INCOME COMPUTATION AND DISCLOSURES STANDARDS

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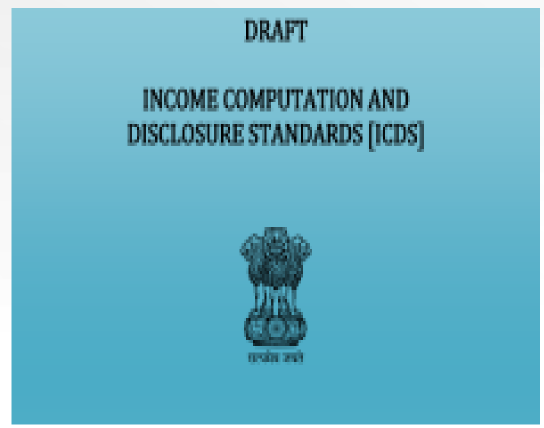
ICDS – A new paradigm for Computing Taxable Income

The Ministry of Finance has issued ten Income Computation and Disclosure Standards (ICDS), operationalising a new framework for computation of taxable income by all assesses in relation to their income under the heads *‘Profits and gains of business or profession’ and ‘Income from other Sources’.*

ICDSs are expected to fill up gap by bringing consistency and clarity in computation of computation of taxable income and providing stability in tax treatments of various items.

These Standards are applicable from A.Y. 2016-17 i.e. applicable immediately with effect from 1 April 2015.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INCOME COMPUTATION AND DISCLOSURE STANDARDS [ICDS]

Need for the ICDS -

The adoption of ICDS could significantly alter the way organizations compute their taxable income. These ICDS have also been developed with a view to minimising tax related disputes by bringing greater consistency in the application of accounting principles governing the computation of income.

Taxable profits would now be determined after making appropriate adjustments to the financials to bring them in conformity with ICDS.

As a result, the resultant computations of taxable income and net income as per financials could be significantly different.

ICDS I : ACCOUNTING POLICIES

1

- ICDS does not recognise the concept of *Prudence*.

2

- ICDS is silent on the treatment of *mark-to-market* unrealised gains.

3

- Further, the concept of *materiality* which is important consideration in preparing financial statements has not been considered under ICDS.

ICDS II : VALUATION OF INVENTORIES

1

- This ICDS 2 is corresponding to Accounting Standard-2 .

2

- This Standard doesn’t applies to WIP arising under Construction Contracts; WIP dealt with any other ICDS; Shares, Debentures and other financial instruments held as Stock-in-Trade and Machinery Spares.

3

- Cost of Inventories shall comprise of all costs of purchase, cost of services, costs of conversion and other cost incurred in bringing the inventories to their present location and condition.

ICDS III : CONSTRUCTION CONTRACTS

1

- ICDS does not permit accounting under the completed contract method, and mandates only the percentage of completion method.

2

- ICDS prescribes non-recognition of margins during the early stages of the contract and thus allowing contract revenue to be recognised only to the extent of costs.

3

- In addition, ICDS on Construction Contracts does not permits the recognition of expected losses on onerous contracts.

ICDS IV : REVENUE RECOGNITION

1
- ICDS IV is corresponding to Accounting Standard (AS)-9

2
- Revenue shall be recognised when there is reasonable certainty of its ultimate collection.

3
- ICDS does not contain detailed guidance on recognition of revenue as a gross or net which may impact turnover computation u/s 44AB of the Act.

ICDS V : TANGIBLE FIXED ASSETS

1

- ‘Tangible Fixed Asset’ is an asset being land, building, machinery, plant or furniture held with intention of being used for the purpose of producing or providing goods or services and is held for sale in normal course of business.

2

- When a tangible fixed is acquired in exchange for another asset, the fair value of the tangible fixed so acquired shall be its actual cost.

3

- Depreciation on a tangible fixed shall be computed in accordance with the provisions of the Income Tax Act, 1961.

ICDS VI : THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

1

- This Standard is corresponding to Accounting Standard-11

2

- In respect of monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or expense in that previous year.

3

- ICDS provides that the exchange differences on translation of non-integral foreign operations to be recognised as an income or expense unlike under existing AS.

ICDS VII : GOVERNMENT GRANTS

1

- ICDS does not permit the capital approach for recording of government grants.

2

- ICDS requires accounting of all grants either to be reduced from cost of assets or recognised as income either immediately or over a period of time, depending on the nature of grants.

3

- Initial recognition of government grants cannot be postponed beyond the date of actual receipt even though all the recognition conditions in accordance with AS are not met.

ICDS VIII : SECURITIES

1

- This ICDS deals with Securities held as Stock-in- Trade.

2

- This ICDS does not deals with Securities held by a person engaged in the business of Insurance; Securities held by mutual funds; Venture Capital Fund (VCF); banks and public financial institutions.

3

- Where unpaid interest accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

ICDS IX : BORROWING COST

1. This ICDS deals with the treatment of Borrowing Costs.
2. This ICDS does not deal with actual or imputed cost of owners equity and preference share capital.
3. To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.

ICDS X : PROVISIONS, CONTINGENT LIABITIES AND CONTINGENT ASSETS

1

- Unlike existing AS, ICDS requires recognition of provisions only if it is ‘reasonably certain’. It excludes from its ambit onerous contracts.

2

- ICDS requires recognition of contingent assets when the inflow of certain economic benefits is reasonably certain.

3

- No provision shall be recognised for costs that need to be incurred to operate in the future.

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