
Income Computation and Disclosure Standards

Role and Opportunities for CAs.

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General Principles

General Principles

- Applicable to all taxpayers following mercantile system of accounting
 - For Income under the head Business & Profession and Income from Other Sources
- MAT continues to be governed by books of accounts prepared as per AS / IND AS
- Provision of Income-tax Act, 1961 of the Act to prevail over ICDS

Situation	Key Aspects / Instances
Where there is a specific Section in the Act	Section 43A, 40(a)(ia), 44BB, 44AD.
Where the Act is silent	Based on the Principles under the Act <ul style="list-style-type: none">• Capital vs. revenue S. 2(24), accrual (S. 4, 5), etc

ICDS - Key Areas for Analysis

Key Areas for Analysis

ICDS	Key Areas
ICDS I – Accounting Principles	<ul style="list-style-type: none">• MTM losses not to be recognized unless permitted in other ICDS• Prohibition on recognition of “Expected Loss”• Change in Accounting Policy permitted for any “reasonable cause”• Disclosure
ICDS II - Valuation of Inventories	<ul style="list-style-type: none">• In case of services also, inventories to be valued at cost or NRV• For newly commenced business, cost of inventory on the day of commencement shall be opening inventory• On dissolution of firm, AOP or BOI, inventory to be valued at NRV regardless of whether business is discontinued• Disclosure

Key Areas for Analysis

ICDS	Key Areas for Analysis
ICDS – III Construction Contracts	<ul style="list-style-type: none">• Segregation / combining of contract• Recognition of revenue – commencement of contract -%• Taxability of Retention Money• Deduction for anticipated / actual losses• Transitional provisions• Disclosure
ICDS – IV Revenue Recognition	<ul style="list-style-type: none">• Service Income - Revenue to be recognized on POCM• Interest income – time basis• Royalty income as per agreement terms• Treatment of other revenue streams not covered by ICDS ?• Disclosure
ICDS – V Tangible Fixed Assets	<ul style="list-style-type: none">• Stand-by equipment and servicing equipment to be capitalized• Machinery spares – regular vs. irregular use• Disclosure

Key Areas for Analysis

ICDS	Key Areas for Analysis
ICDS – VI Effect of Changes in Foreign Exchange Rates	<ul style="list-style-type: none">• Non-monetary items carried at fair value (Inventory) – Closing rate v. rate on date of transaction
ICDS – VII Government Grants	<ul style="list-style-type: none">• Amendment by Finance Act 2015• Grants related to non-depreciable asset• Recognition of grant cannot be postponed beyond actual date of receipt• Parental subvention• Transitional provisions• Disclosure

Key Areas for Analysis

ICDS	Key Areas for Analysis
ICDS – VIII Securities	<ul style="list-style-type: none">• Applies to securities held as stock in trade• To impact Stock Brokers, NBFC, others engaged in stock trading• Reduction of pre-acquisition interest – in accordance with prevalent practice
ICDS – IX Borrowing Costs	<ul style="list-style-type: none">• Income from temporary deployment of funds – not to be reduced from Borrowing cost• Ancillary borrowing cost to be capitalized• Foreign exchange effect• Disclosure

ICDS Convergence with Ind AS

Roadmap to Ind AS adoption



Mandatorily applicable for following companies

- Applicable to companies
- Voluntary Adoption
 - Companies whose **net worth** is **Rs. 500 crore or more**
 - Holding, subsidiary, joint venture or associate companies of above companies
 - Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of less than Rs. 500 crore.
 - Unlisted companies having **net worth** of **Rs. 250 crore** or more
 - Holding, subsidiary, joint venture or associate companies of above companies

Thrust on fair value accounting

Ind AS Convergence – Key Impact Areas

- Taxable income based on profit / loss under Ind AS or ICAI AS
 - ICDS will warrant adjustments to Ind AS
- Income base for MAT
- Deviation in tax liability based on Ind AS / ICAI AS
- Mismatch in Revenue recognition - characterisation & timing
 - Withholding (TDS) implication
 - Indirect taxes (VAT/ Service tax)
- Mandatory fair value recognition for business reorganisation

ICDS impact under Ind AS regime to be evaluated

Opportunities for CA's

ICDS Impact Review

- Review of transitions from ICAI-AS to Ind AS
- Impact analysis of deviations of Ind AS from ICAI-AS
- Impact Analysis of ICDS (overall tax cost, cashflow, etc)
- Tax impact analysis of deviations of ICDS from Ind AS

Opportunities for CA's

Phase I – Preliminary impact assessment

- Review ICDS and identify key variations relevant to business operations
- Identify potential tax impact areas and areas for detailed analysis

Phase II – Detailed impact analysis

- Determine tax treatment of identified areas
- Impact on MAT computation, recognition and classification issues, measurement issues, deductibility of expenses, DDT payment, etc.
- Determine overall impact
- Test the validity of current tax positions under Ind AS regime

Phase III – Compliance processes

- Tax Computation, Disclosure in Tax Return, Audit Report details as per ICDS?
- Preparation of scrutiny assessment with back up data
- Alignment with other laws Eg indirect tax

Questions?