

Income Computation and Disclosure Standards

Section 145(2) of the Income Tax Act, 1961 empowers the Central Government to notify the Accounting Standards for the computation of income under the head "Profits and gains of business or profession" or "Income from other sources" for any class of assessee or for any class of income. Till date only two accounting standards have been notified by the Central Government viz. Accounting Standard on Disclosure of Accounting Policies and Accounting Standard on disclosure of Prior period and Extraordinary items and changes in accounting policies which are on the lines of Accounting Standard- 1 "Disclosure of Accounting Policies" and Accounting Standard- 5 "Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies" respectively as issued by the Institute of Chartered Accountants of India.

The Central Board of Direct Taxes ("CBDT") constituted a Committee comprising of departmental officers and professionals in December, 2010 to inter alia suggest Accounting Standards ("AS") for the purposes of notification under section 145 (2) of the Act. The Committee submitted its first Interim Report in August 2011. A discussion paper containing the main recommendations of the Committee was issued in October, 2011 for inviting comments/suggestions from all stakeholders. Later, in August 2012, the Committee has submitted its Final Report.

The Committee deliberated whether the accounting standards issued by the ICAI could be notified under Section 145(2) of the Act without modifications. The Committee noted that the accounting standards to be notified under Section 145(2) of the Act would need to be harmonised with the provisions of the Act. Further, after deliberation, the Committee is of the view that the notified accounting standards should lay down the specific rules, which would enable computation of taxable income with certainty and clarity. To ensure horizontal equity and uniformity, the notified accounting standards should eliminate alternatives, to the extent possible. After deliberations, the Committee decided to draft separate accounting standards for the purpose of notification under Section 145(2) of the Act.

The Committee recommended that the AS notified under the Act should be made applicable only to the computation of taxable income and a taxpayer would not be required to maintain books of account on the basis of AS notified under the Act. The Committee examined all the 31 AS issued by the ICAI and recommended notification of AS on issues under the Act and formulated drafts of AS on these issues and invited public comments. The Committee had termed them as "Tax Accounting Standards" (TAS) to distinguish from the AS issued by the ICAI/notified under the Companies Act, 1956.

Committee has also clarified that in the case of conflict between the provisions of the Income-tax Act, 1961 and this Tax Accounting Standard, the provisions of the Income-tax Act, 1961 shall prevail to that extent.

On the basis of the suggestions received from the stakeholders and examination of the same by the CBDT, the draft TAS submitted by the Committee have been revised. Since Tax Accounting Standard

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are applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account, the name of these standards have been changed to “Income Computation and Disclosure Standards” (ICDS). The following new drafts of 12 Income Computation and Disclosure Standards (ICDS) have been issued by the CBDT for comments from stakeholders and general public:

1. Accounting Policies
2. Valuation of Inventories
3. Construction Contracts
4. Revenue Recognition
5. Tangible Fixed Assets
6. The Effects of Changes in Foreign Exchange Rates
7. Government Grants
8. Securities
9. Borrowing Costs
10. Leases
11. Intangible Assets
12. Provisions, Contingent Liabilities and Contingent Assets

After receiving the comments from stakeholders and general public, the CBDT has not notified the standards on leases and intangible assets and notified other 10 ICDSs vide its Notification No. 33 dated 31st March, 2015. 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.

Preamble to all the ICDS states as follows:

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not 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.

Applicability of all ICDSs have been mentioned below:

ICDS-I: Accounting Policies

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

ICDS-II: Valuation of Inventories

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;

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- (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.

ICDS-III: Construction Contracts

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

ICDS-IV: Revenue Recognition

(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.

(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.

ICDS-V: Tangible Fixed Assets

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

ICDS-VI: The Effects of Changes in Foreign Exchange Rates

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.

ICDS-VII: Government Grants

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;
- (b) Government participation in the ownership of the enterprise.

ICDS-VIII: Securities

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;

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- (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).

ICDS-IX: Borrowing Costs

- (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.

ICDS-X: Provisions, Contingent Liabilities and Contingent Assets

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.