;]
- (id) units or any other such instrument issued to the investors under any mutual fund scheme;] [
- Explanation.—For the removal of doubts, it is hereby declared that "securities" shall not include any unit linked insurance policy or scrips or any such instrument or unit, by whatever name called, which provides a combined benefit risk on the life of the persons and investment by such persons and issued by an insurer referred to in clause (9) of section 2 of the Insurance Act, 1938 (4 of 1938);]

Recognition and Initial Measurement of Securities

- On acquisition of a security – It shall be recognised at actual cost

- Actual cost shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess…..STT

- Security acquired in exchange (Security to security or other asset to security) :
  - Fair market value of security so acquired shall be the actual cost…Section 56 implication in case of uneven exchange

Recognition and Initial Measurement of Securities

Security acquired with broken period interest:

Interest bearing security acquired with unpaid interest accrued before acquisition and interest included in the acquisition cost

- Subsequent receipt of interest, pre acquisition interest accrued to be reduced from the actual cost.

Subsequent measurement of Securities

- Security held as stock to be valued at **<u>lower of</u>**

- Cost initially recognised or

- Net Realisable Value at the end of that previous year

Subsequent Measurement

- Classification of security for the purpose of valuation :
  a) Shares
  b) Debt Securities
  c) Convertible Securities and
  d) any other security not covered above

Subsequent Measurement of Securities

- Valuation to be done category wise and not for each individual security (Category wise Global Valuation)

Example of category wise

Security	category	Cost	NRV	Lower of cost / NRV	Category wise ICDS Valuation
A	Share	100	75	75	
B	Share	120	150	120	
C	Share	140	120	120	
D	Share	200	190	190	
	Total	560	535	505	**535**
E	Debt Security	150	160	150	
F	Debt Security	105	90	90	
G	Debt Security	125	135	125	
H	Debt Security	220	230	220	
	Total	600	615	585	**600**
Security Total		1160	1150	1090	**1135**

Subsequent Measurement of Securities

- Valuation of securities held as <u>opening</u> stock – in –trade

    a) In case of first year of business, cost of securities available

    b) In any other case – value of securities as on close of the immediately preceding previous year

Subsequent Measurement of Securities

- Valuation of Unlisted or Unquoted securities

  To be valued at actual cost initially recognised.

Subsequent Measurement of Securities

- Where actual cost initially recognised cannot be ascertained by reference to specific identification, cost of such security shall be determined on the basis of FIFO or Weighted Average Cost Formula

Part B - Scheduled Bank or Public Financial Institution

- Classification, recognition and measurement of securities to be in accordance with the extant guidelines issued BY RBI in is regard

- Any claim of deduction in excess of said guideline would not be allowed

- To this extent, the provisions of ICDS VI on the effect of changes in foreign exchange rates relating to forward contract shall not apply

Tax Audit Perspective

- CBDT Notification No.88/2016 dt. 29 Sept. 2016 - S.O. 3080(E)

- Clause 13 (d), (e), and (f)

- ~~(d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under Section 145 and the effect thereof on the Profit or Loss :~~

Tax Audit…

- (d) Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)

(e) If answer to (d) above is in the affirmative, give details of such adjustments:

		Increase in profit (Rs.)	Decrease in profit(Rs.)	Net effect (Rs.)
ICDS I	Accounting Policies	-	-	-
ICDS II	Valuation of Inventories	-	-	-
ICDS III	Construction Contracts	-	-	-
ICDS IV	Revenue Recognition	-	-	-
ICDS V	Tangible Fixed Assets	-	-	-
ICDS VI	Changes in Foreign Exchange Rates	-	-	-
ICDS VII	Governments Grants	-	-	-
ICDS VIII	Securities	-	-	-
ICDS IX	Borrowing Costs	-	-	-
ICDS X	Provisions, Contingent Liabilities and Contingent Assets	-	-	-
	Total	-	-	-

(*f*) Disclosure as per ICDS: Annexure 6

(*i*)	ICDS I-Accounting Policies	
(*ii*)	ICDS II-Valuation of Inventories	
(*iii*)	ICDS III-Construction Contracts	
(*iv*)	ICDS IV-Revenue Recognition	
(*v*)	ICDS V-Tangible Fixed Assets	
(*vi*)	ICDS VII-Governments Grants	
(*vii*)	ICDS IX Borrowing Costs	
(*viii*)	ICDS X-Provisions, Contingent Liabilities and Contingent Assets"	

ANNEXURE 6

CLAUSE 13(f) **DISCLOSURES AS PER ICDS**

ICDS	**Model Disclosure required as per ICDS**	**Disclosures**
I - Accounting Policies	1)All significant accounting policies adopted by a person shall be disclosed	Please refer to Other Notes to Financial Statements
	2)Any change in an accounting policy which has a material effect	No Change
	3)The amount by which any item is affected by such change	Not Appicable
	4)Where such amount is not ascertainable, wholly or in part	Not Appicable
	5)If a change is made in the accounting policies which has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years.	Not Appicable

II - Valuation of Inventories	1)The accounting policies adopted in measuring inventories including the cost formulae used.	Please refer to Other Notes to Financial Statements
	2) Where Standard Costing has been used as a measurement of cost, details of such inventories	Not Applicable
	3)The total carrying amount of inventories and its classification appropriate to a person.	Refer Note No. 16 of Annual Accounts
III - Construction Contracts	1)Disclose the amount of contract revenue recognised as revenue in the period	Not Applicable
	2)Disclose the methods used to determine the stage of completion of contracts in progress.	
	3)For contracts in progress, amount of costs incurred and recognised profits (less recognised losses) upto the reporting date.	
	4)For contracts in progress, the amount of advances received.	
	5)For contracts in progress, the amount of retentions.	

IV - Revenue Recognition	1)In a transaction involving sale of good, total amount not recognised as revenue during the previous year	NIL
	2)The amount of revenue from service transactions recognised as revenue during the previous year	Refer Note No. 23 of Annual Accounts
	3)The method used to determine the stage of completion of service transactions in progress	Percentage completion method
	4)For service transactions in progress, disclose amount of costs incurred and recognised profits (less recognised losses) upto end of previous year.	NIL
	5)For service transactions in progress, disclose the amount of advances received.	NIL
	6)For service transactions in progress, disclose the amount of retentions.	NIL

V - Tangible Fixed Assets	1)Description of asset or block of assets	Refer Annexure No 8
	2)Rate of depreciation	
	3)Actual cost or written down value, as the case may be	
	4) Deductions during the year with dates.	
	5) In the case of any addition of an asset, date put to use including adjustments on account of—	
	i)Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004.	
	ii)Change in rate of exchange of currency.	
	iii)Subsidy or grant or reimbursement, by whatever name called.	
	6)Depreciation Allowable.	
	7)Written down value at the end of year.	

VII - Governments Grants	1)Nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year.	Not Applicable
	2)Nature and extent of Government grants recognised during the previous year as income.	
	3)Nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons	
	4)Nature and extent of Government grants not recognised during the previous year as income and reasons thereof.	
IX - Borrowing Costs	1)The accounting policy adopted for borrowing costs.	Please refer to Other Notes to Financial Statements
	2)The amount of borrowing costs capitalised during the previous year.	NIL

X - Provisions, Contingent Liabilities and Contingent Assets"	1)A brief description of the nature of the obligation	A provision shall be recognised when the Assessee has a present obligation as a result of a past event, it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
	2)The carrying amount at the beginning and end of the previous year.	Please refer to Note No. 9 of Financial Statements
	3)Additional provisions made during the previous year, including increases to existing provisions.	Please refer to Other Notes to Financial Statements
	4)Amounts used, that is incurred and charged against the provision, during the previous year.	Please refer to Other Notes to Financial Statements
	5)Unused amounts reversed during the previous year.	Please refer to Other Notes to Financial Statements
	6)The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.	NIl