

# CHAMBER OF TAX CONSULTANTS

## Interplay of Accounting, ICDS and Income-tax

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# History – Interplay of accounts and tax

# History

- ✓ Commercial accounting practices were accepted by the Courts. (See **Metal Box Company Of India Ltd. vs. Their Workmen - 73 ITR 53(SC)**)
- ✓ Finance Act 1995 - section 145 amended to give power to the Central Government to notify accounting standards
- ✓ Notification No. SO 69(E) dated 25-1-1996 - Government introduced two accounting standards to be followed by all the assessee's following mercantile system of accounting from AY 1997-98. (now superseded by the ICDS)
- ✓ Two accounting standards notified were:
  - AS I – Disclosure of significant accounting policies
  - AS II – Disclosure of prior period and extraordinary item and changes in accounting policies.
- ✓ In December 2010 –CBDT constituted committee for Tax Accounting Standards

## History (contd.)

- ✓ In August 2012 –Formulation of 14 Tax Accounting Standards
- ✓ In July 2014 – Nomenclature changed from TAS to ICDS
- ✓ In January 2015 –released 12 draft ICDS
- ✓ Notification No. 32/2015 dated 31-3-2015, the Central Government notified 10 ICDS and the ICDS were made applicable w.e.f. AY 2016-17
- ✓ Implementation of ICDS postponed by one year due to practical difficulty – Notification No. 86/2016 dated 29.9.2016
- ✓ Vide Notification No. 87/2016 dated 29.9.2016, new ICDS notified and made applicable w.e.f. AY 2017-18.

## History (contd.)

- ✓ Circular No. 10/2017 dated 23.3.2017 issued giving certain clarifications in respect of ICDS.
- ✓ Hon'ble Delhi High Court in case of **Chamber of Tax Consultants vs. UOI (400 ITR 178)** vide order dated 8.11.2017, quashed certain ICDS and certain portion of other ICDS and read down the powers of the Government u/s 145(2).
- ✓ Amendments brought out by Finance Act, 2018 w.r.e.f. AY 2017-18 to over rule the judgment of the Hon'ble Delhi High Court.

# Judicial Precedents on Accounts and Tax

- **98 ITR 167 (SC) Challapalli Sugars Ltd. vs. CIT**

*“For this purpose it would be necessary to ascertain the connotation of the above expression in accordance with the normal rules of accountancy prevailing in commerce and industry. The above rule of accountancy should be adopted for determining the actual cost of the assets in the absence of any statutory definition or other indication to the contrary.”*

- **225 ITR 703 (SC) CIT vs. U.P. State Industrial Development Corpn.**

*“It is a well-accepted proposition that for the purposes of ascertaining profits and gains the ordinary principles of commercial accounting should be applied, so long as they do not conflict with any express provision of the relevant statute.”*

- **404 ITR 409 (SC) CIT vs. Virtual Soft Systems Ltd**

*“Hence, there is no force in the contentions of the revenue that the accounting standards prescribed by the Guidance Note cannot be used to bifurcate the lease rental to reach the real income for the purpose of tax under the IT Act..”*

- **227 ITR 172 (SC) Tuticorin Alkali Chemicals & Fertilizers Ltd. V. CIT**

*“It is true that the Supreme Court has very often referred to accounting practice for ascertainment of profit made by a company or value of the assets of a company. But when the question is whether a receipt of money is taxable or not or whether certain deductions from that receipt are permissible in law or not, the question has to be decided according to the principles of law and not in accordance with accountancy practice”*

# Background

## Parent Section - Section 145 (Method of accounting)

145(1) - 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.

145(2) – 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.

145(3) – if *income has not been computed in accordance with the ICDS* , then the Assessing Officer may make an assessment in the manner provided in section 144 i.e. Best judgment assessment.

# Background

## Section 145 vs. Section 5

- **119 ITR 573 (Mad.) CIT v. Standard Triumph Motor Co. Ltd.**

*“But, it must be remembered that section 145 is only a machinery provision and cannot qualify the charging section so as to make the latter otiose”*

- **130 ITR 145 (Madras) M. Velayutham vs. CIT**

*“In other words, as pointed out by Kanga, the charge on income accruing or received in India imposed by section 5 cannot be avoided by any method of accounting.”*

- **127 ITR 572 (Madras) CIT vs. Motor Credit Co. (P.) Ltd.**

*“Regular mode of accounting only determines the mode of computing taxable income and point of time at which the tax liability is attracted. It cannot be relied on to determine whether income has, in fact, resulted or materialised in the assessee's favour, nor can it affect the range of taxable income or the ambit of taxation”*



# Findings and implications of Delhi High Court ruling.

# What did the Delhi High Court hold?

A. The Court held that the following are **essential legislative functions**:

- changing the basic principles of accounting that have been recognized in the various provisions of the Act for computation of income
- changing the method of accounting for computation of taxable income
- alteration of system of accounting, or according accounting or taxing treatment to a particular transaction
- To make a validation law to override judicial precedents and that too by actually removing the defect pointed out by such precedent

B. The Court further held that:

- After considering Q.2 of Circular 10, it is unmistakable that the ICDS is intended to prevail over judicial precedents which may be to the contrary.
- ICDS notified under Section 145 (2) of the Act has the effect of modifying the basis for computation of taxable income as recognised by the Act and as interpreted by the Court.

## Findings of the Court - On the issue of Delegation of essential legislative function and Excessive Delegation:

- C. After considering the judgment of the SC in case of **Tuticorin Alkali Chemicals and Fertilizers Limited v. Commissioner of Income Tax (1997) 227 ITR 172**, the Court held that AS has hardly any role to play in the principles governing determination of income, which has been well settled by the provisions of the Act as well as by judicial precedents

The Court, in order to preserve its constitutionality, read down section 145 (2) of the Act as amended to restrict power of the Central Government to notify ICDS that do not seek to override binding judicial proceedings or provisions of the Act.

Thus, the Court held that:

The Central Government by way of a Notification cannot:

1. **Override any judicial precedents (High Court and Supreme Court)**
2. **Cannot amend or alter any basic principles of computation of income.**

## Findings of the Court - On the issue of overruling judgments:

The Court has specifically dealt with cases where the judgments are getting overruled and to that extent held the provisions of ICDS to be not valid. However, where the Court has not dealt with any particular judgments which are side tracked by the ICDS, the Court has given a very relevant finding in para 102(ii)

**“The ICDS is not meant to overrule the provisions of the Act, the Rules thereunder and the judicial precedents applicable thereto as they stand.”**

**Accordingly, Q. 2 of the Circular is rendered invalid.**

*Q.2: Certain ICDS provisions are inconsistent with judicial precedents. Whether these judicial precedents would prevail over ICDS?*

*Ans. The ICDS have been notified after due deliberation and after examining judicial views for bringing certainty on the issues covered by it. Certain judicial pronouncements were pronounced in the absence of authoritative guidance on these issues under the Act for computing Income under the head "Profits and gains of business or profession" or Income from other sources. Since certainty is now provided by notifying ICDS under section 145(2), the provisions of ICDS shall be applicable to the transactional issues dealt therein in relation to assessment year 2017-18 and subsequent assessment years*

# Some other important issues arising out of the Delhi High Court Judgment

## Issues:

- ✓ Whether the ruling of the Delhi High Court has pan Indian application?
- ✓ What about the other issues where the ICDS run contrary to the rulings and not dealt with by the Delhi High Court?
- ✓ What if there is a SC or HC judgment subsequent to the notification of the ICDS? Can still the judgments be preferred over the ICDS?

# Some other important issues arising out of the Delhi High Court Judgment

## Issues:

- ✓ The Delhi High Court in some cases has struck down the entire ICDS and in some cases, some parts of the ICDS. In the amendments, the Legislature has referred to the ICDS notified u/s 145(2) but no new notification has yet been issued.
- ✓ Can one say that in so far as the status of said notification No. 87 is concerned, the Delhi High Court ruling would still prevail till the time the same is reversed by the Supreme Court and the Government is supposed to notify new ICDS? Or has the Notification No. 87 or 88/2017 come to life automatically because of the retrospective amendment?
- ✓ If the notifications have come to life then to what extent?

# Amendments brought in Finance Act, 2018

Explanatory Memorandum to Finance Bill 2018:

- In order to bring **certainty in the wake of recent judicial pronouncements** on the issue of applicability of ICDS,
- Recent judicial pronouncements have raised doubts on the legitimacy of the notified ICDS. However, a large number of taxpayers have already complied with the provisions of ICDS for computing income for assessment year 2017-18. In order to **regularise the compliance with the notified ICDS by a large number taxpayers** so as to **prevent any further inconvenience to them**, it is proposed to bring the amendments retrospectively with effect from 1st April, 2017 i.e the date on which the ICDS was made effective and will, accordingly, apply in relation to assessment year 2017-18 and subsequent assessment years

# Introduction to ICDS

## Essential features:

- Applicable to all assessees following mercantile system of accounting (Cash system not governed by ICDS)
- except individual or a Hindu undivided family who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB of the said Act (*Only if Tax audit applicable in a previous year, then ICDS applicable*).
- For computing income under the head 'PGBP' and 'IFOS'
- Effective from AY 2017-18
- Not for the purpose of maintenance of books but only for computation of income (*Q. 1 of circular No. 10*)
- In case of conflict between the provisions of Act/ Rules and the ICDS, the ACT/ Rules shall prevail.
- Not applicable for computation of book profit u/s 115JB (*Q. 6 of Circular No. 10*)



# ICDS 1 - Accounting Policies

## Finding of High Court on ICDS 1

- ❑ ICDS 1 does away with the concept of 'prudence' which is present in erstwhile AS1 notified u/s 145 (2) of the Act. A negative provision has in fact been made in the ICDS by stating that prudence is not to be followed unless it is specified.
- ❑ Courts have recognised the concept of 'prudence'
- ❑ Infact, concept of prudence is embedded in Section 37 (1) of the Act which allows deduction in respect of expenses "laid out" or "expended" for the purpose of business. The concept of prudence is inherent in this. (ICAI has also taken this view)

**Held: ICDS I which does away with the concept of 'prudence' is contrary to the Act and binding judicial precedents and is therefore, unsustainable in law.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

## Amendment brought in by Finance Act 2018

**S.36(1)** *The deductions provided for in the following clauses shall be allowed in respect of the matters dealt with therein, in computing the income referred to in section 28—*

*(xviii) marked to market loss or other expected **loss** as **computed** in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145*

**40A(13)** *No deduction or allowance shall be allowed in respect of any marked to market loss or other expected loss, except as allowable under clause (xviii) of sub-section (1) of section 36.*

# Issues in ICDS 1

- ✓ Prudence done away with – one cannot claim deduction of expected loss or marked to market loss except provided by ICDS.
- ✓ Only for computation part one has to refer to ICDS. Can the ICDS prescribe which expected loss or marked to market loss can be allowed ?
  - ✓ Para 4(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.*”
- ✓ Loss vs. Expense
  - ✓ **287 ITR 547 (SC) Dr. T.A.Quereshi vs. CIT**
- ✓ What about other losses governed by other provisions like 36(1)(vii)/ 36(1)(viii)?
- ✓ Expected vs. Actual
  - ✓ Section 28 –Badridas Daga SC
- ✓ Marked-to-market gains ? See Q. 8 of Circular No. 10 of 2017
- ✓ Disclosure requirement – increase in the profits because of ICDS 1 – para 13(e)

# Issues in ICDS 1

- ✓ What about the other aspects of ICDS 1 which are quashed ?
  - ✓ Change in accounting policy – only for a reasonable cause – debatable! (See Q 9 of the Circular No. 10)
  - ✓ Substance over form or form over substance?
  - ✓ **Materiality – living or dead?–(present in erstwhile Standard 1 and in AS 1 issued by ICAI)**
    - ✓ **Significant** accounting policies
- ✓ Disclosure – para 13(f) - not required (since quashed)
  - ✓ Normal disclosure in the Accounts are to be repeated here
- ✓ **Hastily drafted - since if not required for preparation of financial statement, then what is the need?**

## Issues in Circular 10:

- ✓ Q. 10 -**Which ICDS would govern derivative instruments?** For derivatives, not within the scope of ICDS-VI, provisions of ICDS-I would apply. – **Since not allowed under ICDS as per the Circular, therefore, not allowable while computing income.**

# ICDS 2 – Valuation of Inventories

## Finding of High Court on ICDS 2

- ❑ ICDS II pertaining to valuation of inventories, eliminates the distinction between a continuing partnership business after dissolution from one which is discontinued upon dissolution is contrary to the decision of the Supreme Court in **Shakti Trading Co. 250 ITR 871 (SC)**
- ❑ Section 145A will in any case prevail over ICDS and one can value goods in accordance with the method of accounting regularly employed by the Assessee.

**Held: ICDS II is held to be ultra vires the Act and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

# Amendment brought in by Finance Act 2018

## ***Method of accounting in certain cases.***

**145A.** *For the purpose of determining the income chargeable under the head "Profits and gains of business or profession",—*

*(i) the valuation of **inventory** shall be made at lower of actual cost or net realisable value **computed** in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145;*

*(ii) the valuation of **purchase and sale of goods or services and of inventory** shall be adjusted to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation;*

*Explanation 1.—For the purposes of this section, any tax, duty, cess or fee (by whatever name called) under any law for the time being in force, shall include all such payment notwithstanding any right arising as a consequence to such payment.*



## Issues in ICDS 2

- ✓ What do you mean by inventories? There is no definition under the Act, though defined under ICDS?
- ✓ How to value inventories? As per section 145A – cost or market value whichever is lower without any exception.
- ✓ Only for computation of cost of market value one has to refer to ICDS? Therefore, can the ICDS say that in particular scenario, inventory to be valued at NRV?
- ✓ Para 16 – FIFO and Weighted Average?
- ✓ **Para 24 - Valuation of stock on dissolution of the firm** – Shakti trading judgment in fact upheld and ALA Firm overruled by the amendment
- ✓ In case of services also one has to add the taxes to the value of inventory or sale etc.? See **CIT vs. Knight Frank (India) P. Ltd. (ITA No. 247 of 2014 and 225 of 2014)(Bom HC)**

## Issues in ICDS 2

- ✓ **Value of opening inventory** – para 22 whether valid? 145A only speaks of closing inventory.
- ✓ In case of change of method of accounting whether, the opening inventory is also to be changed ? See para 22 of the ICDS. Also see **Melmould Corporation vs. CIT - (1993) 202 ITR 0789 (Bom)**
- ✓ Para 22 - Cost of inventory on the day of commencement of business – in case of conversion of capital asset into stock in trade, such stock should be valued at FMV as on the date of conversion. See **46 ITR 86(SC) CIT vs. Bai Shirinbai K. Kooka and 116 ITR 125(SC) CIT vs. Groz-beckert Saboo Ltd.**
- ✓ How to value inventory in case of cash system of accounting or by assesseees to whom ICDS is not applicable?
  - ✓ Still bound by ICDS?
  - ✓ FIFO vs. LIFO
- ✓ Disclosure - not required (Since quashed)
  - ✓ No impact on total income because of ICDS 2
  - ✓ Same disclosure as per AS 2 – except that the Standard Costing aspect also has to be disclosed.

# ICDS 3 – Construction Contracts

## Finding of High Court on ICDS 3

- ❑ The treatment to retention money under Paragraph 10 (a) in ICDS-III will have to be determined on a case to case basis by applying settled principles of accrual of income. By deploying ICDS-III in a manner that seeks to bring to tax the retention money the receipt of which is uncertain/ conditional, at the earliest possible stage, the Government would be acting contrary to the settled position in law.
- ❑ Para 12 of ICDS III read with para 5 of ICDS IX, dealing with borrowing costs, which makes it clear that no incidental income can be reduced from borrowing cost is contrary to the decision of the Supreme Court in **CIT v. Bokaro Steel Limited (1999) 236 ITR 315**.
- ❑ para 6 of ICDS-IV permits only one of the methods, i.e., proportionate completion method for recognising revenue from service contracts and is contrary to the **CIT v. Bilhari Investment Pvt. Ltd. (2008) 299 ITR 1 (SC)**, **CIT v. Manish Buildwell Pvt. Ltd. (2011) 245 CTR 397 (Del)** and **Paras Buildtech India Pvt. Ltd. V. CIT (2016) 382 ITR 630 (Del)**. – Should apply equally to ICDS III

**Held: ICDS III is held to be ultra vires to the extent as stated above and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

# Amendment brought in by Finance Act 2018

## Computation of income from construction and service contracts.

**43CB.** (1) *The profits and gains arising from a **construction contract or a contract for providing services** shall be determined on the basis of percentage of completion method **in accordance with** the income computation and disclosure standards notified under sub-section (2) of section 145:*

**Provided** that profits and gains arising from a contract for providing services,—

- (i) *with duration of **not more than ninety days** shall be determined on the basis of **project completion method**;*
- (ii) *involving **indeterminate number of acts over a specific period of time** shall be determined on the basis of **straight line method**.*

(2) *For the purposes of percentage of completion method, project completion method or straight line method referred to in sub-section (1)—*

- (i) *the **contract revenue shall include retention money**;*
- (ii) *the **contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains**.*

# Issues in ICDS 3

- ✓ What do you mean by construction contract u/s 43CB? Will it include real estate construction?
  - ✓ See definition of construction contract under para 2(1)(a) of the ICDS III
  - ✓ See Q.12 of Circular 10/2017
- ✓ Project completion method vs. Percentage Completion method?
  - ✓ No MAT implications
- ✓ How to tax retention money?
  - ✓ As per the Court decision
  - ✓ Amendment in section 43CB(2)(i). Also see Q.11 of Circular 10/2017
  - ✓ Also see para 9 of the ICDS III. (reasonable certainty)
  - ✓ Whether section 43CB override section 5? Contract revenue to include retention money only subject to section 5?
  - ✓ No disclosure requirement as to increase or decrease of profits due to ICDS

## Issues in ICDS 3

- ✓ Expected losses are to be taken as allowed?
  - ✓ As per the Court decision - Prudence accepted (**See CIT v Triveni Engineering & Industries Ltd (49 DTR 253) (Del) CIT v Advance Construction Co. (P) Ltd (275 ITR 30) (Guj)**)
  - ✓ No specific amendment in 43CB. However, the income has to be computed in accordance with ICDS III.
  - ✓ Disclosure requirement – increase in profits
- ✓ Incidental income can be reduced from contract cost? But not in the nature of interest, dividend or capital gains.
  - ✓ Disclosure requirement – decrease in profits
- ✓ Other disclosures –
  - ✓ Same as AS 7

# ICDS 4 – Revenue Recognition



## Finding of High Court on ICDS 4

- ❑ Taxation of export incentive on making of claim subject to reasonable certainty of ultimate collection (para 5) is against the judgment of the Supreme Court in **CIT v. Excel Industries Limited (2015) 358 ITR 295 (SC)**, wherein it has been held that it is only in the year in which the claim is accepted by the Government that a right to receive the payment accrues in favour of the Assessee and the corresponding obligation to pay arises in the hands of the Government and revenue can be recognised.
- ❑ para 6 of ICDS-IV permits only one of the methods, i.e., proportionate completion method for recognising revenue from service contracts and is contrary to the **CIT v. Bilhari Investment Pvt. Ltd. (2008) 299 ITR 1 (SC)**, **CIT v. Manish Buildwell Pvt. Ltd. (2011) 245 CTR 397 (Del)** and **Paras Buildtech India Pvt. Ltd. V. CIT (2016) 382 ITR 630 (Del)**.
- ❑ However, para 8 which requires interest to be taxed even in absence of reasonable certainty is constitutionally valid as it has not been demonstrated that para 8 (1) of ICDS IV is contrary to any judgment of the Supreme Court, or any other Court and also there is no challenge to the amendment in section 36(1)(vii).

**Held: para 5, para 6 of ICDS IV is held to be ultra vires the Act and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

## Amendment brought in by Finance Act 2018

### ***Computation of income from construction and service contracts.***

**43CB.** (1) The profits and gains arising from a **construction contract or a contract for providing services** shall be determined on the basis of percentage of completion method **in accordance with** the income computation and disclosure standards notified under sub-section (2) of section 145:

**Provided** that profits and gains arising from a contract for providing services,—

- (i) with duration of **not more than ninety days** shall be determined on the basis of **project completion method**;
- (ii) involving **indeterminate number of acts** over a specific period of time shall be determined on the basis of **straight line method**.

(2) For the purposes of percentage of completion method, project completion method or straight line method referred to in sub-section (1)—

- (i) the **contract revenue shall include retention money**;
- (ii) the **contract costs shall not be reduced by any incidental income in the nature of interest, dividends or capital gains**.

**145B(2):** Any claim for escalation of price in a contract or export incentives **shall be deemed to be the** income of the previous year in which reasonable certainty of its realisation is achieved.

# Issues in ICDS 4

- ✓ Uncertainty in ultimate collection – revenue recognition to be postponed ? See Q.13 of the Circular 10/2017
  - ✓ CIT vs. Excel Industries Ltd - **358 ITR 295(SC)** – **Except in case of interest income**
  - ✓ In respect of interest income - to avoid paying taxes on the same, the assessee would have to book the interest income in their books of account and then correspondingly claim deduction u/s 36(1)(vii) read with the second proviso
  - ✓ In case of IFOS – one can claim bad debts as loss from other sources u/s 56 relying upon SC decision in case of Badridas Daga
  - ✓ Disclosure requirement – increase in profit
- ✓ Which method to be followed for service contracts?
  - ✓ Duration not more than 90 days – project completion method – **MAT Implications**
  - ✓ Contracts involving indeterminate number of acts over a specific period of time - straight line method.
  - ✓ Other cases – percentage completion method
  - ✓ Disclosure requirement – increase in profit (in initial years) / decrease in profits (in the year of completion)
- ✓ Whether loss from service contract not attributable to the stage of completion be recognised as soon as detected? As per the method of accounting employed.
  - ✓ Disclosure requirement – increase in profit
- ✓ Percentage completion method – practical difficulty?
  - ✓ Percentage completion method – **MAT implications** - See **CIT vs. Nagarjuna Fertilizers & Chemicals Ltd.(373 ITR 252 – AP)**

# Issues in ICDS 4

- ✓ Ability to measure the revenue accurately – not a criteria (See AS 9)
- ✓ Interest accrued but not due?
  - E.D. Sasson & Co. Ltd. & Ors. vs. CIT - 26 ITR 27(SC)
  - DIT vs. Credit Suisse First Boston (Cyprus) Ltd. - 351 ITR 323(Bom)
  - CIT vs. Karnataka Bank Ltd. - 226 Taxman 187(Kar)
  - Section 145 cannot override section 5
- ✓ Broken period interest - Sale of securities before the due date then tax treatment of consideration received?
  - Q. 18 - Broken period interest - Sale of securities before the due date then tax treatment of consideration received? interest already offered to tax based on accrual system, shall be allowed as deduction while computing capital gains –**Whether valid as per the Act? Can this Circular override the Act? goes against the judgment of various Courts therefore, shall not have any impact.**
- ✓ Taxation of export incentive
  - ✓ Decision of the Court
  - ✓ Amendment in section 145B(2) – deeming fiction - whether it will prevail over section 5 (Chp XIV – Procedure for assessment)
  - ✓ What if one follows cash system of accounting?
  - ✓ No disclosure required since not because of ICDS

# Issues in ICDS 4

## ✓ Finance Lease – taxability?

- Ownership not transferred but significant risk and reward transferred – therefore sale
- If substance over form is seen then the transaction amounts to financial assistance
- See Q. 12 of the Circular no. 10 – no separate ICDS for leases, but the existing provisions of the act shall apply.

## ✓ Disclosure requirement

- ✓ Substantial disclosure requirements as compared to AS 9
- ✓ Mainly disclosures deal with Sale of goods and services.

## Issues in ICDS 4

### Issues in Circular 10:

- ✓ Q.3 - ICDS apply to non-corporate taxpayers who are covered by presumptive scheme of taxation like sections 44AD, 44AE, 44ADA, 44B, 44BB, 44BBA, etc. of the Act? Shall apply – it shall apply to compute the turnover though as per ICAI it should not apply. (however, one may also contend that the circulars are not binding)
  - ✓ Not applicable to individuals and HUF, not required to get the books audited
- ✓ Q.14 – ICDS applicable to revenues which are liable to tax on gross basis like interest, royalty and fees for technical services for non-residents under section 115A of the Act? Yes – shall continue though one may choose to not follow the Circular

# ICDS 5 – Tangible fixed assets

# ICDS 5 – Tangible Fixed assets

**No finding by the Court. Therefore, no amendment.**

**Issues:**

- ✓ Actual cost – 43(1)
- ✓ Para 8 - Commencement of business vs. Set up of business? Depreciation and other expenses allowable?  
Business set up – held expenses and depreciation allowable – no need for commencement
  - ***CIT vs. Shri Rama Multi Tech Ltd. – 393 ITR 371(SC)***
  - ***Western India Vegetable Products Ltd. vs CIT – 26 ITR 151(Bom)***
  - ***CIT vs. ESPN Software - 301 ITR 368(Del)***
- ✓ Ready to use or put to use? (See Q 15)
  - ✓ **National Thermal Power Corpn Ltd. vs. CIT - 357 ITR 253(Del)**
  - ✓ **Capital Bus Service (P) Ltd vs. CIT - 123 ITR 0404 (Del)**
- ✓ Expenditure (other than interest) on start- up or commissioning of the project/ on trial run and experimental production– treatment? Capital or revenue?
  - ***CIT Vs. Dhampur Sugar Mills Ltd. - 360 ITR 82(All) (Favourable)***
  - ***CIT Vs. Saurashtra Cement & Chemical Industries Ltd. - 127 ITR 47(Guj) (Against)***
  - ***CIT vs. G.T. Industries - 203 ITR 538(Bom) (Against)***



# ICDS 5 – Tangible Fixed assets

## Impact:

- ✓ Trial run conducted – depreciation allowable?
  - ✓ ***ACIT vs. Ashima Syntex Ltd. 251 ITR 103 (Guj)***
  - ✓ ***CIT vs. Vindhyachal Distilleries (P) Ltd. - 272 ITR 0583 (MP)***
  
- ✓ Trial run income to be reduced?
  - ✓ ***CIT vs. Bokaro Steel Ltd – 236 ITR 315(SC) – favourable***
  - ✓ ***CIT vs. Karnal Co-operative Sugar Mills Ltd.- 243 ITR 2(SC) - favourable***
  - ✓ ***247 ITR 268(SC) CIT vs. Karnataka Power Corporation – 247 ITR 268(SC) - favourable***
  
- ✓ Changes subsequent to acquisition or construction?
  - ✓ ***Banco Products (India ) Ltd. vs. DCIT – 379 ITR 1(Guj)***
  - ✓ ***341 ITR 467(Del) CIT vs. Oswal Agro Mills Ltd***
  - ✓ ***187 TM 111(Del) Bharat Aluminium Co. Ltd. vs. CIT***
  
- ✓ Repairs to be capitalised in block? (Para 12)
  
- ✓ Test of enduring benefits done away with?
  - ✓ ***Empire Jute Co. Ltd. Vs. CIT -124 ITR 1(SC) - still alive***

## ICDS 5 – Tangible Fixed assets

- ✓ Disclosure requirements

- ✓ Exactly same disclosure as in para 18 of Form 3CD – therefore, one can write please refer para 18

# ICDS 5 – Tangible Fixed assets

## Impact – Issues in Circular 10:

- ✓ Q.15 - What shall be the treatment of expense incurred after the conduct of test runs and experimental production but before commencement of commercial production? As clarified in Para 8 of ICDS-V, the expenditure incurred till the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as capital expenditure. – **goes against the judgment of various Courts therefore, shall not have any impact.**

# ICDS 6 – Effects Of Changes In Foreign Exchange Rates

## Finding of High Court on ICDS 6

- ✓ Exchange gain/loss in relation to a loan utilized for acquiring a capital item would be capital in nature as per **Sutlej Cotton Mills Limited v. CIT (1979) 116 ITR 1 (SC)**. ICDS VI is contrary to the said judgment
- ✓ ICDS-VI states that marked to market loss/gain in case of foreign currency derivatives held for trading or speculation purposes are not to be allowed. This is not in consonance with the ratio laid down by the Supreme Court in Sutlej Cotton Mills Limited.
- ✓ In reply to Q No. 16, CBDT has clarified that Foreign Currency Translation Reserve Account balance as on 1st April 2016 has to be recognized as income/loss of the previous year relevant to the AY 2017-18. It is held that such losses/gains arising by valuation of monetary assets and liabilities of the foreign operations as at the end of the year cannot be treated as real income. It is only in the nature of notional or hypothetical income which cannot be even otherwise subject to tax.

**Held: ICDS VI is held to be ultra vires the Act and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

# Amendment brought in by Finance Act 2018

## ***Taxation of foreign exchange fluctuation.***

**43AA.** (1) *Subject to the provisions of section 43A, any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, as the case may be, and such gain or loss **shall be computed** in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145.*

*(2) For the purposes of sub-section (1), gain or loss arising on account of the effects of change in foreign exchange rates shall be in respect of all foreign currency transactions, including those relating to—*

- (i) monetary items and non-monetary items;*
- (ii) translation of financial statements of foreign operations;*
- (iii) forward exchange contracts;*
- (iv) foreign currency translation reserves*

# Issues in ICDS 6

- ✓ 43AA(1) – *“any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss”*
  - ✓ What do you mean by this term?
  - ✓ Very vague
  - ✓ only for computation one has to go to ICDS 6 – not in sync
  - ✓ Whether ICDS 6 can say that exchange difference arising on last day cannot be recognised as income or loss? [see para 5(i), 5(ii), 7, 8]
  - ✓ ICDS 6 is quashed - therefore no computation mechanism.
  
- ✓ Section 43AA vs. section 5
  - ✓ Computation provision vs. charging provision
  
- ✓ Monetary/ Non-monetary items in the Balance Sheet – Para 5(i) and 5(ii)
  - ✓ Even non-monetary item to be treated as income or loss?- para 4(c)

# Issues in ICDS 6

- ✓ Foreign Operations –
  - ✓ No difference between integral and non-integral
  - ✓ Any gain on revaluation of assets/ liabilities of foreign operations hypothetical in nature – See Delhi High Court judgment – Section 5 would prevail
  - ✓ Definition of reporting currency – para 2(m)
  - ✓ Para 7 – what shall be treatment after translation – provision is silent.
  - ✓ Disclosure – increase or decrease because of revaluation of non-integral foreign operations
- ✓ Forward contracts –
  - ✓ Any premium or discount at the inception to be amortised over the life of contract – para 8(1)
  - ✓ loss in case of foreign currency derivatives held for trading or speculation purposes whether to be allowed – para 8(5)
  - ✓ Disclosure – increase or decrease because of revaluation of derivatives held for trading and speculative purposes
- ✓ Forex fluctuation if related to capital asset, then whether capital in nature?
  - ✓ SC decision in case of Sulej Cotton Mills Ltd holding the field for almost 40 years done away with
  - ✓ Treatment provided in section 43A and section 43AA are contrary to each other?
- ✓ No disclosures



# Issues in ICDS 6

## Issues in Circular 10:

- ✓ Q.16 - the taxability of opening balance as on 1st day of April, 2016 of Foreign Currency Translation Reserve (FCTR) relating to non-integral foreign operation, if any, recognised as per Accounting Standards (AS) 11? FCTR balance as on 1 April 2016 pertaining to exchange differences on monetary items for non-integral operations, shall be recognised in the previous year relevant for assessment year 2017-18 to the extent not recognised in the income computation in the past— **Held invalid by the Court. Amendment also doesn't cover this.**

# ICDS 7 – Government Grants

## Finding of High Court on ICDS 7

- ❑ ICDS VII requires that amount has to be taxed in the year of receipt. Court held the same to be contrary and in conflict with the accrual system of accounting.

**Held: To the above extent, ICDS VII is held to be ultra vires the Act and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

## Amendment brought in by Finance Act 2018

### ***Taxability of certain income.***

***145B(3)*** *The income referred to in sub-clause (xviii) of clause (24) of section 2 shall be deemed to be the income of the previous year in which it is received, if not charged to income-tax in any earlier previous year.*

### *Section 2(24)(xviii)*

*assistance in the form of a subsidy or grant or cash incentive or duty drawback or waiver or concession or reimbursement (by whatever name called) by the Central Government or a State Government or any authority or body or agency in cash or kind to the assessee other than,—*

*(a) the subsidy or grant or reimbursement which is taken into account for determination of the actual cost of the asset in accordance with the provisions of Explanation 10 to clause (1) of section 43; or*

*(b) the subsidy or grant by the Central Government for the purpose of the corpus of a trust or institution established by the Central Government or a State Government, as the case may be*

# Issues in ICDS 7

- ✓ **Government grants whether can be taxed on receipt basis?** Judgment overruled to this extent.
  - ✓ Section 145B(3) vs. section 5
  - ✓ Disclosure – increase in profits (in the year of receipt) / decrease in profits (in the year of accrual)
  
- ✓ MAT implication due to section 145B(2)
  
- ✓ Para 5,7: Government Grants if relating to depreciable fixed assets, then the same should be reduced from the cost or WDV? Is it possible to reduce from WDV?
  - ✓ **379 ITR 1(Guj) Banco Products (India ) Ltd. vs. DCIT**
  - ✓ **341 ITR 467(Del) CIT vs. Oswal Agro Mills Ltd**
  - ✓ **187 Taxman 111(Del) Bharat Aluminium Co. Ltd. vs. CIT**
  
- ✓ Inherent inconsistency between para 5, 6 and 9.
  - ✓ Para 5 states that grants in respect of depreciable asset to be reduced from cost.
  - ✓ Para 10 states that 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.
  - ✓ However, para 6, states that grants relating to non-depreciable assets to be taken as income.

## Issues in ICDS 7

- ✓ Para 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 – Not in sync with section 41(1) – there it is taxable on receipt basis. Act to prevail.
- ✓ Para 6,10 – ‘non-depreciable asset’
  - ✓ 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 – whether the same is in sync with section 2(24)(xviii)?
- ✓ Disclosure requirements
  - ✓ Different from AS 12 – will need separate disclosure in Form 3CD

### Issues in Circular 10:

- ✓ Q.17 - For subsidy received prior to 1st day of April 2016 but not recognised in the books pending satisfaction of related conditions and achieving reasonable certainty of receipt, how shall the same be recognised under ICDS on or after 1st day of April 2016? The grants received prior to 1st day of April, 2016 shall continue to be recognised as per the law prevailing prior to that date – **In line with the HC judgment.**

# ICDS 8 – Securities

## Finding of High Court on ICDS 8

- ❑ ICDS VIII prescribes bucket approach for valuation of securities as at the end of the year. The Court held that such approach is not possible to be effectuated without a corresponding amendment to the Act. Further, the Court held that such entities will be required to maintain separate records for income tax purposes for every year since the closing value of the securities would be valued separately for income tax purposes and for accounting purposes.

**Held: To the above extent, ICDS VIII is held to be ultra vires the Act and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**



# Amendment brought in by Finance Act 2018

## ***Method of accounting in certain cases.***

**145A.** *For the purpose of determining the income chargeable under the head "Profits and gains of business or profession",—*

*(iii) the inventory being 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 **in accordance with** the income computation and disclosure standards notified under sub-section (2) of section 145;*

*(iv) the inventory being securities other than those referred to in clause (iii), shall be valued at lower of actual cost or net realisable value **in accordance with** the income computation and disclosure standards notified under sub-section (2) of section 145:*

*Provided that the inventory being securities held by a scheduled bank or public financial institution shall be valued in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145 after taking into account the extant guidelines issued by the Reserve Bank of India in this regard:*

*Provided further that the comparison of actual cost and net realisable value of securities shall be made **category-wise**.*

*Explanation 2.—For the purposes of this section,—*

*(a) "public financial institution" shall have the meaning assigned to it in clause (72) of section 2 of the Companies Act, 2013 (18 of 2013);*

*(b) "recognised stock exchange" shall have the meaning assigned to it in clause (ii) of Explanation 1 to clause (5) of section 43;*

*(c) "scheduled bank" shall have the meaning assigned to it in clause (ii) of the Explanation to clause (vii) of sub-section (1) of section 36.*

# Issues in ICDS 8

- ✓ **Bucket approach** quashed by the High Court, brought back by the amendment.
  - ✓ Para 10 of ICDS 8 quashed – therefore, no categories present
  - ✓ See Q.19 – How shall the valuation be computed - Illustration of bucket approach given
  - ✓ **Disclosure requirement – increase/ decrease in profits depending upon opening and closing stock.**
- ✓ Meaning of the term securities?
  - ✓ No definition for section 145A
  - ✓ Under ICDS securities defined in para 3(1)(b)
  - ✓ Shares of private companies?
- ✓ Derivatives not included ? Treatment of derivatives? Can it be considered as Stock-in trade/ inventory?
  - ✓ Securities as per section 145A?
  - ✓ See Edelweiss Capital Ltd. vs. ITO [ITA No. 5324/M/2007]
  - ✓ **Disclosure requirement – increase/ decrease in profits**
- ✓ **No disclosure requirements – 13(f)**

# ICDS 9 – Borrowing costs

## Finding of High Court on ICDS 9

- ❑ para 5 of ICDS IX, dealing with borrowing costs, makes it clear that no incidental income can be reduced from borrowing cost. This is contrary to the decision of the Supreme Court in **CIT v. Bokaro Steel Limited** (supra) and is therefore struck down.

**Held: To the above extent, ICDS IX is held to be ultra vires the Act and struck down as such.**

**Also, corresponding amendments in Form 3CD and any clarification in the Circular is struck down**

# Issues in ICDS 9

## ✓ Section 36(1)(iii)

*“the amount of the interest paid in respect of capital borrowed for the purposes of the business or profession :*

*Provided that any amount of the interest paid, in respect of capital borrowed **for acquisition** of an asset (whether capitalised in the books of account or not); for any period beginning from the date on which the capital was borrowed for acquisition of the asset till the date on which such asset was first put to use, shall not be allowed as deduction.”*

*“Explanation 8. to S. 43(1)—For the removal of doubts, it is hereby declared that where any amount is paid or is payable as interest in connection with the acquisition of an asset, so much of such amount as is relatable to any period after such asset is first put to use shall not be included, and shall be deemed never to have been included, in the actual cost of such asset.”*

✓ No delegation u/s 36(1)(iii) – backdoor legislation

✓ Only deals with interest capitalisation and does not deal with borrowed capital used for non-business purpose – S A Builders

✓ Para 3 – acquisition, construction, production

✓ No methods prescribed – only “capital borrowed for acquisition” can be capitalised

✓ No room for any general borrowings

## Issues in ICDS 9

- ✓ No period specified for fixed asset – fixed asset even if requires less than 12 months to get ready for use, then also capitalisation is required.
- ✓ Inventories that require 12 months or more to put them to saleable condition [All inventories including real estate covered] - No such condition in 36(1)(iii)? Conflicting with the Act?
  - ✓ ***Lokhandwala Construction Inds. Ltd. 260 ITR 579 (Bombay HC)***
  - ✓ ***CIT vs. Cellice Developers (P.) Ltd. (231 TM 255)(Cal)***
  - ✓ ***DCIT vs. Core Health Care Ltd - 298 ITR 194(SC)***
- ✓ Borrowed funds temporarily parked in FD's – corresponding interest income – should be taxed as income or should it be deducted from the interest cost? Incidental income to be reduced. No amendments made in this regards.
- ✓ Specific borrowings - funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset -
  - ✓ If the purpose for which the funds are borrowed is not acquisition or construction or production of a qualifying asset, however, the funds are specifically used for the said purposes, then whether the said specific funds would fall in specific borrowing criteria?
  - ✓ When funds are borrowed for specified purposes, however, same are not utilised for the same purposes, whether the said funds would fall within the realm of specific borrowing criteria?

# Issues in ICDS 9

## General borrowings – Formula given for computation of interest –

Para 6: Subject to Para 8, in respect of borrowing **other than those referred** to in Para 5, if any, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

$$A * B / C$$

A = borrowing costs **incurred** during the previous year **except on borrowings** referred to in Para 5 above;

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, half of the cost of qualifying asset; or

(iii) in case the qualifying asset does not appear in the balance sheet of a person on the last day of the 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,

**excluding the extent to which the qualifying assets are directly funded out of specific borrowings;**

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 assets to the extent they are directly funded out of specific borrowings;**

**Explanation — For the purpose of this paragraph, a qualifying asset shall be such asset that necessarily require a period of twelve months or more for its acquisition, construction or production.**

# Issues in ICDS 9

## ✓ General borrowings – Formula given for computation of interest –

- ✓ Para 3 (directly attributable) vs. Para 6
- ✓ No other formula in case of general borrowings can be used? Compare with S.14A and R. 8D, where only if not satisfied one can travel to Rule 8D.
  - ✓ ***Godrej & Boyce Mfg. Co. Ltd. vs. DCIT - 328 ITR 81 (Bom)***
- ✓ Arguments of own funds valid? (specific borrowings are excluded)
  - ✓ ***CIT vs. Reliance Utilities & Power Ltd. - 313 ITR 340(Bom)***
  - ✓ ***CIT vs. Gujarat Reclaim & Rubber Products Ltd. (ITA No. 2116 of 2013)(Bom)***
- ✓ General borrowings para applies to all the borrowings other than the specific borrowings. Therefore, even a borrowing which is specifically for a purpose not being the specified purpose and has been utilised for the said purpose, still the interest amount would be liable to be included in the formula given?
  - ✓ Goes contrary to section 36(1)(iii)
- ✓ Practical difficulty for big companies with multiple borrowings and different blocks?-



# Issues in ICDS 9

- ✓ Commencement of capitalisation
  - ✓ Specific – from the date on which funds were borrowed
  - ✓ General - from the date on which funds were utilised
    - ✓ How do you find out when funds were utilised?
  
- ✓ Cessation of capitalisation
  - ✓ Other assets - Put to use vs. ready to put to use?
    - ✓ *Whittle Anderson Ltd. vs CIT – 79 ITR 613(Bom)*
    - ✓ *NTPC vs. CIT – 357 ITR 253(Del)*
  
- ✓ Disclosures – Increase/ decrease in profits due to
  - ✓ Date of commencement/ cessation
  - ✓ General borrowings formula
  
- ✓ Disclosures – 13(f)
  - ✓ Same as AS 16

# Issues in ICDS 9

## Issues in Circular 10:

- ✓ Q.20 - There are specific provisions in the Act read with Rules under which a portion of borrowing cost may get disallowed under sections like 14A, 43B, 40(a)(1), 40(a)(ia), 40A(2)(b), etc of the Act. Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions? it is clarified that borrowing costs to be considered for capitalization under ICDS-IX shall exclude those borrowing costs which are disallowed under specific provisions of the Act. Capitalization of borrowing cost shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act– **goes against the judgment of various Courts as well as the provision of the Act, therefore, shall not have any impact. (See. (2013) 358 ITR 43 (P&H) CIT vs. MARK AUTO INDUSTRIES LTD.)**
- ✓ Q.21 - Whether bill discounting charges and other similar charges would fall under the definition of borrowing cost? The definition of borrowing cost is an inclusive definition. Bill discounting charges and other similar charges are covered as borrowing cost. – **As such no impact. However, one can choose not to follow the Circular**
- Q. 22 : How to allocate borrowing costs relating to general borrowing as computed in accordance with formula provided under Para 6 of ICDS-IX to different qualifying assets? The capitalization of general borrowing cost under ICDS-IX shall be done on asset-by-asset basis. – **No impact**

# ICDS 10 – Provisions, Contingent Liabilities and Contingent Assets

# ICDS 10 – Provisions, Contingent Liabilities and Contingent Assets

**No finding by the Court. No amendments proposed**

## Issues:

- ✓ Provision
  - ✓ Outflow of resources in future vs. payment already made vs. no inflow in future
- ✓ Onerous contract (Covered by AS 29) – covered by ICDS or not- recognition of liability?
  - executory
- ✓ Outflow of resources is **probable vs. reasonably certain**?
  - Probable – more likely than not (more than 50% chance)
  - What do you mean by reasonably certain?
- ✓ Practical difficulty – subjective
- ✓ Warranty
  - Class of obligation taken together rather than a single transaction
  - In ***Rotork Control India (P) Ltd. vs. CIT – [314 ITR 62(SC)]***, the Court has held that provision for warranty claim is allowable as a deduction u/s 37(1) as the enterprise has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of

# ICDS 10 – Provisions, Contingent Liabilities and Contingent Assets

## Issues:

- ✓ Reimbursement by third party - Virtually certain vs. reasonably certain?
- ✓ Contingent asset – virtually certain vs. reasonably certain?
  - If it deals with recognition of revenue then ICDS 4 shall apply?
  - Mark-to-market gain? (See Q. 8 of the Circular No. 10)
- ✓ Legal claim – outcome is uncertain – contingent asset when to be recognised?
- ✓ Apply to existing contracts also – so if provision already booked based on ‘probable outcome’ however no ‘reasonable certainty’ - in respect of continuing contract then have to be reversed?
  - See Q. 23 of the Circular No. 10 giving example.
- ✓ Disclosures – Same as AS 29
- ✓ There should not be any increase/ decrease in profits practically because of subjectivity

## Some other important issues

### Issues:

- ✓ The amendments made by the Finance Act, 2018 apply to all assessees. All the amendments invariably refer to the ICDS notified u/s 145(2). ICDS do not apply to individuals/ HUF not required to get the books of account audited. What should such people do?

# Disclosure in Form 3CD

## ☐ Disclosure

- ✓ Notification No. 88/2016 – Income-tax (23<sup>rd</sup> Amendment) Rules, 2016
- ✓ In Form 3CD, in part B, in clause 13, for sub-clause (d), the following clause is substituted.

*(d) Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)*

## Disclosure in 3CD for AY 17-18

*(e) if answer to (d) above is in the affirmative, give details of such adjustments:*

		<i>Increase in profit (Rs.)</i>	<i>Decrease in profit (Rs.)</i>	<i>Net Effect (Rs.)</i>
<i>ICDS I</i>	<i>Accounting Policies</i>			
<i>ICDS II</i>	<i>Valuation of Inventories</i>			
<i>ICDS III</i>	<i>Construction Contracts</i>			
<i>ICDS IV</i>	<i>Revenue Recognition</i>			
<i>ICDS V</i>	<i>Tangible Fixed Assets</i>			
<i>ICDS VI</i>	<i>Changes in Foreign Exchange Rates</i>			
<i>ICDS VII</i>	<i>Governments Grants</i>			
<i>ICDS VIII</i>	<i>Securities</i>			
<i>ICDS IX</i>	<i>Borrowing Costs</i>			
<i>ICDS X</i>	<i>Provisions, Contingent Liabilities and Contingent Assets</i>			
	<i>Total</i>			
8/16/2020			ICDS	



## Disclosure in 3CD for AY 17-18

### (f) Disclosure as per ICDS:

(i)	ICDS I-Accounting Policies
(ii)	ICDS II-Valuation of Inventories
(iii)	ICDS III-Construction Contracts
(iv)	ICDS IV-Revenue Recognition
(v)	ICDS V-Tangible Fixed Assets
(vi)	ICDS VII-Governments Grants
(vii)	ICDS IX Borrowing Costs
(viii )	ICDS X-Provisions, Contingent Liabilities and Contingent Assets”.

**[1985] 156 ITR 323 (SC) CIT vs. J.H. Gotla**

*“Though equity and taxation are often strangers, attempts should be made that these do not remain always so and if a construction results in equity rather than in injustice, then such construction should be preferred to the literal construction.”*

## QUESTIONS, IF ANY?

THANK YOU

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