Income Computation & Disclosure Standards

SN & Co
Chartered Accountants

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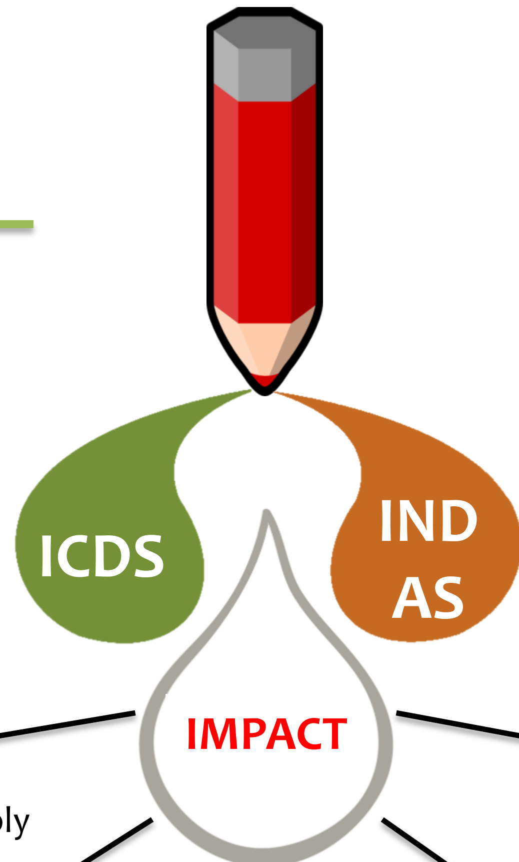
Accounting Standards

ICDS

- Consistency and clarity in accounting treatment for tax purposes
- Closing the diversity in approaches for tax treatment

IND AS

- Transparency in financial reporting
- Convergence with IFRS – enhancing international comparability of financial statement



- Diverse process and systems to comply with different laws
- Multiplicity of records
- Reconciliations
- Complexities

INCOME COMPUTATION AND DISCLOSURE STANDARDS

- New standards for tax purposes
- 10 ICDS notified, applicable with effect from financial year beginning April 2016

i. Accounting Policies .
ii. Valuation of Inventories.
iii. Construction Contracts.
iv. Revenue Recognition.
v. Tangible Fixed Assets.
vi. Effects of changes in foreign exchange rates.
vii. Government Grants.
viii. Securities .
ix. Borrowing Costs .
x. Provisions, Contingent Liabilities and Contingent Assets.

What may Change??

1. Advance Tax
2. Tax Audit Report
3. Computation of Income
4. Tax Return
5. Deferred Tax
6. Provision for Tax

ICDS - VI

Effects of changes in foreign exchange rates.

Treatment of forward contracts other than for speculation pourpose

Case Study

- Indian Company has entered into a contract with foreign enterprise for export of services worth USD 1, 50,000.
- On 1 March 2016, the contract was partly executed to the extent of USD 75,000 and therefore debtors were recorded and are outstanding in the books as on 31 Mar 2016.
- Balance USD 75,000 is firm commitment to be exported before 31 July 2016
- Indian Company enters into forward contract with bank to hedge its currency exposure of USD 1, 50,000 on 1 March 2016.
- What would be the treatment as per 'AS' vis-à-vis 'IND AS' vis-à-vis 'ICDS'??

Date	Spot Rate	Forward Rate
01/03/2016	1 USD=Rs 50	1 USD=Rs 48
31/03/2016	1 USD=Rs 45	1 USD=Rs 47

Solution

Amount in Rs

Particulars	AS	IND AS	ICDS
Discount of Forward contract (50 – 48 = 2 * 75,000 / 5)	(30,000)	N.A.	(30,000)
Exchange difference on Monetary Items (50 – 45 = 5 * 75,000)	(3,75,000)	(3,75,000)	(3,75,000)
Exchange difference on Forward contracts (50 – 45 = 5 * 75,000)	Not to be recognized	3,75,000	3,75,000
Marked to Market Loss / Gain (48-47=1*75,000)	(75,000)	N.A.	N.A.
Net Gain / Loss	**(4,80,000)**	**-**	**(30,000)**

Conclusion

- On this grounds we can conclude that all the notional profits & loss which were previously allowed & booked are now to be postponed to the future settlement date.

APPROACH

Identify open contract and open interest (discount/premium) to amortized over period of contract – as per ICDS

Present

Subsequent

All the premiums & discounts on the current outstanding contracts are to be recognized as per IND AS

Foreign Borrowings

Monetary Item

ICDS

- Recognised to P&L subject to 43A
- Treatment of capital vs revenue other than imported assets

Impact On P & L

IND AS

- To be recognized in Profit/loss.

Impact On P & L

Impact of Foreign Exchange

Foreign Asset

Non-Monetary Item

ICDS

- To recognized on historical cost
- Not to be recognized in profit/loss .

IND AS

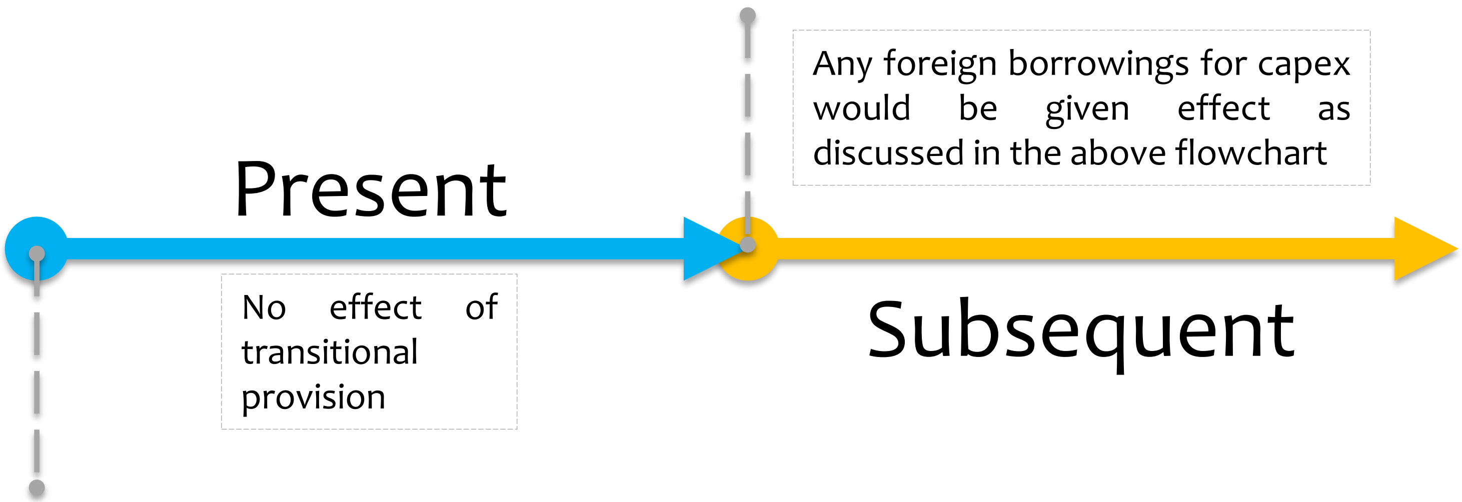
- To be recognized in Profit/loss.

Points to be Considered:

"**Monetary items**" are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Cash, receivables, and payables are examples of monetary items.

"**Non-monetary items**" are assets and liabilities other than monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items.

APPROACH



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ICDS - X

Provisions, Contingent Liabilities & Contingent Assets

Case Study-Provisions, Contingent Assets & Contingent liabilities.

Year 1	INDAS	ICDS
Provision	(100)	(100)
Onerous Contract	(100)	Not Recognized
Reimbursement/ Contingent Assets	-	75
Net Effect	(200)	(25)
Total Income	400	500
Tax has been paid as per Normal tax		

Year 2	INDAS	ICDS
Onerous Contract	-	(100)
Reimbursement/ Contingent Assets	75	Earlier being recognized
Net Effect	75	(100)
Total Income	300	200
Tax is being paid as per MAT provision and in subsequent year, Company is into MAT provisions only.		

Case Study-Transitional Provision

Transitional Provision – Treatment in FY 2016-17

Particulars	Amount
Opening provision b/f from	100 Cr (F.Y 2015-16)
Add: C.Y Provision (F.Y 2016-17)	200 Cr
Total Provision	300 Cr
Less: provision recognized in accordance with ICDS Criteria	(50 Cr)
Provision to be Recognized	250 Cr

Conclusion Drawn – Provisions, Contingent Assets & Contingent liabilities.

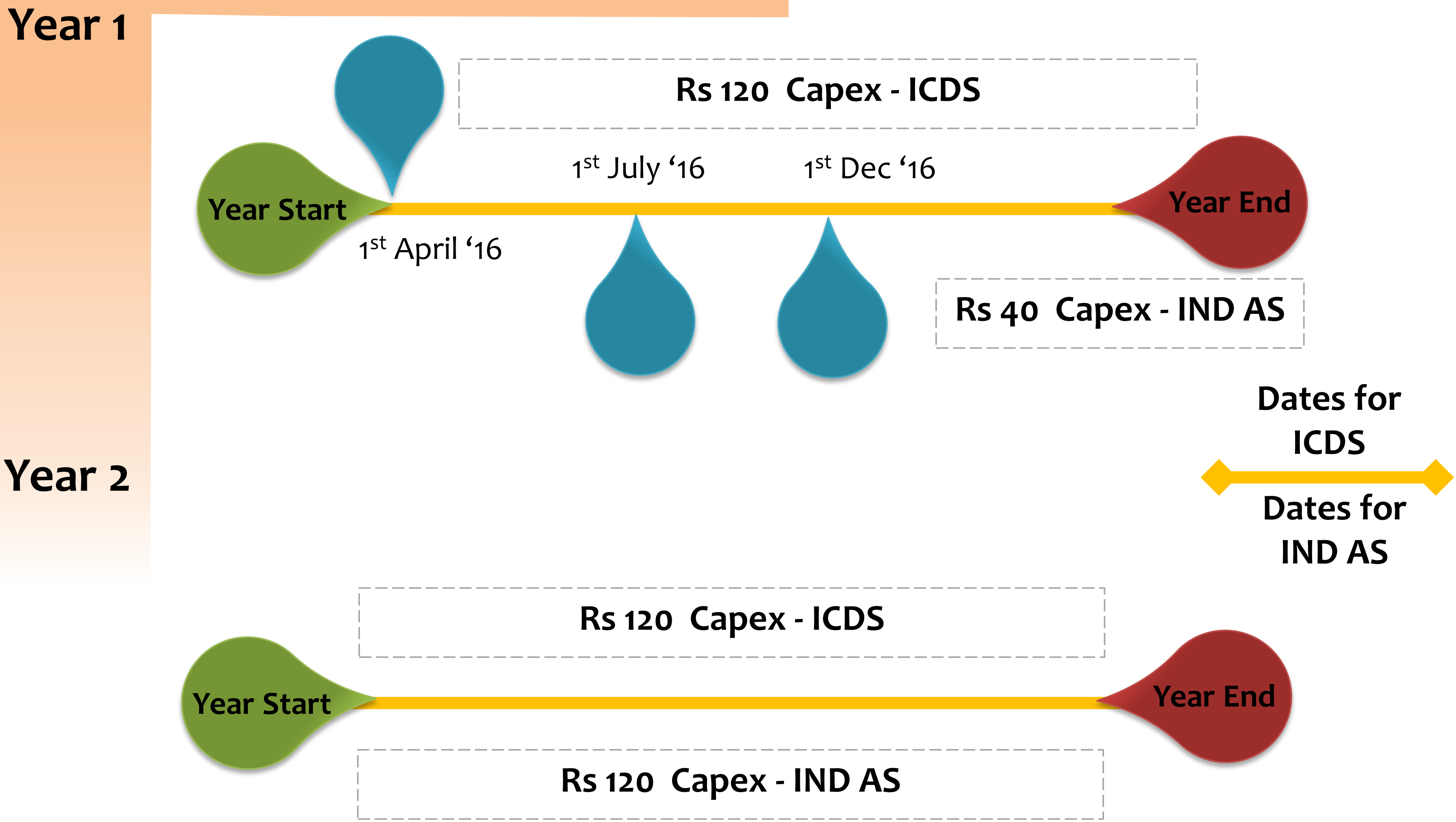
Particulars	Certainty Criteria	INDAS	ICDS
Onerous Contract	Reasonable certain	Y	N
	Virtually certain	Y	Y
Reimbursement/Contingent Assets	Reasonable certain	N	Y
	Virtually certain	Y	Y
Provision	Probable certain	Y	N
	Reasonable certain	Y	Y

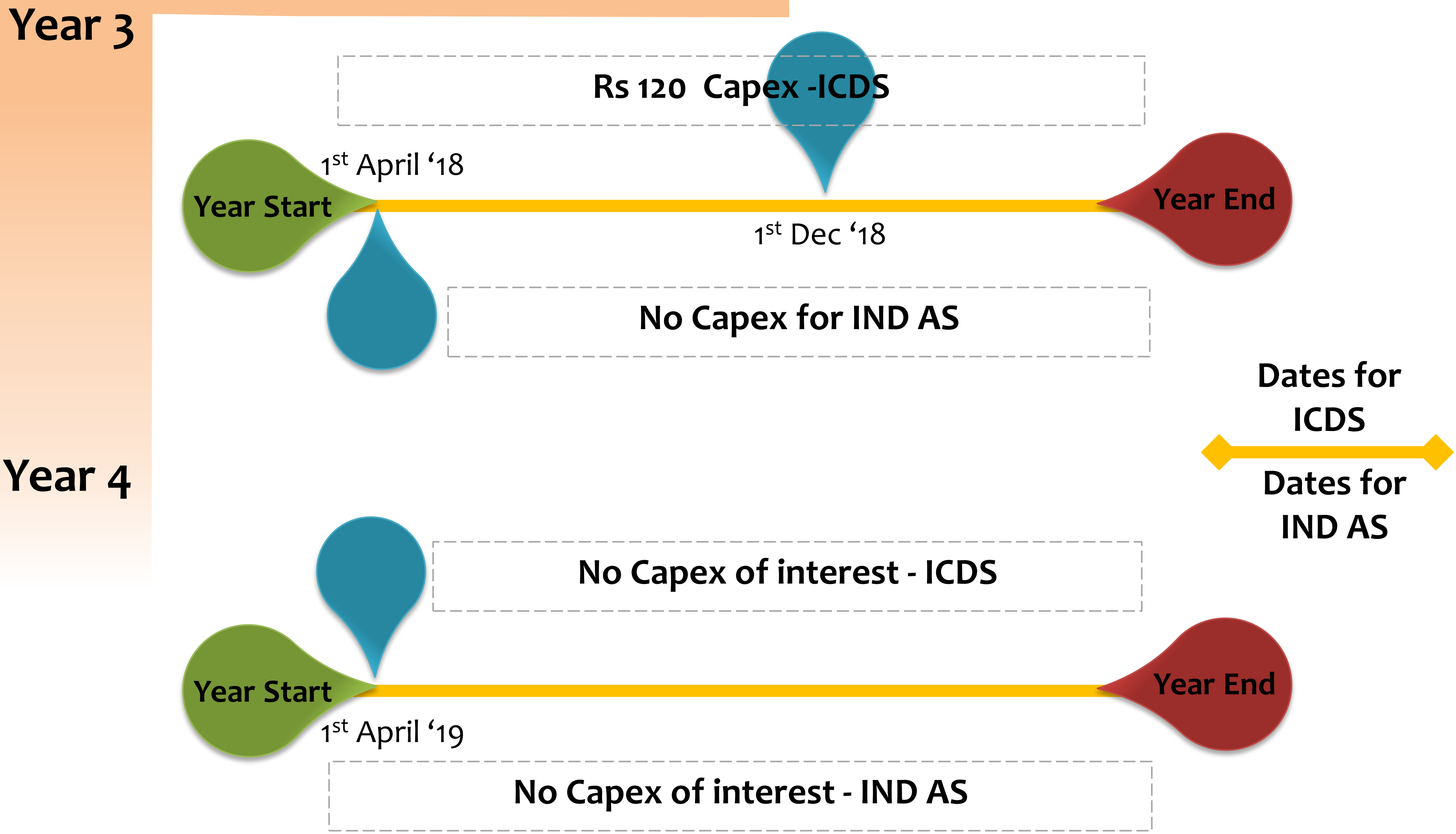
ICDS - IX

Borrowing Cost

Case Study-Allocation of Specific Borrowing cost

- Loan obtain on 01/04/2016 for Rs 1,000 for construction of P&M @ 12% p.a.
- Date of Actual utilization of fund :01/07/2016
- Date of initiation of development or its intended use: 01/12/2016
- Date when all substantial activities are completed and asset is ready for its intended use :01/04/2018
- Date of Trail Run:01/12/2018
- Date when asset put to use:01/04/2019


Year 1
Rs 120 Capex - ICDS
Year Start
1st April '16
1st July '16
1st Dec '16
Year End
Rs 40 Capex - IND AS
Dates for ICDS
Dates for IND AS
Year 2
Rs 120 Capex - ICDS
Year Start
Year End
Rs 120 Capex - IND AS


Year 3
Rs 120 Capex -ICDS
1st April '18
Year Start
Year End
1st Dec '18
No Capex for IND AS
Dates for ICDS
Dates for IND AS
Year 4
No Capex of interest - ICDS
Year Start
Year End
1st April '19
No Capex of interest - IND AS

Final Impact caused on books and computation →

Particulars	ICDS	INDAS
Total Borrowing Cost	120+120+120 = 360	40+120 = 160
Less: Temporary Income	(to be recognized in Profit/loss)	100
Net Amt to be Capitalised	360	60
Change in Tax position		

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Particulars	ICDS	INDAS
Capitalization of Borrowing Cost		
Commencement		
Specific	Date of Borrowing	Date of expenditure and activities started for its intended use
General	Date of utilization	
Cessation		
Specific	Date of Asset put to use (after trail run period)	When substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete
General		
Temporary Income	To shown as Income	To reduce from cost of asset
12 months qualifying condition for construction & development & acquisition is only for general & not specific borrowing		

Case Study-Allocation of General Borrowing cost

- Interest Cost on general borrowing =100 (A)
- Utilization on QA (excluding specific QA)=300 (B)
- Avg value of QA (excluding specific QA) = 400 (B1)
- Average Asset Value -1500 (excluding specific QA) (C)
- General Borrowing outstanding =500 (D)

Fixed Basis

As per ICDS	As per IND AS
Formulae: A*B1/C	= A/D *100
=100*400/1500	=100/500*100
	=20% being capitalization rate
Capitalization =Rs 26.67	=Rs 60
Change in tax position	

Rate Basis

- Interest considered in (A) for capitalization is after effect of disallowances
- Allocation of General borrowing cost is to be done asset-by-asset basis.

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ICDS - II

Valuation of Inventories

Cost to be Included

- Cost of Purchased Goods (Incl Taxes &Duty)
- Freight Inwards
- Cost of Service
- Fixed Overheads
- Variable Overheads
- Other cost directly attributable

Cost to be Excluded

- Storage Cost
- Selling & Distribution Cost
- Administrative Overheads
- Other Abnormal production costs.

Overhead Cost Allocation Method

“Actual/Standard Cost per unit * Produced Units”

“based on production facilities”

Fixed Overheads allocation mechanism

- Allocation on basis normal capacity – actual production if near to normal
- If increase in actual production – reduce allocation per unit
- If decrease in actual production – unallocated cost charge to P&L

ICDS - V

Tangible Fixed Assets

Asset =	
Land, building, machinery, plant or furniture	✓
held with the intention of using for producing / providing goods or services; and	✓
Held for sale in the normal course of business	✗

Particulars	Treatment in the books	
Trial Run Expenses	ICDS	INDAS
	Capex	Revenue Expenditure

<u>Treatment for Spares</u>

- Stand by and servicing equipment – Capitalize
- Machinery Spare charge to P&L on consumption base
- Machinery Spares irregularly used with fixed asset to be capitalized

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Chartered Accountants
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Borivali (W) :::: Sion (W)
Tel No. 022-28910968
+91-9699710968
Website: www.snco.in
Email Id: office@snco.in

Thank you

Disclaimer:

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