INCOME COMPUTATION AND DISCLOSURE STANDARDS (ICDS)- NEW

Flash News!!!

The Central Government in exercise of the Powers conferred in 145(2) of the Income tax Act, 1961 notifies[1] Income Computation and Disclosure Standards ('ICDS') to be followed by all assessees (other than exempted[2]) following mercantile system of accounting for the purpose of computing income under the head 'Profits and Gains of Business or Profession' or 'Income from Other Sources'.

This Notification will apply from Assessment Year 2017-18 and subsequent assessment years.

The major changes in the latest ICDS are summarized as follows:-

ICDS II-VALUATION OF INVENTORIES:

- ***Method of Measurement:-***

Standard Cost method was allowed as a technique for measure of cost of inventories. The new change provides for regular review of normal levels of consumption of materials, supplies, labour, efficiency and capacity utilization.

- ***Cost of Service:-***

The cost of services shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads (The term 'Service provider' in the existing ICDS was removed)

- ***Disclosure:***-

The accounting policies adopted in measuring inventories including the cost formula used. Where Standard Costing has been used as a measurement of cost, details of such inventories and confirmation of the fact that standard cost approximates the actual cost.

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[1] 29-09-2016

[2] Individual or HUF who is not required to get his accounts audited U/S 44AB.

ICDS III- CONSTRUCTION CONTRACTS:

- ***Transitional Provisions:-***

Contract revenue and contract costs associated with the construction contract which commenced on or before 31st March 2016 but not completed by the said date shall be recognized based on the method regularly followed by the person prior to the previous year beginning on 1st April 2016.

(Existing ICDS provides for recognition of contract revenue and cost with respect to contract commenced on or before 31st March 2015 but not completed by the said date shall recognize in accordance with provisions of this standard.)

ICDS IV- REVENUE RECOGNITION:

- ***Revenue from Services with short duration:-***

Revenue from service contracts with duration of not more than 90 days may be recognized when the rendering of services under that contract is completed or substantially completed. (New)

- ***Revenue from Services:-***

Revenue from services provided by indeterminate number of acts over a specific period of time is recognized on straight line basis over the specific period. (New)

- ***Interest on refund of tax etc:-)***

Interest on refund of any tax, duty, cess shall be income of the previous year in which such interest is received. *(New)*

ICDS V- TANGIBLE FIXED ASSETS:

- ***Valuation of Tangible Fixed Assets in Special Cases:-***

Details of Jointly Owned tangible fixed assets are not required to be indicated separately in the tangible fixed assets register.

<u>ICDS VI -EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES</u>:

- ***<u>Financial Statements of Foreign Operations:-</u>***

The Financial Statements of Foreign Operations shall be translated as if the transactions of the foreign operations had been those of the person himself. (Integral or Non integral operation classification withdrawn)

- ***<u>Conversion at Last Date of Previous Year:</u>***

Non-monetary item being inventory which is carried at NRV denominated in Foreign Currency shall be reported using the exchange rate that existed when such value was determined. (New)

<u>ICDS VIII-SECURITIES:</u>

- ***<u>Definition of Securities:-</u>***

Securities shall include share of a company in which public are not substantially interested but shall not include derivatives. (New)

- ***<u>Subsequent Measurement of Securities:-</u>***

For value of securities held as a stock in trade at the end of the previous year or value of securities held as a stock in trade on the beginning of the previous year or securities not listed on recognized stock exchange or listed but not quoted on recognized stock exchange regularly from time to time where actual cost initially recognized cannot be ascertained by reference to specific identification , the cost of such security shall be determined on the basis of FIFO method of Weighted Average Cost formula. (New)

- ***<u>New Chapter Part B:-</u>***

This part of the standard deals with securities held by scheduled bank or public financial institution formed under Central or State Act or so declared under the Companies Act, 1956 or Companies Act, 2013.

ICDS IX- BORROWING COSTS:

- ***Borrowing Costs Eligible for Capitalisation:-***

Specific and non-specific borrowing costs eligible for Capitalisation shall cease when such asset is first put to use or when substantially all the activities necessary to prepare such inventory for its intended sale are complete. (New)

Changes in Form 3CD:-

- ***In clause 13 (For sub clause (d) the following shall be substituted):-***

Information about the adjustment required to be made to the profits or loss for compliance with ICDS.

If yes, details of such adjustments are required to be furnished. (Net effect of adjustments)

Disclosures of information as per ICDS need to be furnished. (WEF 01-04-2017)

Contributed by
CA. RAMPRASAD
Partner,
SBS AND COMPANY, LLP
Chartered Accountants