# Income Computation and Disclosure Standards (ICDS)
# - WIRC of ICAI

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# ICDS – Key Features

- Applicable to ‘All’ assesses following mercantile system of accounting
  - Corporate & Non Corporate Assesses.
  - No Net Worth/Income/Turnover Criteria prescribed for applicability
- Applicable only for computation of income under the head “Profit and gains of business or profession” or “Income from other sources”
- No requirement to maintain separate books for ICDS
- Meant for normal income computation and not for MAT
- In the case of conflict between the Act and ICDS, the provisions of the Act shall prevail.

# ICDS – Applicability

- Was to be applicable from AY 2016-17 (year ending 31 March 2016)
- Subsequent to notification of ICDS, CBDT received representations / implementation issues
- Reference made to expert committee
- Committee recommended certain amendments as well as issuance of clarifications
- Implementation postponed by a year for:
  - Considering revision and Issuance of clarifications
  - Revision of tax Audit Report



- **Now effective from AY 2017-18**

# ICDS – Immediate Implications

- Facilitates Ind-AS adoption
  - Avoid differences due to non-adoption / delay in adoption
  - Adjustments to be made to profits as per financial statement (whether prepared under existing AS or Ind-AS) in accordance with ICDS
- Companies to take ICDS into account for payment of Advance tax
- Impact on Accounting for tax expense in quarterly results

Identification & recognition as income ought to be decided by the provisions of the Act and not ICDS. ICDS deals only with quantification and disclosure (and in some cases the timing of taxability)

# ICDS – V
# Tangible Fixed Assets

# Structure - ICDS – V (19 Paras)

| Paras | Coverage |
|---|---|
| 1 | Scope |
| 2 | Definitions |
| 3 & 4 | Identification of Tangible Fixed Assets |
| 5 – 8 | Components of Actual Cost |
| 9 | Self – Constructed Tangible Fixed Asset |
| 10 – 11 | Non-Monetary Considerations |
| 12 – 13 | Improvements and Repairs |
| 14 – 15 | Valuation of Tangible Fixed Assets in Special Cases |
| 16 | Transitional Provisions |
| 17 | Depreciation |
| 18 | Transfers |
| 19 | Disclosures |

# Assets included

- Land, building, machinery, plant or furniture
  - held with the intention of using for producing / providing goods or services; and
  - not held for sale in the normal course of business
- Stand-by / Servicing equipment
- Specific Spares that cannot be used in isolation of particular asset

# Recognition / Components

- Purchased Asset (Historical cost basis)
  - At Cost (including duties and taxes but net of credit)
  - Add: Direct attributable Expenses
    - Can be subsequent – eg. Changes in Duties, etc.
  - Less: Trade discount / Rebates
  - Adjust: Cost of Forex as per ICDS-VI
    - can be subsequent – as per Sec 43A of the Act
- Self Constructed Asset (Historical cost basis)
  - Direct Cost + Attributable cost of construction
  - Eliminate internal profit (if any)



- Asset acquired for non-monetary considerations

# Improvements / Repairs

- Subsequent additions to the actual cost
  - Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance
  - cost of an addition / extension to an existing asset which is
    - of a capital nature; and
    - which becomes an integral part of the existing tangible fixed asset
- When considered separate asset
  - Any addition / extension, which has a separate identity and is capable of being used even after the existing tangible fixed asset is disposed of, shall be treated as separate asset

# Special Cases

- Where several assets are purchased for a consolidated price, consideration shall be apportioned to various assets on a fair basis
  - ICDS does not specifically indicate valuation is needed
- Fair value of a tangible fixed asset acquired in exchange constitutes cost of asset received
  - No option of adopting fair value of assets given up
- For jointly held assets, the actual cost, accumulated depreciation and WDV to be grouped with fully owned assets in the agreed proportion
  - Asset register to be maintained for such jointly owned assets

# Depreciation and Transfers

- Depreciation to be computed as per the provisions of Section 32 of the Act
- Income from transfer of tangible fixed assets to be recognized as per Section 50 read with various other provisions of the Act

# Transitional Provisions

- Where acquisition / construction completed before 31 March 2015
  - ICDS does not apply
- Where acquisition / construction commenced but not completed before 31 March 2015
  - Asset to be recognized in accordance with ICDS
  - Any CWIP recognized previously to be taken into account
- Where acquisition / construction commenced after 31 March 2015
  - ICDS to completely apply

# Disclosure

- Description of asset / block of assets
- Rate of depreciation
- Actual cost / written down value
- Additions / deductions during the year with dates;
- In case of addition,
  - date put to use; including adjustments on account of—
    - Central Value Added Tax credit claimed and allowed
    - Change in rate of exchange of currency;
    - subsidy or grant or reimbursement
- Depreciation Allowable; and

# AS-10 vs. ICDS V – Key Differences

| Treatment for | AS – 10 | ICDS – V |
| --- | --- | --- |
| Exchange of Assets | Recorded at fair value of assets given up | Recorded at fair value of the assets acquired |
| Revaluation | Accounting treatment clearly prescribed | No mention since Income-tax does not recognize the concept of revaluation |
| Depreciation and treatment at the time of Disposal | Accounting treatment clearly prescribed | Act prescribes specific circumstances and hence ICDS silent |

No mention in ICDS of treatment on pre-construction income – Controversy continues

# Case Study - 1

Rhythm Ltd. was into manufacture of cement. It had acquired an equipment worth Rs.1,20,000 for upkeep of the plant. Further, Rhythm Ltd. also procured a back-up generator for Rs.85,000. However, till the year ending 31 March 2017, neither the equipment nor the generator would use even once.

The CFO of the Company was of the view that since the equipment was not put to use, there should be no effect on the tax calculations of the Company. On the other hand, the head of accounts was of the view that this equipment should be completely charged to Profit & Loss Account, it being of a small value compared to the value of the cement plant as well as the Company's operations

# Case Study - 2

Monsoon Ltd. acquired the business undertaking of Summer Ltd. on a slum sale basis for a consolidated amount of Rs.360 Crores. The net worth of the undertaking included several assets and liabilities, the values to which were not assigned separately. The assets included various tangible assets such as building, machinery, furniture, equipments and vehicles. Mr. Wet, the Managing Director of Monsoon Ltd. got the values of such assets and liabilities in the books of Summer Ltd. and was of the view that the same value could be adopted for the purposes of its books of account as well as a actual cost for tax purposes.

Considering the provisions of ICDS-V, what are your views on suggestion of Mr. Wet?

# Case Study - 3

ABC Ltd., a listed Company acquired office furniture from Global Mart in exchange of its own shares. Accordingly, 3000 shares of ABC Ltd. were allotted to Globalmart. On the date of allotment, the market value of shares of ABC Ltd. opened at 61.25 and closed at 67.70 with a high of 69.10 and a low of 61.20. During the same month, an identical furniture set was also sold by Globalmart to PQR Ltd. at Rs.1,87,000.

In accordance with ICDS-V, what should be the Actual cost of the furniture for Ulhasnagar Ltd. for tax purposes?

# ICDS – VII
# Government Grants

# Structure - ICDS – VII (14 Paras)

| Paras | Coverage |
|---|---|
| 1 & 2 | Scope |
| 3 | Definitions |
| 4 | Recognition of Government Grants |
| 5 – 10 | Treatment of Government Grants |
| 11 & 12 | Refund of Government Grants |
| 13 | Transitional Provisions |
| 14 | Disclosures |

# Scope Inclusions

- Deals with following
  - Subsidies,
  - cash incentives,
  - duty drawbacks,
  - waiver,
  - concessions,
  - Reimbursements
- Provided by
  - Central Government,
  - State Governments,
  - agencies and similar bodies

Could be in Cash or kind

Grants are generally provided for past/future compliance with certain conditions

# Scope - Exclusions

- Government assistance other than in the form of Government grants; and
- Government participation in the ownership of the enterprise.
- Government assistance which cannot have a value placed upon them
- Transactions with Government which cannot be distinguished from the normal trading transactions of the person

# Recognition Criteria

Government grants not to be recognized until there is a '***reasonable assurance***' that-

- Conditions attached to them shall be complied with; and
- The Grants shall be received

Recognition not to be postponed beyond date of actual receipt

# Treatment of Government Grants

| Nature of grant | Treatment |
|---|---|
| Relating to Depreciable Fixed Assets | · Deduct from Actual Cost; or<br>· Reduce from block WDV |
| Relating to Non-depreciable Fixed Assets | · Income over same period in which cost of meeting such obligation charged |
| Relating to assets but not relating to a particular asset | · Proportionately reduce from cost of asset / WDV Block |
| In the from of non-monetary assets at concessional rates | · To be accounted on the basis of acquisition cost |
| As a compensation of expenses / losses / financial support | · Income in period in which it is receivable |
| Other grants not related to fixed assets (residuary) | · Recognize as Income over the periods to match the related costs |

# Refund of Government Grants

| Refund of grants | Treatment |
|---|---|
| Amount refundable in respect to grants charged as income | • Apply to unamortized deferred credit<br>• Balance charge to Profit & Loss Account |
| Amount refundable in respect to grants related to depreciable fixed assets | • Increase Actual cost / WDV of the block of assets<br>• Depreciation on revised cost to be provided prospectively |

# Position Pre-ICDS

- Explanation 10 to Section 43(1)

*43. In sections 28 to 41 and in this section, unless the context otherwise requires—*

*"actual cost" means….*

*Explanation 10.—Where a portion of the cost of an asset acquired by the assessee has been met directly or indirectly by the Central Government or a State Government or any authority established under any law or by any other person, in the form of a subsidy or grant or reimbursement (by whatever name called), then, so much of the cost as is relatable to such subsidy or grant or reimbursement shall not be included in the actual cost of the asset to the assessee*

***Provided that** where such subsidy or grant or reimbursement is of such nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total subsidy or reimbursement or grant the same proportion as such asset bears to all the assets in respect of or with reference to which the subsidy or grant or reimbursement is so received, shall not be included in the actual cost of the asset to the assessee.*

# Position Pre-ICDS

- Capital receipt vs. Revenue receipt
  - Purpose test
    - Sahney Steel & Press Works Ltd (228 ITR 253)(SC)
    - Ponni Sugars & Chemicals Ltd (306 ITR 392)(SC)
- Year of taxability, especially in the case of export incentives
  - Entitlement vs. utilization
    - Excel Industries Ltd (358 ITR 295)(SC)

# Amendment to Section 2(24) of the Act

- Amendment to definition of income by Finance Act 2015

  *(24) "income" includes—*

  *(xviii) assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee other than the subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of section 43*

# Government Grants – Critical Issues

- What is ‘reasonable assurance’?
- Can mere receipt trigger taxability?
  - Can the income accrue pending satisfaction of the obligations / conditions?
  - Mere receipt not enough - Hindustan Housing & Land Development Trust (SC)
- Recognition of unutilized export incentives
  - Can the taxpayer continue to rely on Excel Industries (SC)?
- What happens to:
  - Grants entitled in the past, which are capital in nature, received post 1 April 2015 but not accounted in the past due to uncertainty of its receipt

# Case Study - 1

Zenith Pvt. Ltd. has set up a manufacturing company in a backward area in Maharashtra after signing a contract with the Government of Maharashtra that the Company would receive a grant of Rs.1 Crore to acquire the Plant and Machinery with a condition that the company will first procure the plant and the grant will be released thereafter. During the year ending 31 March 2017, the company had acquired and installed the Plant. However, only part grant of Rs.25 lakhs was released to the company. The Company has made an application for release of the balance amount of Rs.75 lakhs.

The management of the company while finalizing the accounts for the financial year 2016-17 wants to recognize the entire amount as income under the head 'Government

# Case Study - 2

BPO Ltd. is engaged in BPO services and has set up a unit in rural areas of Rajasthan. The state government has agreed to provide the subsidy of Rs.60 lakhs for generating rural employment in a phased manner over 4 years beginning from Financial Year 2016-17 subject to employment of 400 rural workmen in the initial year and a growth of at-least 10 per cent over the next 3 years. BPO Ltd. has employed 430 workmen during the year ending 31 March 2017. Though the subsidy has not been released, BPO Ltd. recognizes the income of Rs.15 lakhs (25 per cent of the entire grant) as income during the year.

Examine if this treatment is in accordance with the ICDS-VII. If not, suggest the correct treatment.

# Case Study - 3

Inconsistent Ltd. had signed a memorandum with the government to receive a subsidy of Rs.80 lakhs for fulfilling certain obligations (unrelated to depreciable assets) over a period of 8 years. Since, the company was estimated that the obligations would be equally met over the period of 8 years and being confident of meeting the conditions, it recognized the income over a period 8 years.

The grant was to be received in advance at the end of first year. In the fourth year, when Inconsistent Ltd. filed a compliance report, government observed that the obligations have not been met in spirit. Therefore, it ordered for a refund of grant to the extent of but also ordered that Rs.58 Crores. What is the impact of such refund on the taxable income of Inconsistent Ltd for the

# ICDS – VIII
## Securities

# Structure - ICDS – VIII (13 Paras)

| Paras | Coverage |
|---|---|
| 1 & 2 | Scope |
| 3 | Definitions |
| 4 – 8 | Recognition and initial measurement of Securities |
| 9 – 13 | Subsequent Measurement of Securities |

No Transitional Provisions

No Disclosures prescribed

# Scope – Inclusions and Exclusions

- Securities shall have same meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956
- Covers only securities held as stock-in-trade and not as an Investment
- ICDS does not deal with:
  - Derivative instruments
  - Securities held by mutual funds, venture capital funds, mutual funds, banks and public financial institutions

# Securities – Salient features

| **Recognition and Initial Measurement** | |
|---|---|
| On acquisition by cash | Security to be recognized as actual cost<br>Cost to include:<br>· Purchase Price<br>· Plus: Acquisition charges such as brokerage, fees, tax etc.<br>· Less: Pre-acquisition Interest |
| Acquisition in exchange for other securities / assets | Fair value of security / assets acquired will be actual cost |
| **Subsequent Measurement (at the end of each year)** | |
| Listed Securities | Lower of cost or NRV* |
| Unlisted or thinly traded Securities | To continue at cost initially recognized |

* Category-wise comparison (Refer Next slide)

# Comparison of Cost and NRV

- Comparison of actual cost and NRV to be done category-wise and not for each individual security
- Securities shall be classified into:
  - Shares
  - Debt Securities
  - Convertible Securities
  - Others (Residuary)

# Treatment of Unpaid Interest

- Unpaid interest accrued before the acquisition of a security that is included in the price of the security,
  - Subsequent receipt of interest to be allocated between pre-acquisition and post-acquisition periods
  - The pre-acquisition portion f the interest is deducted from the actual cost.

# AS-13 vs. ICDS – Key Differences

| Treatment for | AS – 13 | ICDS – VIII |
|---|---|---|
| Coverage | Both Long term as well as Current Investments | Securities held as stock in trade |
| Valuation | Piece-meal basis | Global Basis (Category wise) |
| Securities acquired against other securities | Valued at fair value of shares / securities issued | Valued as fair value of securities acquired |
| Securities acquired against other assets | Valued at cost of asset given up | |
| Unlisted / Thinly traded securities | Valued at Lower of cost or fair value | Valued at cost |

# Securities – Critical Issues

- Not exempting NBFC unjust
  - Valuation prescribed by RBI
  - Different categorization of securities as per RBI guidelines and ICDS may lead to hardship
- Cost method not prescribed
  - For specific securities – Specific Identification method
  - For D-Mat securities - Method not clarified
    - Should FIFO be applied?
- Valuation on Global basis would result in maintaining separate books for tax and would cause undue hardship
- NRV not defined – may lead to litigation

# Case Study – 1

Mr. Investor regularly invests in the stocks market since 2002. He has a portfolio of nearly Rs.60 Lakhs mainly consisting of Index stocks and some of the active mid caps. He also prefers to invest through Initial Public issue.

On notification of ICDS-VIII, he was concerned about its impact on his portfolio and taxable income. He has requested you to analyze ICDS-VIII and explain him the impact including the transitional provisions, if any.

# Case Study – 2

Mr. Dalal is a dealer in shares and securities. He acquired 5,00,000 debentures of face value Rs.100 each in Trade Ltd. against the exchange of land held by him. The cost of the land acquired in 2003 was Rs.1.2 Crore, but its fair market value as on the date of exchange is Rs.4.5 Crore.

What should be the value of security to be recorded in accordance with ICDS-VIII

# Case Study – 3

Trader Ltd. is a dealer in shares and securities. He has following account of securities during the year ending 31 March 2017:

| Date | Securities | Transaction | Quantity | Rate | Brokerage/Taxes |
|---|---|---|---|---|---|
| 01-04-2015 | Shares-A Ltd.<br>Shares-B Ltd.<br>Deb-C Ltd. | Op Bal<br>Op Bal<br>Op Bal | 6,000<br>10,000<br>3,000 | 60.00<br>22.00<br>100.00 | Included in the rate |
| 01-7-2015 | Shares-A Ltd | Purchase | 3,000 | 75.00 | 2% |
| 18-09-2015 | Shares-A Ltd | Purchase | 2,000 | 84.00 | 2% |
| 27-09-2015 | Shares-B Ltd | Sale | 2,000 | 40.00 | 2% |
| 30-09-2015 | Shares-A Ltd | Sale | 4,000 | 94.00 | 2% |
| 12-11-2015 | Shares-B Ltd | Purchase | 7,000 | 31.00 | 2% |
| 17-12-2015 | Deb-C Ltd | Purchase | 2,000 | 120.00 | 1% |

On 31 March 2017, the market price is as below:

| | | | | | |
|---|---|---|---|---|---|
| Shares-A Ltd | Rs.80 | Shares-B Ltd | Rs.21 | Deb-C Ltd | Rs.110 |

# ICDS – IX
# Borrowing Costs

# Structure - ICDS – IX (11 Paras)

| Paras | Coverage |
|---|---|
| 1 | Scope |
| 2 | Definitions |
| 3 & 4 | Recognition |
| 5 & 6 | Borrowing Cost eligible for Capitalization |
| 7 | Commencement of Capitalization |
| 8 & 9 | Cessation of Capitalization |
| 10 | Transitional Provisions |
| 11 | Disclosure |

# Scope

- Borrowing Cost defined Interest and Other Costs incurred in connection with borrowing of funds
- Includes
  - Commitment Charges;
  - Amortized amount of discounts or premiums;
  - Amortized amount of ancillary costs; and
  - Finance charges in respect of assets acquired under finance lease
- Excludes
  - Actual or imputed cost of owners' equity and preference share capital

# Qualifying assets

- Borrowing costs directly attributable to acquisition, construction or production of a "qualifying asset" to be Capitalized
- Qualifying assets
  - Land, building, machinery, plant or furniture, being tangible assets;
  - Know-how, patents copyrights, trade marks, licenses, franchises or any other business or commercial rights of similar nature, being intangible assets;
  - Inventories that require a period of 12 months or more to bring them to a saleable condition

# Capitalization

- Borrowing costs eligible for capitalization
  - Specific borrowing – actual borrowing costs incurred
  - General borrowing – amount to be determined as per prescribed formula (Proportionate Assets)
- Commencement of capitalization
  - Specific borrowing – from the date on which funds were borrowed
  - General borrowing – from the date on which funds were utilized
- Cessation of capitalization
  - Tangible / intangible assets – when the asset is first put to use

# Formula for capitalization of general borrowing cost

**A X B / C**

Where, **A = ** borrowing costs incurred during the previous year except on borrowings directly relatable to specific purposes;

**B =**

(i) the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year;

(ii) in case the qualifying asset does not appear in the balance sheet of a person on the first day or both on the first day and the last day of previous year, half of the cost of qualifying asset;

# Position pre ICDS

- Provisions of Section 36(1)(iii)
  - Core Health Care Ltd [2008] 298 ITR 194 (SC) – No distinction between borrowings for capital or revenue
- Amendment to section 36(1)(iii) by Finance Act 2015
  - Words "for extension of existing business or profession" in the first proviso deleted
- Discount / upfront interest paid on issue of debentures
  - Madras Industrial Investment Corporation Ltd [1997] 225 ITR 802 (SC)
  - Taparia Tools Limited [2015] 372 ITR 605 (SC)
- Ancillary borrowing costs - Stamp duty, registration fee, legal fee, etc.

# Provisions of Section 36(1)(iii) of the Act

*"36. (1) The deductions provided for in the following clauses shall be allowed in respect of the matters dealt with therein, in computing the income referred to in Section 28—*

*(iii) the amount of the interest paid in respect of capital borrowed for the purposes of the business or profession :*

***Provided that** any amount of the interest paid, in respect of capital borrowed for acquisition of an asset **for extension of existing business or profession** (whether capitalized in the books of account or not); for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use, shall not be allowed as deduction."*

# Borrowing Cost – Potential Issues

- Provisio to Section 36(1)(iii) refers only to "acquisition" of asset whereas ICDS refers to "acquisition, construction or production" of qualifying asset
- Supreme Court decisions vs. provisions of ICDS
  - Discount / upfront interest on issue of debentures
  - Ancillary costs in relation to borrowing
  - Capitalization of amortized amount?
- General borrowings
  - Availability of sufficient own funds - potential controversy similar to Section 14A read with Rule 8D of the Rules
  - Commencement of capitalization not as per provisio to Section 36(1)(iii) of the Act

# AS-16 vs. ICDS – Key Differences

| Treatment for | AS – 16 | ICDS – IX |
|---|---|---|
| Borrowing cost | Includes exchange difference attributable to interest on foreign currency borrowing | Excludes exchange difference attributable to interest on foreign currency borrowing |
| Income from temporary investments | Reduced from borrowing cost | Not deducted from borrowing cost but treated as income |
| When development activities interrupted | Capitalization suspended | No such suspension |
| Capitalization formula for general borrowings | Based on weighted average rate | Proportionate Method |

# Case Study - 1

Expansion Ltd. has recently expanded its business by increasing the production capacity through purchase of new plant. The Cost of the plant was Rs. 30 Crores and for the purpose of acquiring the plant, Forget Umbrellas Ltd. had borrowed an amount of Rs. 18 crores from Always Raining Bank at the interest rate of 12% per annum. The amount was borrowed on 01 April 2016. The plant was purchased on 01 June 2016. The commercial production post installation began from 15 November 2016.

No part of loan was repaid till 31 March 2017. Compute the amount at which the asset would be recognized as per ICDS-IX and the amount of interest that would be allowable as deduction for AY 2017-18.

# Case Study – 2

Indebted Ltd. borrowed the following amounts on 1 June 2016:

Loan from bank @ 10% interest p.a. – Rs. 20 crore

Loan from financial institutions @ 11% - Rs.10 crore

The amounts borrowed were utilized as below:

Construction of Plant & Machinery – Rs.25 Crore (Work on such Plant commenced on 1 July 2016 and the asset was put to use on 31 January 2017)

Working Capital – Rs.5 Crores

What is the borrowing cost to be recognized as a part of asset and what part of borrowing cost shall be allowable as

# Case Study – 3

XYZ Ltd. is a company which has an outstanding loan of Rs.130 crore, some of which has been borrowed specifically for the purpose of acquisition of Fixed Asset. The total borrowing cost debited to Profit & Loss account during the year ending 31 March 2017 is Rs.15 Crore, out of which Rs.3 crore relates to amount specifically borrowed for acquisition of qualifying assets.

As per the balance sheet, the value of qualifying asset and total asset on 1 April 2016 is 70 crore and Rs.200 Crore respectively. As on 31 March 2017, the value of qualifying assets and total assets is Rs.90 Crore and Rs.240 Crore respectively.



Compute the amount of borrowing cost to be capitalized.

# ICDS – X
# Provisions, Contingent liabilities & Contingent Assets

# Structure - ICDS – X (21 Paras)

| Paras | Coverage |
|---|---|
| 1 – 3 | Scope |
| 4 | Definitions |
| 5 & 8 | Recognition |
| 9 | Contingent Liabilities |
| 10 & 11 | Contingent Assets |
| 12 & 13 | Measurement |
| 14 – 16 | Reimbursements |
| 17 – 18 | Review |
| 19 | Use of provisions |
| 20 | Transitional provisions |
| 21 | Disclosure |

# ICDS X - Scope

- This ICDS deals with recognition of following:
  - Provisions for liabilities
  - Contingent liabilities
  - Contingent assets
- Exclusions
  - resulting from financial instruments;
  - resulting from executory contracts;
  - arising in insurance business from contracts with policyholders;
  - covered by other ICDS
- Some specific provisioning treatments in the Act specifically not covered in this ICDS:

# Recognition of Provisions

- A provision shall be recognized when:
  - a person 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.

If these conditions not met, no provision shall be recognized.

- No provision shall be recognized for costs that need to be incurred to operate in the future.
- Obligation for proposed law arises only when the legislation is actually enacted

# ICDS X – Pre-ICDS v Post-ICDS

- Recognition of Provisions
  - Pre-ICDS - Provisions recognized if it is ***Probable*** that outflow of economic resources will be required
  - Pot-ICDS - Provision to recognized if it is ***reasonably*** certain that outflow of economic resources will be required
- Recognition of Contingent Liability
  - Not recognized in both pre and post ICDS scenario
- Recognition of Contingent Assets
  - Pre-ICDS - Recognition only in case of virtual certainty regarding inflow of economic benefit (100% sure)
  - Post ICDS - Recognition even in case of reasonable certainty regarding inflow of economic benefit (MLTN)

# Review of Provisions and assets once made

- Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate.
- If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.
- An asset and related income recognized shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate.
- If it is no longer reasonably certain that an inflow of economic benefits will arise, the asset and related income shall be reversed.

# ICDS X – Critical issues

- Provision for liability – Outflow is probable (AS 29) vs. Outflow is reasonably certain (ICDS)
  - Whether test of recognition is more liberal?
- Contingent asset – realization virtually certain (AS 29) vs. reasonably certain (ICDS)
  - Whether this would mean early recognition of asset/income?
    - Recognition of contingent asset/ income could be against the principle laid by many Supreme Court/ High Court decision?
    - Supreme Court in Excel Industries [(2013) 38 taxmann.com 100] has laid down certainty of ultimate collection as important and inevitable principle of recognition of income
- ICDS silent on present obligation which arises out of business custom/practice or such equitable consideration.

# Case Study – 1

The state government of Maharashtra has proposed increase in the rate of taxes in its budget. The budget has been announced but is yet to be enacted as on 31 March 2017. The CFO of Prospective Ltd. wants to recognize this fact and wants to recognize the additional taxes in books of accounts.

What is the position under ICDS-X?

# Case Study – 2

Mobi Ltd. is a manufacturer of a mobile phone and provides warranty of one year on all the mobiles sold. Can the provision for such warranty amount in accordance with

ICDS-X

# Case Study – 3

Sub Ltd. is a subsidiary of Hold Ltd. and is need of funds. Sub Ltd. has borrowed fund from the bank, but in view of low credit standing, banks were unable to provide the loan unless Hold Ltd. provides a Corporate guarantee for such loan.

Hold Ltd. requires your advice on whether it can make provision for the guarantee provided to bank for subsidiary's loan in accordance with ICDS-X

# Glossary of terms

| Abbreviations | Term |
|---|---|
| Act | Income-tax Act, 1961 |
| AOP | Association of Persons |
| AS | Accounting Standard |
| AY | Assessment Year |
| BOI | Body of individuals |
| FIFO | First-in first out |
| Forex | Foreign Exchange |
| ICDS | Income Computation and Disclosure Standards |
| Ind-AS | Indian Accounting Standards |
| MAT | Minimum Alternate Tax |
| MF | Mutual Fund |
| MLTN | More Likely than Not |

| Abbreviations | Term |
|---|---|
| MTM | Mark to Market |
| NBFC | Non Banking Financial Company |
| NRV | Net Realisable Value |
| P & L A/c | Profit and Loss Account |
| Rules | Income-tax Rules, 1962 |
| SC | Supreme Court |
| TAS | Tax Accounting Standards |
| USD | US Dollar |
| VCF | Venture Capital Fund |
| WAC | Weighted Average Cost |
| WDV | Written down value |
| WIP | Work in progress |

Questions ?

Questions ?

Questions ?

Divyang Thakker

# Thank You