

**Overview**  
**of**  
**Income Computation and Disclosure Standards**  
**(ICDS – Applicable from AY 2016-17)**  
*{Under section 145(2) of the Income Tax Act, 1961}*

**Statutory Provisions of Section 145**

1. **Section 145(1)** of the Income Tax Act, 1961 *{hereinafter referred to as ‘the Act’}* provides that the **income chargeable** under the head –
  - “Profits and gains of business or profession” **or**
  - “Income from other sources” shall, **subject to the provisions of sub-section (2)**, be **computed** in accordance with –
    - either **cash**
    - or **mercantile**system of **accounting** regularly employed by the assessee.
2. **Section 145(2)** of the Act, **provided** that the Central Government may notify in the Official Gazette from time to time **“accounting standards”** to be followed by any **class of assesseees or** in respect of any **class of income**.
3. Till now, the CBDT had, **vide Notification No. 9949 {F. No.132/7/95-TPL/ S.O 69(E)}** **dated the 25<sup>th</sup> January, 1996** notified, following two accounting standards:
  - Accounting Standard I : relating to disclosure of accounting policies.
  - Accounting Standard II : relating to disclosure of **prior period and extraordinary items and changes in accounting policies**.
4. The aforesaid notification reads as follows:

**“Section 145 of the Income Tax Act, 1961**  
**Method of accounting**

**Accounting Standard I relating to disclosure of accounting policies**  
*{Notification No. 9949 (F.No. 132/7/95-TPL) /SO 69(E), dated 25-1-1996}*  
***{Since superseded by notification No. 32/2015 (F. No. 134/48/2010-TPL) /***  
***SO 892(E), dated 31-3-2015}***

In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies the following accounting standards to be followed by all assesseees following the mercantile system of accounting, namely:

**A. Accounting Standard I relating to disclosure of accounting policies:**

(1) All **significant accounting policies** adopted in the preparation and presentation of **financial statements** shall be disclosed.

(2) The **disclosure of the significant accounting policies** shall form part of the **financial statements** and the significant accounting policies shall normally be **disclosed in one place**.

(3) Any **change in an accounting policy** which has a **material effect** in the previous year or in the years subsequent to the previous years shall be disclosed. The **impact** of, and the adjustments resulting from, such change, if material, shall be shown in the **financial statements** of the period in which such change is made to reflect the **effect of such change**. Where the effect of such change is not ascertainable, wholly or in part, the fact shall be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the previous year but which is reasonably expected to have a material effect in any year subsequent to the previous year, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted.

(4) Accounting policies adopted by an assessee should be such so as to represent a true and fair view of the state of affairs of the business, profession or vocation in the **financial statements** prepared and presented on the basis of such accounting policies. For this purpose, the major considerations governing the selection and application of accounting policies are the following, namely:--

(i) **Prudence**.--Provisions should be made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information;

(ii) **Substance over form**.--The **accounting treatment and presentation** in **financial statements** of transactions and events should be governed by their **substance and not** merely by the *legal form*;

(iii) **Materiality**.-- **Financial statements** should disclose all material items, the knowledge of which might influence the decisions of the user of the **financial statements**.

(5) If the fundamental accounting assumptions relating to **going concerns, consistency and accrual** are followed in **financial statements**, specific disclosure in respect of such assumptions is not required. If a fundamental accounting assumption is not followed, such fact shall be disclosed.

(6) For the purposes of paragraphs (1) to (5), the expressions,--

(a) "**Accounting policies**" means the specific accounting principles and the methods of applying those principles adopted by the assessee in the preparation and presentation of financial statements;

(b) "**Accrual**" refers to the assumption that **revenues and costs** are accrued, that is, recognised as they are **earned or incurred** (and not as money is received or paid) **and** recorded in the **financial statements** of the periods to which they relate;

(c) "**Consistency**" refers to the assumption that accounting policies are consistent from one period to another;

(d) "**Financial statements**" means any statement to provide information about the financial position, performance and changes in the financial position of an assessee and includes -

- \* balance-sheet,
- \* profit and loss account **and**
- \* other statements **and**
- \* explanatory notes forming part thereof;

(e) "**Going concern**" refers to the assumption that the assessee has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation **and** intends to continue his business, profession or vocation for the foreseeable future.

**B. Accounting standard II relating to disclosure of prior period and extraordinary items and changes in accounting policies:**

(7) **Prior period items** shall be separately disclosed in the **profit and loss account** in the previous year together with their **nature and amount** in a manner so that their **impact** on profit or loss in the previous year can be perceived.

(8) **Extraordinary items** of the enterprise during the previous year shall be disclosed in the **profit and loss account** as part of income. The **nature and amount** of **each such item** shall be separately disclosed in a manner so that their relative significance **and** effect on the **operating results** of the previous year can be perceived.

(9) A **change in an accounting policy** shall be made only if the adoption of a different accounting policy is **required by statute or** if it is considered that the change would result in a **more appropriate** preparation **or** presentation of the **financial statements** by an assessee.

(10) Any **change in an accounting policy** which has a material effect shall be disclosed. The **impact** of, **and** the adjustments resulting from such change, if material, shall be shown in the financial statements of the period in which such change is made to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact shall be indicated. If a change is made in the accounting policies which

has no material effect on the financial statements for the previous year but which is reasonably expected to have a material effect in years subsequent to the previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted.

(11) A **change in an accounting estimate** that has a material effect in the previous year shall be disclosed **and** quantified. Any change in an accounting estimate which is reasonably expected to have a material effect in years subsequent to the previous year shall also be disclosed.

(12) If a question arises as to whether a **change** is a **change in accounting policy or a change in an accounting estimate**, such a question shall be referred to the Board for decision.

(13) For the purposes of paragraphs (7) to (12), the expressions:--

(a) "**Accounting estimate**" means an estimate made for the purpose of preparation of financial statements which is based on the circumstances existing at the time when the financial statements are prepared;

(b) "**Accounting policies**" means the specific accounting principles and the method of applying those principles adopted by the assessee in the preparation and presentation of financial statements;

(c) "**Extraordinary items**" means **gains or losses** which arise from **events or transactions** which are distinct from the ordinary activities of the business and which are both material and expected **not to recur** frequently **or** regularly. Extraordinary items include material adjustments necessitated by circumstances which though related to the years preceding the previous years are determined in the previous year :

Provided that income **or** expenses arising from the **ordinary activities** of the business **or** profession **or** vocation of an assessee though abnormal in amount or infrequent in occurrence shall not qualify as extraordinary items.

(d) "**Financial statements**" means any statement to provide information about the financial position, performance and changes in the financial position of an assessee and includes -

- \* balance-sheet,
- \* profit and loss account **and**
- \* other statements **and**
- \* explanatory notes forming part thereof;

(e) "Prior period items" means **material charges or credits** which arise in the previous year as a result of **errors or omissions** in the preparation of the **financial statements** of one or more previous years :

Provided that the **charge or credit** arising on the outcome of a contingency, which at the time of occurrence could not be estimated accurately shall not constitute the correction of an error but a change in estimate and such an item shall not be treated as a prior period item.

This notification shall come into force with effect from 1st day of April, 1996, and shall accordingly apply to the assessment year 1997-98 and subsequent assessment years."

### Law w.e.f 1.4.2015

5. The Finance Act (No.2), 2014 had **substituted** the expression "**accounting standard**" by "**income computation and disclosure standard**", and accordingly, w.e.f. 1.4.2015 **section 145(2)** reads as follows:

*"The Central Government may notify in the Official Gazette from time to time "**income computation and disclosure standards**" to be followed by any class of **assesseees or** in respect of any class of **income**."*

6. **Section 145(3)** of the Act provided that where the **Assessing Officer** is –

- **not satisfied** about the -
  - correctness **or**
  - completenessof the **accounts** of the assessee, **or**
- where the **method of accounting** provided in sub-section (1) **or**
- **accounting standards** as notified under sub-section (2),  
has **not been regularly followed** by the assessee",

the Assessing Officer **may** make an assessment in the manner provided in **section 144**.

7. The Finance Act (No.2), 2014 had **also substituted** the words and expression "**or accounting standards as notified under sub-section (2), has not been regularly followed by the assessee**" **by** "**has not been regularly followed by the assessee, or income has not been computed in accordance with the standards notified under sub-section (2)**" w.e.f 1.4.2015.

8. Accordingly, w.e.f. 1.4.2015 **section 145(3)** reads as follows:

*"Where the **Assessing Officer** is not satisfied about the **correctness or completeness** of the **accounts** of the assessee, **or** where the **method of accounting** provided in sub-section (1) "**has not been regularly followed by the assessee, or income has not been computed in accordance with the standards notified under sub-section (2)**", the **Assessing Officer may** make an assessment in the manner provided in **section 144**.*

9. The analysis of the amended **Section 145(3)** is as follows:

- where the **Assessing Officer**
- is **not satisfied** about the -
  - **correctness or**
  - **completeness** of the **accounts** of the assessee, **or**
- where the **method of accounting** provided in sub-section (1) has not been **regularly** followed by the assessee, **or**
- **income has not been computed in accordance with the standards notified under sub-section (2)**,
- the Assessing Officer **may** make an assessment in the manner provided in **section 144**.

10. **Section 145** of the Act may be summarised as follows:

#### **Section 145(1)**

- Section 145(1) provides two systems of accounting *i.e.*
  - cash system
  - mercantile system
- either of which is required to be **employed regularly**
- for **computation** of **income chargeable** under the heads –
  - ‘profits and gains of business of profession’, or
  - ‘income from other sources’
- subject to the provisions of section 145(2) of the Act.

#### **Section 145(2)**

- Section 145(2) empowers the Central Government to notify
- ‘income computation and disclosure standards’
- to be **followed** by any class of assessee **or**
- in respect of any class of income

#### **Section 145(3)**

- Section 145(3) empowers the Assessing officer to make assessment in the manner provided in **section 144** {best judgment assessment} under following circumstances:
  - where he is **not** satisfied about the **correctness or completeness** of the **accounts** of the assessee, **or**
  - where the **method of accounting** provided in sub-section (1) has **not** been **regularly** followed by the assessee, **or**
  - where **income** has **not** been **computed** in accordance with the standards notified under sub-section (2) *i.e.* **‘income computation and disclosure standards’**.

- It means that besides the circumstances enumerated in clauses (a), (b) and (c) of section 144(1) of the Act, best judgment assessment u/s 144 **may** be made under either of the aforesaid three circumstances.
  - Here we are concerned with '**Income Computation and Disclosure Standards**'.
  - Accordingly, if any assessee fails to **compute his income** in accordance with these standards, he **may** expose himself to the proceedings u/s 144 of the Act.
11. Section 145(1) r/w section 145(2) and 145(3) requires from AY 2016-17 all assessees to **compute** their **income chargeable** under the heads -
- 'profits and gains of business of profession', **or**
  - 'income from other sources'
- in accordance with the notified '**Income Computation and Disclosure Standards**'.
12. To better understand the mandate of **section 145** with regards to adherence to '**Income Computation and Disclosure Standards**', it is imperative to look into other relevant provisions of the Act. These standards are required to be followed for –
- computing
  - chargeable
  - incomes
- under two specified heads
13. The aforesaid three words are **emanated** from the charging **section 4(1)** of the Act.
- 13.1 **Section 4(1)** reads as follows:  
*"Where any Central Act enacts that income-tax shall be **chargeable** for any assessment year at any rate or rates, income-tax at that rate or those rates shall be charged for that year in accordance with, and subject to the provisions (including provisions for the levy of additional income-tax) of, this Act in respect of the **total income** of the previous year."*
- 13.2 As per aforesaid provisions income-tax is chargeable in respect of the **total income**.
- 13.3 "**Total income**" is defined in **section 2(45)** of the Act, according to which  
*"total income" means the total amount of **income** referred to in **section 5**, **computed** in the manner laid down in this Act."*
- 13.4 As per the above definition "**total income**" is the –
- total amount of income
  - referred to in **section 5**
  - computed
  - in the manner
  - laid down in this Act

- 13.5 It means that –
- income-tax is **chargeable**
  - in respect of **total income**
  - which comprises total amount of **income**
  - which (income) is referred to in **section 5**, and
  - which is **computed** in the manner laid down in this Act
- 13.6 **Section 2(24)** of the Act provides inclusive definition of “**income**”.
- 13.7 It means that “**total income**” encompasses more than one **income**, which may be of different nature and may be from different source.
- 13.8 Further, such income must be the ‘income’ which is referred to in **section 5** of the Act.
- 13.9 In means that **before** computing the ‘**income**’ in the manner laid down in the Act, such ‘**income**’ is to be tested under the provisions of **section 5**. If such ‘**income**’ **does not fall in line** of the provisions of **section 5**, the provisions of the Act relating to computation of income shall not apply to such income; **and** if the provisions of the Act **does not apply** for computing the income **or** any income is not capable of being computed in the manner laid down in the Act, such ‘**income**’ cannot be charged to tax u/s 4(1) of the Act as it will not comprise in the ‘**total income**’.
- 13.10 **Section 5** of the Act of the Act provides the provisions relating to “**scope of total income**”.
- 13.10.1 **Section 5** is divided into two sub-sections.
- 13.10.2 **Sub-section (1)** relates to a ‘**person**’ who is ‘**resident**’.  
*{resident is defined in section 2(42) of the Act, according to which a person is ‘resident’ for the purposes of section 5(1) if he is ‘resident in India’ within the meaning of section 6 of the Act.}*
- 13.10.3 **Sub-section (2)** relates to a ‘**person**’ who is ‘**non-resident**’.  
*{non-resident is defined in section 2(30) of the Act, according to which a person is ‘non-resident’ for the purposes of section 5(2) if he is ‘not a resident’. It means that he is not a resident in India within the meaning of section 6 of the Act. Non-resident also includes for the purposes of section 92, 93 and 168 a person who is ‘not ordinarily resident’ within the meaning of section of clause (6) of section (6) of the Act.}*



- 13.10.4 **Section 5(1)** brings into the scope of ‘total income’ of any previous year of a person who is **resident** -
- all incomes
  - derived from whatever source
  - which is -
    - **received or** deemed to be received ‘in India’ in such year by or on behalf of such person; **or**
    - **accrues or arises** or deemed to accrue or arise to him ‘in India’ during such year; **or**
    - **accrues or arises** to him ‘outside India’ during such year.

- 13.10.5 **Section 5(2)** brings into the scope of ‘total income’ of any previous year of a person who is **non-resident** -
- all incomes
  - derived from whatever source
  - which is -
    - **received or** deemed to be received ‘in India’ in such year by or on behalf of such person; **or**
    - **accrues or arises** or deemed to accrue or arise to him ‘in India’ during such year; **or**

- 13.10.6 The ‘scope of total income’ provided in **section 5(1) and section 5(2)** is clarified in the following explanations:

**Explanation 1.** - Income accruing or arising outside India **shall not be** deemed to be received in India within the meaning of this section by reason only of the fact that it is taken into account in a **balance sheet prepared in India.**

**Explanation 2.** - For the removal of doubts, it is hereby declared that income which has been included in the total income of a person on the basis that it has accrued or arisen or is deemed to have accrued or arisen to him **shall not again be** included on the basis that it is received or deemed to be received by **him in India.**

- 13.11 In order to derive **“total income”** for charging the same to income-tax u/s 4(1) of the Act, **such incomes** {which are covered in the scope of total income as provided in section 5 of the Act} are to be **computed** in the **manner** laid down in this Act.

- 13.12 It means that before **various incomes** are aggregated to form **total income**, they are required to be **computed** in the **manner** laid down in this Act.

- 13.13 The mechanism of **computation of total income** is provided in **section 14** of the Act *{Heads of income}*, according to which for the purposes of **computation of total income** for charging the same to income-tax, **all incomes** shall be classified under the following heads of income:
- A. - Salaries.
  - B. - {since omitted}
  - C. - Income from house property.
  - D. - Profits and gains of business or profession.
  - E. - Capital gains.
  - F. - Income from other sources.
- 13.14 For the purpose of **computation** of income chargeable under the head “**Profits and gains of business or profession**”-
- **Section 28** provides that the **incomes** mentioned in clause (i) to (vii), r/w *Explanation 2* thereof, shall be **chargeable** to income-tax under the head “Profits and gains of business or profession”
  - **Section 29** provides that the **income** referred to in section 28 shall be **computed** in accordance with the provisions contained in sections 30 to 43D.
- 13.15 Similarly, for the purpose of **computation** of income chargeable under the head “**Income from other sources**” -
- **Section 56(1)** provides that income of every kind which is not to be excluded from the total income under this Act shall be **chargeable** to income-tax under the head “Income from other sources”, if not chargeable to income-tax under any of the heads specified in section 14, item A to E.
  - **Section 56(2)** provides that in particular, and without prejudice to the generality of the provisions of sub-section (1), the incomes mentioned in clause (i) to (ix), shall be **chargeable** to income-tax under the head “Income from other sources”
  - **Section 57 and 58** are the **computation** sections under the head “Income from other sources”.
    - **Section 57** provides that the income chargeable under the head “Income from other sources” shall be **computed** after making the deductions specified under clause (i) to (iv) thereof.
    - **Section 58(1)** provides that notwithstanding anything to the contrary contained in section 57, the amounts mentioned in clause (a) and (b) thereof shall not be deductible in **computing** the income chargeable under the head “Income from other sources”.

- Further **section 58(1A) and 58(2)** provides that –
  - *the provisions of section 40(a)(iia);*
  - *the provisions of section 40A*shall, so far as may be, apply in **computing** the income chargeable under the head “Income from other sources” as they apply in computing the income chargeable under the head “Profits and gains of business of profession”.
  
- And further **section 59(1)** provides that –
  - *the provisions of section 41(1)*shall apply, so far as may be, in **computing** the income of an assessee under section 56, as they apply in computing the income of an assessee under the head “Profits and gains of business of profession”.

14. From the aforesaid provisions it is clear that the **incomes chargeable** under the heads –

- ‘profits and gains of business of profession’
- ‘income from other sources’

are to be **computed** in accordance with the aforesaid provisions.

15. Further, **section 145(1) r/w section 145(2)** provides that the **incomes so computed** shall be required to be **computed also** -

- in accordance with the regularly employed cash **or** mercantile system of accounting, **and**
- the **notified ‘Income Computation and Disclosure Standards’**.

16. Thus, the notified “**income computation and disclosure standards**” are **mandatory** for **computing incomes chargeable** under aforesaid two heads of income in order to charge the same to income-tax u/s 4(1) of the Act.

17. The above amendments in section 145 were made as a rationalisation measure with the objectives of -

- reduction of litigation;
- minimization of alternatives; and
- giving certainty to issues

on the recommendation of Accounting Standard Committed constituted by the CBDT on 20<sup>th</sup> December, 2010, which had submitted its final Report on 14<sup>th</sup> August, 2012, according to which the “**Accounting Standards**” notified under the Act ***should be made applicable only to the computation of taxable income and a tax payer should not be required to maintain books of account on the basis of the “Standards” notified under the Act.***

### **Background and Objectives of TAS**

18. **Section 145** of the Income-tax Act, 1961 ('the Act') stipulates that the method of accounting for computation of income under the heads "Profits **and gains of business or profession**" **and** "Income from other sources" can either be cash or mercantile system of accounting.
19. The **Finance Act, 1995** empowered the Central Government to notify the Accounting Standards for any class of assessee or for any class of income.
20. Explaining the **reason for introduction of this provision** *{Section 145(2) empowering to issue notification of tax accounting standards}*, it was stated that there is **flexibility** in the standards issued by the Institute of Chartered Accountants of India (ICAI) which makes it possible for an assessee to avoid the payment of correct taxes by following a particular system **and**, therefore, there is an **urgent need to standardize** one **or** more of the **alternatives in various standards, so that** income for tax purpose can be computed **precisely and objectively**.
21. With this intention **a Committee was formed in 2002** which submitted its final report in November 2003 which contained the following **main recommendations**:
  - (i) It would be **impractical** for a tax payer **to maintain two sets of books of account** one in accordance with the Accounting Standards issued by the ICAI **and** another set in accordance with the Accounting Standards to be notified under the Act. The Committee, therefore, recommended that the Accounting Standards issued by the ICAI should be notified under the Act **without any modifications**.
  - (ii) **Appropriate legislative amendments** should be made to the Act to prevent any scope for leakage of revenue on account of notification of Accounting Standards issued by the ICAI.
22. Keeping in mind certain **significant developments** since the Committee 2002 submitted its report, CBDT considered it appropriate to form **another committee** keeping in mind following **notable developments**:
  - (i) The Government of India through the Ministry of Corporate Affairs (**MCA**) has notified **twenty eight Accounting Standards** issued by the ICAI, under the Companies Act, 1956.

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(ii) The Government of India has decided **to converge Indian Accounting Standards with the International Financial Reporting Standards (IFRS)**. The MCA, being the nodal agency for this convergence has placed 35 converged Accounting Standard (Ind-AS) on its website vide press release dated 25.02.2011.

(iii) In the absence of notification of Accounting Standards under the Act, **uncertainty and litigation** continues on various accounting related issues such as –

- accounting for construction contracts,
- foreign exchange fluctuations **and**
- government grants.

23. With this back ground **and** the objectives CBDT has constituted **another Accounting Standards Committee** ('the Committee') comprising of departmental officers and professionals vide Order No.134/48/2010-SO (TPL) dated 20<sup>th</sup> December 2010 and set the **terms of reference** of this Committee are as under:

(i) to study the **harmonization** of Accounting Standards issued by the ICAI with the direct tax laws in India, **and** suggest Accounting Standards which need to be adopted under section 145(2) of the Act along with the relevant modifications;

(ii) to suggest **method for determination of tax base (book profit) for the purpose of MAT** in case of companies migrating to IFRS in the initial year of adoption and thereafter; **and**

(iii) to suggest appropriate amendments to the Act in view of **transition to Ind-AS regime**.

24. Thus the subsequent Committee was constituted -

- to achieve **harmonization** *{to make uniform and compatible}* **between the Accounting Standards issued by the ICAI with the provisions of the Act** for the purposes of notification under the Act **and**
- to suggest amendments to the Act necessitated by **transition to Indian Accounting Standards (Ind-AS) / International Finance Reporting Standards (IFRS)**.

so that **incomes** under the head 'profits and gains of business of profession' and 'Income from other sources' be **computed precisely and objectively and leakages in revenue be prevented**.

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25. The Committee **deliberated** on whether Accounting Standards issued by the ICAI can be notified under the Act without modification.
26. The Committee **also deliberated** on whether after notification of the Accounting Standards under the Act, the taxpayer is required to maintain **two sets of books of account i.e.** one in accordance with the Accounting Standards issued by the **ICAI and** another in accordance with the Accounting Standards notified under the **Act**.
27. The Committee **concluded** that the **Accounting Standards** to be notified under the Act **need harmonization** {to make uniform and compatible} with the provisions of the Act.
28. The committee while framing the Tax Accounting Standards, **broadly, adhered to the principles** of –
  - 'reduction of litigation',
  - 'minimization of alternatives' and
  - giving 'certainty to issues'.
29. The Committee **recommended** that -
  - the Accounting Standards to be notified under the Act should be made applicable **only to** the computation of taxable income **and**
  - a taxpayer **need not maintain separate set of books of account** on the basis of these notified Accounting Standards **and**
  - the Accounting Standards to be notified under the **Act** may be termed as "Tax Accounting Standards" (TAS), to **distinguish the same** from the Accounting Standards issued by the **ICAI**.
30. Accordingly, the Central Government has, vide **Notification No. 32/2015** dated 31<sup>st</sup> March, 2015, notified '**ten**' such standards, which shall be applicable from **FY 2015-16** relevant for **AY 2016-17**. The text of the Notification and its analysis are as follows:

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**GOVERNMENT OF INDIA  
MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)  
(CENTRAL BOARD OF DIRECT TAXES)  
INCOME-TAX**

*[Notification No.32/2015, F. No. 134/48/2010-TPL dated 31<sup>st</sup> March, 2015]*

**S.O. 892 (E)** In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961) and in **supersession of the notification** of the Government of India in the Ministry of Finance, Department of Revenue, published in the Gazette of India, Part II, Section 3, Sub-section (ii), vide **number S.O 69(E) dated the 25<sup>th</sup> January, 1996**, except as respects things done or omitted to be done before such supersession, the Central Government **hereby notifies the income computation and disclosure standards** as specified in the Annexure to be followed by **all assessees, following the mercantile system of accounting**, for the purposes of **computation of income chargeable** to income-tax under the head “Profit and gains of business or profession” **or** “Income from other sources”. This notification shall come into force **with effect from 1st day of April, 2015**, and shall accordingly apply to the **assessment year 2016-17 and subsequent assessment years**.

**Comments**

1. To facilitate properly understanding the aforesaid notification, it is being dissected as follows:
  - In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961) and
  - in **supersession of the notification** of the Government of India in the Ministry of Finance, Department of Revenue, published in the Gazette of India, Part II, Section 3, Sub-section (ii), vide **number S.O 69(E) dated the 25<sup>th</sup> January, 1996**,
  - except as respects things done or omitted to be done before such supersession,
  - the Central Government
  - **hereby notifies**
  - **the income computation and disclosure standards**
  - as specified in the **Annexure**
  - to be followed by **all assessees**,
  - **following the mercantile system of accounting**,
  - for the purposes of **computation of income** chargeable to income-tax under the head
    - “Profit and gains of business or profession” **or**
    - “Income from other sources”.
  - This notification shall come into force with effect from 1st day of April, 2015,
  - and shall accordingly
  - apply to the assessment year 2016-17
  - and subsequent assessment years.

**List of notified Income Computation & disclosure standards**

- A. Income Computation and Disclosure Standard I relating to accounting Policies.
- B. Income Computation and Disclosure Standard II relating to valuation of inventories.
- C. Income Computation and Disclosure Standard III relating to construction contracts.
- D. Income Computation and Disclosure Standard IV relating to revenue recognition.
- E. Income Computation and Disclosure Standard V relating to tangible fixed assets.
- F. Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates.
- G. Income Computation and Disclosure Standard VII relating to government grants.
- H. Income Computation and Disclosure Standard VIII relating to securities.
- I. Income Computation and Disclosure Standard IX relating to borrowing costs.
- J. Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets.

2. Following information has been required to be furnished in the **ITR-4, ITR-5 and ITR6** for the **AY 2016-17**.

| <b>Part A- OI</b>        |          | <b>Other Information (optional in a case not liable for audit under section 44AB)</b>                                                                                    |                          |
|--------------------------|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|
| <b>OTHER INFORMATION</b> | <b>1</b> | <b>Method of accounting employed in the previous year</b>                                                                                                                | <b>1</b><br>Cash         |
|                          | <b>2</b> | <b>Is there any change in method of accounting</b>                                                                                                                       | <b>2</b><br>No           |
|                          | <b>3</b> | <b>Effect on the profit because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2) [column 11(iii) of Schedule ICDS]</b> | <b>3</b><br><br><b>0</b> |



| Part A- OI        |   | Other Information (optional in a case not liable for audit under section 44AB)                                                                                    |                 |
|-------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| OTHER INFORMATION | 1 | Method of accounting employed in the previous year                                                                                                                | 1<br>Mercantile |
|                   | 2 | Is there any change in method of accounting                                                                                                                       | 2<br>No         |
|                   | 3 | Effect on the profit because of deviation, if any, as per Income Computation Disclosure Standards notified under section 145(2) [column 11(iii) of Schedule ICDS] | 3<br>0          |

| Schedule ICDS |                                                          | Effect of Income Computation Disclosure Standards on profit |
|---------------|----------------------------------------------------------|-------------------------------------------------------------|
| Sl. No.       | ICDS                                                     | Amount                                                      |
| (i)           | (ii)                                                     | (iii)                                                       |
| I             | Accounting Policies                                      |                                                             |
| II            | Valuation of Inventories                                 |                                                             |
| III           | Construction Contracts                                   |                                                             |
| IV            | Revenue Recognition                                      |                                                             |
| V             | Tangible Fixed Assets                                    |                                                             |
| VI            | Changes in Foreign Exchange Rates                        |                                                             |
| VII           | Government Grants                                        |                                                             |
| VIII          | Securities                                               |                                                             |
| IX            | Borrowing Costs                                          |                                                             |
| X             | Provisions, Contingent Liabilities and Contingent Assets |                                                             |
| XI            | Total Net effect (I+II+III+IV+V+VI+VII+VIII+IX+X)        | 0                                                           |

3. Part A – OI {other information} is -
  - mandatory for assessee liable for audit u/s 44AB, **and**
  - optional for assessee not liable for audit u/s 44AB
4. “ICDS” are **not applicable** to assessee who follows **cash system of accounting**.
5. On the contrary “ICDS” are **mandatory** for all assessee who follows **mercantile system of accounting**.

6. Therefore, the assessee following mercantile basis of accounting, **whether or not** liable for tax audit u/s 44AB, have to make compliance of “ICDS” while reporting **“profit” and “Income”** chargeable under the heads -

- “Income from business or profession” **and**
  - “Income from other sources”
- respectively.

7. In case of the assessee **liable for tax audit u/s 44AB**, they are mandatorily required to fill item No. 3 of Part A of OI {Other information}.

8. The figure aforesaid in item No.3 shall be imported by the Form utility itself from column 11(iii) of “Schedule ICDS” reproduced hereinabove, which is the aggregate amount of **“effect of Income Computation and Disclosure Standards on profit”**.

9. If the title of the ‘standards’ is simply read, it reads as follows:

**“Income Computation and Disclosure Standards”**

10. If the title is read from the reverse side, it will sound as follows:

- **Standards** to **compute income**
- **Standards** to make **disclosures**

11. When we read the notified ‘standards’ (ICDS) we will realize that they require **all assessee** to comply them with regards to -

- **computation** of income chargeable under the heads –
  - “Income from business or profession”
  - “Income from other sources”
- making **disclosures** as required by the respective **standard**

12. It may be pertinent to note that the notified ‘Standards’ (ICDS) relates to following **issues and components forming part of computation of incomes** under the aforesaid heads of income:

- (1) Significant accounting policies.
- (2) Valuation of inventories.
- (3) Construction contracts.

- (4) Recognition of revenue in the course of the ordinary activities from -
    - (i) the sale of goods;
    - (ii) the rendering of services;
    - (iii) the use by others of the person's resources yielding –
      - interest,
      - royalties **or**
      - dividends
  - (5) Treatment of tangible fixed assets.
  - (6) Effect of changes in foreign exchange rates, particularly -
    - treatment of transactions in foreign currencies;
    - translating the financial statements of foreign operations;
    - treatment of foreign currency transactions in the nature of forward exchange contracts.
  - (7) Government grants such as –
    - subsidies,
    - cash incentives,
    - duty drawbacks,
    - waiver,
    - concessions,
    - reimbursements, etc.
  - (8) Securities held as stock-in-trade.
  - (9) Treatment of borrowing costs –
    - interest **and**
    - other costs incurred by a person in connection with the borrowing of funds and include:
      - commitment charges on borrowings;
      - amortised amount of discounts or premiums relating to borrowings;
      - amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
      - finance charges in respect of assets acquired under finance leases or under other similar arrangements.
  - (10) **Provisions, contingent liabilities and contingent assets, except those:**
    - (a) resulting from financial instruments;
    - (b) resulting from executory contracts;
    - (c) arising in insurance business from contracts with policyholders; and
    - (d) covered by another Income Computation and Disclosure Standard.
13. Therefore, the assessee is **not obliged** to take care of **any other** issue, aspect **or** component relating to **computation of income or disclosure**.
14. The 'Preamble' of all the '**Standards**' (ICDS) provides that they are not applicable purpose of **maintenance of books of accounts**.

15. Further the **‘Preamble’** of all the **‘Standards’** (ICDS) provides that in case of **conflict** between the provisions of the Income-tax Act, 1961 (‘the Act’) **and** the Income Computation and Disclosure Standards, **the provisions of the Act shall prevail to that extent.**
16. The words **“Disclose” and “Disclosure”** used in all the ICDS are **neither** defined in the aforesaid notification **nor** in any of the ICDS **and nor** in the Income Tax Act, 1962 **and nor** the rules framed there under.
17. The literary meaning of the words **“Disclosure” and “Disclose”** is –
- make known,
  - make a secret known,
  - make a new information known,
  - allow something hidden to be seen.
- 18. Therefore, it is big question as to where and in which manner the “disclosures” required under the ICDS are to be made.**
19. It may not be out of place to mention that in the following **‘Accounting Standards’** earlier notified by the CBDT u/s 145(2) of the Act **vide Notification No. 9949 {F. No.132/7/95-TPL/ S.O 69(E)} dated the 25<sup>th</sup> January, 1996**, the **“Disclosures”** were required to be made in the **‘financial statements’**:
- Accounting Standard I : relating to disclosure of accounting policies.
  - Accounting Standard II : relating to disclosure of **prior period and extraordinary items and changes in accounting policies.**
- and therein **‘financial statements’** was defined as follows:
- (d) **"Financial statements"** means any statement to provide information about the financial position, performance and changes in the financial position of an assessee and includes -
- \* balance-sheet,
  - \* profit and loss account **and**
  - \* other statements **and**
  - \* explanatory notes forming part thereof;
20. However, in all the ICDS it is **not** mentioned that the required **‘disclosures’** are to be made in the **‘financial statements’**.
21. **Part A – OI {other information}** of the **ITR-4, ITR-5 and ITR-6** require an assessee to fill numeric value in item No. 3, which in fact will be imported by the form utility itself from column 11(iii) of “Schedule ICDS” given in these ITR forms, which is the aggregate amount of **“effect of Income Computation and Disclosure Standards on profit”**.

22. **Part A – OI {other information}** of the **ITR-4, ITR-5 and ITR-6** is **mandatory** for the assesses who are liable to get their accounts audited u/s 44AB **and optional** for assesses who are not liable to get their accounts audited. **It means** that in case of **tax audit returns** the information in ‘Schedule ICDS’ and aforesaid item No. 3 of Part – A of {Other information} ICDS is supposed to come from ‘**tax audit report in Form 3CD**’. **It means** that the ‘**tax audit report in Form 3CD**’ **is expected to be amended** qua compliance required to be made for ICDS.

## **ICDS**

23. Following are the notified “**Income Computation and Disclosure Standards**”:

### **Annexure**

*{See notification No. 32/2015, F. No. 134/48/2010-TPL, dated 31<sup>st</sup> March, 2015}*

#### **A. Income Computation and Disclosure Standard I** **relating to accounting Policies**

##### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of **conflict** between the provisions of the Income-tax Act, 1961 (‘the Act’) **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

##### **Scope**

1. This Income Computation and Disclosure Standard deals with significant accounting policies.

##### **Fundamental Accounting Assumptions**

2. The following are fundamental accounting assumptions, namely:—

###### **(a) Going Concern**

“**Going concern**” refers to the assumption that the person has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation and intends to continue his business, profession or vocation for the foreseeable future.

(b) **Consistency**

“**Consistency**” refers to the assumption that accounting policies are consistent from one period to another;

(c) **Accrual**

“**Accrual**” refers to the assumption that **revenues and costs** are **accrued**, that is, recognised as they are **earned or incurred**, and not as money is received or paid **and** recorded in the previous year to which they relate.

**Accounting Policies**

3. The accounting policies refer to the specific **accounting principles and the methods** of applying those principles adopted by a person.

**Considerations in the Selection and Change of Accounting Policies**

4. Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs **and** income of the business, profession or vocation. For this purpose,

- (i) the **treatment and presentation of transactions and events** shall be governed by their substance **and not** merely by the legal form; **and**
- (ii) marked to market loss **or** an expected loss **shall not** be recognised **unless** the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

5. An accounting policy shall not be changed without reasonable cause.

**Disclosure of Accounting Policies**

6. All significant accounting policies adopted by a person shall be **disclosed**.

7.1. Any change in an accounting policy which has a material effect shall be **disclosed**.

7.2 The amount by which any item is affected by such change shall also be **disclosed** to the extent ascertainable.

7.3 Where such amount is not ascertainable, wholly or in part, the fact shall be indicated.

7.4 If a change is made in the accounting policies which has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the fact of such change shall be appropriately **disclosed** in the previous year in which the change is adopted and also in the previous year in which such change has material effect for the first time.

8. **Disclosure** of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.
- 9.1. If the fundamental accounting assumptions of Going Concern, Consistency and Accrual are followed, specific **disclosure** is **not** required.
- 9.2 If a fundamental accounting assumption is **not** followed, the fact shall be **disclosed**.

### **Transitional Provisions**

10. All contract **or** transaction **existing** on the 1st day of April, 2015 **or entered into** on or after the 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income, expense or loss, if any, recognised in respect of the said contract or transaction for the previous year ending on or before the 31st March, 2015.

## **B. Income Computation and Disclosure Standard II** **relating to valuation of inventories**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

### **Scope**

1. This Income Computation and Disclosure Standard shall be applied for valuation of inventories, except :

- (a) Work-in-progress arising under 'construction contract' including directly related service contract which is dealt with by the Income Computation and Disclosure Standard on construction contracts;
- (b) Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;
- (c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;

(d) Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value;

(e) Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, shall be dealt with in accordance with the Income Computation and Disclosure Standard on tangible fixed assets.

### **Definitions**

2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) **“Inventories”** are assets:

- (i) held for sale in the ordinary course of business;
- (ii) in the process of production for such sale;
- (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(b) **“Net realisable value”** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

### **Measurement**

3. Inventories shall be valued at cost, or net realisable value, whichever is lower.

### **Cost of Inventories**

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

### **Costs of Purchase**

5. The costs of purchase shall consist of purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.

### **Costs of Services**

6. The costs of services in the case of a service provider shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.



### **Costs of Conversion**

7. The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.

8. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion shall be based on the normal capacity of the production facilities. Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant. Unallocated overheads shall be recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above the cost. Variable production overheads shall be assigned to each unit of production on the basis of the actual use of the production facilities.

9. Where a production process results in more than one product being produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis. Where by-products, scrap or waste material are immaterial, they shall be measured at net realisable value and this value shall be deducted from the cost of the main product.

### **Other Costs**

10. Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

11. Interest and other borrowing costs shall not be included in the costs of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in the Income Computation and Disclosure Standard on borrowing costs.

### **Exclusions from the Cost of Inventories**

12. In determining the cost of inventories in accordance with paragraphs 4 to paragraphs 11, the following costs shall be excluded and recognised as expenses of the period in which they are incurred, namely:—

- (a) Abnormal amounts of wasted materials, labour, or other production costs;

- (b) Storage costs, unless those costs are necessary in the production process prior to a further production stage;
- (c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition ;
- (d) Selling costs.

### **Cost Formulae**

#### 13. The Cost of inventories of items

- (i) that are not ordinarily interchangeable; **and**
- (ii) goods or services produced and segregated for specific projects shall be assigned by specific identification of their individual costs.

14. **‘Specific identification of cost’** means specific costs are attributed to identified items of inventory.

15. Where there are a large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.

### **First-in First-out and Weighted Average Cost Formula**

16. Cost of inventories, other than the inventory dealt with in paragraph 13, shall be assigned by using the First-in First-out, FIFO, or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

17. The FIFO formula assumes that the items of inventory which were purchased or produced first are consumed or sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average shall be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances.

### **Retail Method**

18. Where it is impracticable to use the costing methods referred to in paragraph 16, the retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins. The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin. The percentage used takes into consideration inventory, which has been marked down to below its original selling price.

### **Net Realisable Value**

19. Inventories shall be written down to net realisable value on an item-by-item basis. Where 'items of inventory' relating to the same product line having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to net realisable value on an aggregate basis.

20. Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.

21. Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.

### **Value of Opening Inventory**

22. The value of the inventory as on the beginning of the previous year shall be

(i) the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

(ii) the value of the inventory as on the close of the immediately preceding previous year, in any other case.

### **Change of Method of Valuation of Inventory**

23. The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.

### **Valuation of Inventory in Case of Certain Dissolutions**

24. In case of dissolution of a partnership firm or association of person or body of individuals, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the net realisable value.

### **Transitional Provisions**

25. Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1st day of April, 2015, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginning on or after 1<sup>st</sup> day of April, 2015 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1st day of April, 2015.

### **Disclosure**

26. The following aspects shall be **disclosed**, namely:—

- (a) the accounting policies adopted in measuring inventories including the cost formulae used; **and**
- (b) the total carrying amount of inventories **and** its classification appropriate to a person.

## **C. Income Computation and Disclosure Standard III** **relating to construction contracts**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

### **Scope**

1. This Income Computation and Disclosure Standard should be applied in determination of income for a construction contract of a contractor.

### **Definitions**

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) **“Construction contract”** is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes :

(i) contract for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects;

(ii) contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

(b) **“Fixed price contract”** is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which may be subject to cost escalation clauses.

(c) **“Cost plus contract”** is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark up on these costs or a fixed fee.

(d) **“Retentions”** are amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

(e) **“Progress billings”** are amounts billed for work performed on a contract whether or not they have been paid by the customer.

(f) **“Advances”** are amounts received by the contractor before the related work is performed.

2. (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

3. A construction contract may be negotiated for the construction of a single asset. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

4. Construction contracts are formulated in a number of ways which, for the purposes of this Income Computation and Disclosure Standard, are classified as fixed price contracts and cost plus contracts. Some construction contracts may contain characteristics of both a fixed price contract and a cost plus contract, for example, in the case of a cost plus contract with an agreed maximum price.

### **Combining and Segmenting Construction Contracts**

5. The requirements of this Income Computation and Disclosure Standard shall be applied separately to each construction contract except as provided for in paragraphs 6, 7 and 8 herein. For reflecting the substance of a contract or a group of contracts, where it is necessary, the Income Computation and Disclosure Standard should be applied to the separately identifiable components of a single contract or to a group of contracts together.

6. Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

- (a) separate proposals have been submitted for each asset;
- (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; **and**
- (c) the costs and revenues of each asset can be identified.

7. A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:

- (a) the group of contracts is negotiated as a single package;
- (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; **and**
- (c) the contracts are performed concurrently or in a continuous sequence.

8. Where a contract provides for the construction of an additional asset at the option of the customer or is amended to include the construction of an additional asset, the construction of the additional asset should be treated as a separate construction contract when:

- (a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; **or**
- (b) the price of the asset is negotiated without having regard to the original contract price.

### **Contract Revenue**

9. Contract revenue shall be recognised when there is reasonable certainty of its ultimate collection.

10. Contract revenue shall comprise of:

- (a) the initial amount of revenue agreed in the contract, including retentions; and
- (b) variations in contract work, claims and incentive payments:
  - (i) to the extent that it is probable that they will result in revenue; and
  - (ii) they are capable of being reliably measured.

11. Where contract revenue already recognised as income is subsequently written off in the books of accounts as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.

### **Contract Costs**

12. Contract costs shall comprise of :

- (a) costs that relate directly to the specific contract;
- (b) costs that are attributable to contract activity in general and can be allocated to the contract;
- (c) such other costs as are specifically chargeable to the customer under the terms of the contract; **and**
- (d) allocated borrowing costs in accordance with the Income Computation and Disclosure Standard on Borrowing Costs. These costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue.

13. Costs that cannot be attributed to any contract activity or cannot be allocated to a contract shall be excluded from the costs of a construction contract.

14. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that are incurred in securing the contract are also included as part of the contract costs, provided

- (a) they can be separately identified; and
- (b) it is probable that the contract shall be obtained.

When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

15. Contract costs that relate to future activity on the contract are recognised as an asset. Such costs represent an amount due from the customer and are classified as contract work in progress.

### **Recognition of Contract Revenue and Expenses**

16. Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

17. The recognition of revenue and expenses by reference to the stage of completion of a contract is referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

18. The stage of completion of a contract shall be determined with reference to:

- (a) the proportion that contract costs incurred for work performed up to the reporting date bear to the estimated total contract costs; **or**
- (b) surveys of work performed; **or**
- (c) completion of a physical proportion of the contract work. Progress payments and advances received from customers are not determinative of the stage of completion of a contract.

19. When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date. Contract costs which are excluded are:

- (a) contract costs that relate to future activity on the contract; **and**
- (b) payments made to subcontractors in advance of work performed under the sub-contract.

20. During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognised only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25 % of the stage of completion.

### **Changes in Estimates**

21. The percentage of completion method is applied on a cumulative basis in each previous year to the current estimates of contract revenue and contract costs. Where there is change in estimates, the changed estimates shall be used in determination of the amount of revenue and expenses in the period in which the change is made and in subsequent periods.



### **Transitional Provisions**

22. Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised as revenue and costs respectively in accordance with the provisions of this standard. The amount of contract revenue, contract costs or expected loss, if any, recognised for the said contract for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue and costs of the said contract for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

### **Disclosure**

23. A person shall **disclose**:

- (a) the **amount** of contract revenue recognised as revenue in the period; and
- (b) the **methods** used to determine the stage of completion of contracts in progress.

24. A person shall **disclose** the following for contracts in progress at the reporting date, namely:—

- (a) amount of **costs incurred and recognised profits (less recognised losses)** upto the reporting date;
- (b) the amount of **advances received; and**
- (c) the amount of **retentions**.

### **D. Income Computation and Disclosure Standard IV** **relating to revenue recognition**

#### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

### Scope

1(1) This Income Computation and Disclosure Standard deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from

- (i) the sale of goods;
- (ii) the rendering of services;
- (iii) the use by others of the person's resources yielding interest, royalties or dividends.

1(2) This Income Computation and Disclosure Standard does not deal with the aspects of revenue recognition which are dealt with by other Income Computation and Disclosure Standards.

### Definitions

2(1) The following term is used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Revenue”** is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

### Sale of Goods

3. In a transaction involving the **sale of goods**, the revenue shall be recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.

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

5. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

### **Rendering of Services**

6. Revenue from **service transactions** shall be recognised by the **percentage completion method**. Under this method, **revenue** from service transactions is **matched** with the service transactions **costs** incurred in reaching the **stage of completion**, resulting in the determination of **revenue, expenses and profit** which can be attributed to the proportion of **work completed**. Income Computation and Disclosure Standard on construction contract also requires the recognition of revenue on this basis. **The requirements of that Standard shall mutatis mutandis apply to the recognition of revenue and the associated expenses for a service transaction.**

### **The Use of Resources by Others Yielding Interest, Royalties or Dividends**

7. **Interest** shall accrue on the time basis determined by the amount outstanding and the rate applicable. Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

8. **Royalties** shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis.

9. **Dividends** are recognised in accordance with the provisions of the Act.

### **Transitional Provisions**

10. The transitional provisions of Income Computation and Disclosure Standard on construction contract shall mutatis mutandis apply to the recognition of revenue and the associated costs for a **service transaction** undertaken on or before the 31st day of March, 2015 but not completed by the said date.

11. Revenue for a transaction, **other than a service transaction** referred to in Para 10, undertaken on or before the 31st day of March, 2015 but not completed by the said date shall be recognised in accordance with the provisions of this standard for the previous year commencing on the 1st day of April, 2015 and subsequent previous year. The amount of revenue, if any, recognised for the said transaction for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue for the said transaction for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

### **Disclosure**

12. Following **disclosures** shall be made in respect of revenue recognition, namely:—

- (a) in a transaction involving **sale of good**, total **amount not recognised** as revenue during the previous year due to lack of reasonable certainty of its ultimate collection **along with nature of uncertainty**;

- (b) the amount of revenue from **service transactions** recognised as revenue during the previous year;
- (c) the method used to determine the stage of completion of service transactions in progress; **and**
- (d) for **service transactions in progress** at the end of previous year:
  - (i) amount of costs incurred and recognised profits (less recognized losses) upto end of previous year;
  - (ii) the amount of advances received; **and**
  - (iii) the amount of retentions.

### **E. Income Computation and Disclosure Standard V** **relating to tangible fixed assets**

#### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

#### **Scope**

1. This Income Computation and Disclosure Standard deals with the **treatment of tangible fixed assets.**

#### **Definitions**

2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Tangible fixed asset”** is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

(b) **“Fair value”** of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

### **Identification of Tangible Fixed Assets**

3. The definition in clause (a) of sub-paragraph (1) of paragraph 2 provides criteria for determining whether an item is to be classified as a tangible fixed asset.

4. Stand-by equipment and servicing equipment are to be capitalised. Machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.

### **Components of Actual Cost**

5. The actual cost of an **acquired tangible fixed asset** shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.

6. The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of

(i) price adjustment, changes in duties or similar factors; **or**

(ii) exchange fluctuation as specified in Income Computation and Disclosure Standard on the effects of changes in foreign exchange rates.

7. **Administration and other general overhead expenses** are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset. Expenses which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset.

8. The **expenditure incurred on start-up and commissioning** of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. The expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure.

### **Self- constructed Tangible Fixed Assets**

9. In arriving at the actual cost of **self-constructed tangible fixed assets**, the same principles shall apply as those described in paragraphs 5 to 8. Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any **internal profits shall be eliminated** in arriving at such costs.

### **Non- monetary Consideration**

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

11. When a **tangible fixed asset is acquired in exchange for shares or other securities**, the *fair value* of the tangible fixed asset so acquired shall be its actual cost.

### **Improvements and Repairs**

12. An **Expenditure** that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.

13.1. The cost of an **addition or extension** to an existing tangible fixed asset -

- (1) which is of a capital nature and
- (2) which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost.

13.2 Any **addition or extension**, -

- (1) which has a separate identity and
- (2) is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

### **Valuation of Tangible Fixed Assets in Special Cases**

14. Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the **tangible fixed assets register**.

15. Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

### **Transitional Provisions**

16. The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

### **Depreciation**

17. Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of the Act.

### **Transfers**

18. Income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of the Act.

### **Disclosures**

19. Following **disclosure** shall be made in respect of tangible fixed assets, namely:—

- (a) description of asset or block of assets;
- (b) rate of depreciation;
- (c) actual cost or written down value, as the case may be;
- (d) additions or deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of—
  - (i) Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004;
  - (ii) change in rate of exchange of currency;
  - (iii) subsidy or grant or reimbursement, by whatever name called;
- (e) depreciation allowable; **and**
- (f) written down value at the end of year.

**F. Income Computation and Disclosure Standard VI**  
**relating to the effects of changes in foreign exchange rates**

**Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

**Scope**

1. This Income Computation and Disclosure Standard deals with:

- (a) **treatment** of **transactions** in foreign currencies;
- (b) **translating** the **financial statements** of foreign operations;
- (c) **treatment** of **foreign currency transactions** in the nature of forward exchange contracts.

**Definitions**

2.(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Average rate”** is the mean of the exchange rates in force during a period.
- (b) **“Closing rate”** is the exchange rate at the last day of the previous year.
- (c) **“Exchange difference”** is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates.
- (d) **“Exchange rate”** is the ratio for exchange of two currencies.
- (e) **“Foreign currency”** is a currency other than the reporting currency of a person.



(f) **“Foreign operations of a person”** is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India.

(g) **“Foreign currency transaction”** is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person:—

- (i) buys or sells goods or services whose price is denominated in a foreign currency; **or**
- (ii) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; **or**
- (iii) becomes a party to an unperformed forward exchange contract; **or**
- (iv) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

(h) **“Forward exchange contract”** means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature;

(i) **“Forward rate”** is the specified exchange rate for exchange of two Currencies at a specified future date;

(j) **“Indian currency”** shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);

(k) **“Integral foreign operation”** is a foreign operation, the activities of which are an integral part of the operation of the person;

(l) **“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;

(m) **“Non-integral foreign operation”** is a foreign operation that is not an integral foreign operation;

(n) **“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;

(o) **“Reporting currency”** means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.

2.(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

### **Foreign Currency Transactions Initial Recognition**

3(1) A foreign currency transaction shall be recorded, **on initial recognition** in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency **at the date of the transaction.**

(2) An **average rate** for a **week or a month** that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.

### **Conversion at Last Date of Previous Year**

4. **At last day of each previous year:**—

(a) foreign currency **monetary items** shall be converted into reporting currency by applying the **closing rate**;

(b) where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and

(c) **non-monetary items** in a foreign currency shall be converted into reporting currency by using the exchange rate at the **date of the transaction.**

### **Recognition of Exchange Differences**

5. (i) In respect of **monetary items**, exchange differences arising on the settlement thereof or on conversion thereof **at last day of the previous year shall be** recognised as income or as expense in that previous year.

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

### **Exceptions to Paragraphs 3, 4 and 5**

6. Notwithstanding anything contained in paragraph 3, 4 and 5; initial recognition, conversion and recognition of exchange difference shall be subject to provisions of -

- (1) **Section 43A** of the Act **or**
- (2) **Rule 115** of Income-tax Rules, 1962,  
as the case may be.

### **Financial Statements of Foreign Operations Classification of Foreign operations**

7. (1) The method used to translate the **financial statements** of a foreign operation depends on the way in which it is financed and operates in relation to a person. For this purpose, foreign operations are classified as either “**integral foreign operations**” **or** “**non-integral foreign operations**”.

(2) The following are indications that a foreign operation is a **non-integral foreign operation** rather than an integral foreign operation:—

- (a) while the person may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from the activities of the person;
- (b) transactions with the person are not a high proportion of the foreign operation’s activities;
- (c) the activities of the foreign operation are financed mainly from its own operations or local borrowings;
- (d) costs of labour, material and other components of the foreign operation’s products or services are primarily paid or settled in the local currency;
- (e) the foreign operation’s sales are mainly in currencies other than Indian currency;
- (f) cash flows of the person are insulated from the day-to-day activities of the foreign operation;
- (g) sales prices for the foreign operation’s products or services are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation;
- (h) there is an active local sales market for the foreign operation’s products or services, although there also might be significant amounts of exports.

### **Integral Foreign Operations**

8. The **financial statements** of an integral foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.

### **Non-integral Foreign Operations**

9. (1) In translating the **financial statements** of a non-integral foreign operation for a previous year, the person shall apply the following, namely:—

- (a) the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation shall be translated at the closing rate;
- (b) income and expense items of the non-integral foreign operation shall be translated at exchange rates at the dates of the transactions; and
- (c) all resulting exchange differences shall be recognised as income or as expenses in that previous year.

(2) Notwithstanding anything stated in sub-paragraph 1, **translation and recognition** of exchange difference *in cases referred to in section 43A* of the Act or **Rule 115** of Income-tax Rules, 1962 shall be carried out in accordance with the provisions contained in that section **or** that Rule, as the case may be.

### **Change in the Classification of a Foreign Operation**

10(1) When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

(2) The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the person may lead to a change in the classification of that foreign operation.

### **Forward Exchange Contracts**

11. (1) Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognised as income or as expense for the previous year.

(2) The provisions of sub-para (1) shall apply provided that the contract:

- (a) is not intended for trading or speculation purposes; and
- (b) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.

(3) The provisions of sub-para (1) shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year.

(4) The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between:

- (a) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year; **and**
- (b) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.

(5) Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement.

### **Transitional Provisions**

12. (1) All foreign currency transactions undertaken on or after 1st day of April, 2015 shall be recognised in accordance with the provisions of this standard.

(2) Exchange differences arising in respect of monetary items **or** non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2015 **or** on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2015, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2015 for an item, if any, which is carried forward from said previous year.

(3) The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2015 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2015 for an item, if any, which is carried forward from said previous year.

(4) All forward exchange contracts existing on the 1st day of April, 2015 or entered on or after 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March, 2015.

## **G. Income Computation and Disclosure Standard VII** **relating to government grants**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

### **Scope**

1. This Income Computation and Disclosure Standard deals with the treatment of Government grants. The Government grants are sometimes called by other names such as **subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements**, etc.

2. This Income Computation and Disclosure Standard **does not deal** with:—

- (a) Government assistance **other than** in the form of Government grants; **and**
- (b) Government participation in the ownership of the enterprise.

### **Definitions**

3(1) The following terms are used in the Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Government”** refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international.
- (b) **“Government grants”** are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.

3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

### **Recognition of Government Grants**

4(1) Government grants should not be recognised until there is reasonable assurance that (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.

4(2) Recognition of Government grant shall not be postponed beyond the date of actual receipt.

### **Treatment of Government Grants**

5. Where the Government grant relates to a depreciable fixed asset or assets of a person, the grant shall be deducted from the actual cost of the asset or assets concerned or from the written down value of block of assets to which concerned asset or assets belonged to.

6. Where the Government grant relates to a non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.

7. Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, shall be deducted from the actual cost of the asset or shall be reduced from the written down value of block of assets to which the asset or assets belonged to.

8. The Government grant that is receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs, shall be recognised as income of the period in which it is receivable.

9. The Government grants other than covered by paragraph 5, 6, 7, and 8 shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

10. The Government grants in the form of non-monetary assets, given at a concessional rate, shall be accounted for on the basis of their acquisition cost.

### **Refund of Government Grants**

11. The amount refundable in respect of a Government grant referred to in paragraphs 6, 8 and 9 shall be applied first against any unamortised deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.

12. The amount refundable in respect of a Government grant related to a depreciable fixed asset or assets shall be recorded by increasing the actual cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.

### **Transitional Provisions**

13. All the Government grants which meet the recognition criteria of para 4 on or after 1st day of April, 2015 shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31st day of March, 2015.

### **Disclosures**

14. Following **disclosure** shall be made in respect of Government grants, namely: —

(a) **nature and extent** of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year;

(b) **nature and extent** of Government grants recognised during the previous year as income;

(c) **nature and extent** of Government grants **not** recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; **and**

(d) **nature and extent** of Government grants **not** recognised during the previous year as income and reasons thereof.

## **H. Income Computation and Disclosure Standard VIII** **relating to securities**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. Income from other sources  
**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**



### **Scope**

1. This Income Computation and Disclosure Standard deals with **securities held as stock-in-trade**.
2. This Income Computation and Disclosure Standard **does not deal with:**
  - (a) the bases for recognition of interest and dividends on securities which are covered by the Income Computation and Disclosure Standard on revenue recognition;
  - (b) securities held by a person engaged in the business of insurance;
  - (c) securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013).

### **Definitions**

3(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Fair value”** is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction.
- (b) **“Securities”** shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956 (42 of 1956), other than Derivatives referred to in sub-clause (1a) of that clause.

3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

### **Recognition and Initial Measurement of Securities**

4. A security **on acquisition** shall be recognised at actual cost.
5. The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.
6. Where a security is **acquired in exchange** for other securities, the fair value of the security so acquired shall be its actual cost.
7. Where a security is **acquired in exchange** for another asset, the fair value of the security so acquired shall be its actual cost.

8. Where unpaid interest has 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.

### **Subsequent Measurement of Securities**

9. At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower.

10. For the purpose of para 9, the comparison of actual cost initially recognised and net realisable value shall be done category wise and not for each individual security. For this purpose, securities shall be classified into the following categories, namely:-

- (a) shares;
- (b) debt securities;
- (c) convertible securities; and
- (d) any other securities not covered above.

11. The value of **securities held as stock-in-trade of a business** as on the beginning of the previous year shall be:

- (a) the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year; **and**
- (b) the value of the securities of the business as on the close of the immediately preceding previous year, in any other case.

12. Notwithstanding anything contained in para 9, 10 and 11, at the end of any previous year, securities not listed on a recognised stock exchange; or listed but not quoted on a recognised stock exchange with regularity from time to time, shall be valued at actual cost initially recognised.

13. For the purposes of para 9, 10 and 11 where the actual cost initially recognised cannot be ascertained by reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method.

## **I. Income Computation and Disclosure Standard IX** **relating to borrowing costs**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
    - a. Profits and gains of business or profession **or**
    - b. Income from other sources
- and not**

(2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

### **Scope**

1. (1) This Income Computation and Disclosure Standard deals with treatment of borrowing costs.

(2) This Income Computation and Disclosure Standard does not deal with the actual or imputed cost of owners' equity and preference share capital.

### **Definitions**

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) **“Borrowing costs”** are interest and other costs incurred by a person in connection with the borrowing of funds and include:

- (i) commitment charges on borrowings;
- (ii) amortised amount of discounts or premiums relating to borrowings;
- (iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
- (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.

(b) **“Qualifying asset”** means:

- (i) land, building, machinery, plant or furniture, being tangible assets;
- (ii) know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;
- (iii) inventories that require a period of twelve months or more to bring them to a saleable condition.

(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

**Recognition**

3. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Income Computation and Disclosure Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.

4. For the purposes of this Income Computation and Disclosure Standard, “capitalisation” in the context of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2 means addition of borrowing cost to the cost of inventory.

**Borrowing Costs Eligible for Capitalisation**

5. 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.

6. To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

$$A \times \frac{B}{C}$$

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;

(iii) in case the qualifying asset does not appear in the balance sheet of a person on the last day of previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be , other than those qualifying assets which are directly funded out of specific borrowings; or

C = the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those assets which are directly funded out of specific borrowings;

### **Commencement of Capitalisation**

7. The capitalisation of borrowing costs shall commence:

- (a) in a case referred to in paragraph 5, from the date on which funds were borrowed;
- (b) in a case referred to in paragraph 6, from the date on which funds were utilised.

### **Cessation of Capitalisation**

8. Capitalisation of borrowing costs shall cease:

- (a) in case of a qualifying asset referred to in item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such asset is first put to use;
- (b) in case of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such inventory for its intended sale are complete.

9. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part shall cease:—

- (a) in case of part of a qualifying asset referred to in item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such part of a qualifying asset is first put to use;
- (b) in case of part of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

### **Transitional Provisions**

10. All the borrowing costs incurred on or after 1st day of April, 2015 shall be capitalized for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31st day of March, 2015.

### **Disclosure**

11. The following **disclosure** shall be made in respect of borrowing costs, namely:—

- (a) the **accounting policy** adopted for borrowing costs; and
- (b) the **amount of borrowing costs capitalised** during the previous year.

**J. Income Computation and Disclosure Standard X**  
**relating to provisions, contingent liabilities and contingent assets**

**Preamble**

This Income Computation and Disclosure Standard is applicable for -

- (1) computation of income chargeable under the head
  - a. Profits and gains of business or profession **or**
  - b. **income from other sources**

**and not**
- (2) for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') **and** this Income Computation and Disclosure Standard, **the provisions of the Act shall prevail to that extent.**

**Scope**

1. This Income Computation and Disclosure Standard deals with provisions, contingent liabilities and contingent assets, except those:

- (a) resulting from financial instruments;
- (b) resulting from executory contracts;
- (c) arising in insurance business from contracts with policyholders; **and**
- (d) covered by another Income Computation and Disclosure Standard.

2. This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure Standard - Revenue Recognition.

3. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this Income Computation and Disclosure Standard.

**Definitions**

4(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Provision”** is a liability which can be measured only by using a substantial degree of estimation.
- (b) **“Liability”** is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.

(c) **“Obligating event”** is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.

(d) **“Contingent liability”** is:

(i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; **or**

(ii) a present obligation that arises from past events but is not recognized because:

(A) it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; **or**

(B) a reliable estimate of the amount of the obligation cannot be made.

(e) **“Contingent asset”** is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.

(f) **“Executory contracts”** are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

(g) **“Present obligation”** is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

4(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

### **Recognition Provisions**

5. A **provision** shall be recognised when:

(a) a person has a present obligation as a result of a past event;

(b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

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

7. It is only those obligations arising from past events existing independently of a person's future actions, that is the future conduct of its business, that are recognised as provisions

8. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.

### **Contingent Liabilities**

9. A person **shall not** recognise a contingent liability.

### **Contingent Assets**

10. A person **shall not** recognise a contingent asset.

11. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.

### **Measurement Best Estimate**

12. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.

13. The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.

### **Reimbursements**

14. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

15. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.

16. An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

### **Review**

17. 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.



18. An asset and related income recognised as provided in para 11 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.

### **Use of Provisions**

19. A provision shall be used only for expenditures for which the provision was originally recognised.

### **Transitional Provisions**

20. All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31st day of March, 2015.

### **Disclosure**

21(1) Following **disclosure** shall be made in respect of **each class of provision**, namely:-

- (a) a brief description of the nature of the obligation;
- (b) the carrying amount at the beginning and end of the previous year;
- (c) additional provisions made during the previous year, including increases to existing provisions;
- (d) amounts used, that is incurred and charged against the provision, during the previous year;
- (e) unused amounts reversed during the previous year; **and**
- (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

21(2) Following **disclosure** shall be made in respect of **each class of asset and related income** recognised as provided in para 11, namely:—

- (a) a brief description of the nature of the asset and related income;
- (b) the carrying amount of asset at the beginning and end of the previous year;
- (c) additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and

(d) amount of asset and related income reversed during the previous year.

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Dated : 28.6.2016