# Practical Issues on

# Income Computation and Disclosure Standards (ICDS)

# v/s

# Accounting Standards (AS)

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# Background

- Section 145(2) of the Income Tax Act, 1961 amended vide Finance (No. 2) Act, 2014 to substitute "accounting standards" with "income computation and disclosure standards".
- Indian Accounting Standards (Ind AS) notified by Ministry of Corporate Affairs on 16th February, 2015 under which the 1st set of financial statements mandatorily under Ind AS shall be F. Y. 2016-17.
- Initially, vide Notification No. 32/2015 dated 31-03-2015 CBDT notified 10 ICDS effective from A.Y. 2016-17.
- In March 2016 AS 2, 4, 10, 13, 14, 21, 29 modified and AS 6 omitted.
- Subsequently, vide Notification No. 87/2016 dated 29-09-2016 CBDT notified revised 10 ICDS effective from A.Y. 2017-18.
- Judgement of Hon'ble High Court of Delhi in Chamber of Tax Consultants v. Union of India on 08-11-2017.
- Consequential amendments to the Income Tax Act vide Finance Act, 2018.

# Salient features

- Shall apply to A.Y. 2017-18 and subsequent assessment years
- Applicable to all assessees having “Income from Business or Profession” or “Income from other sources”
- Applicable to assessees following mercantile system of accounting
- Only for Computation of Total Income and not for maintenance of books of account
- Not applicable for computation of MAT
- Not applicable to presumptive taxation (except for determining revenue)
- Provisions of Income Tax Act, 1961 shall prevail over ICDS, in case of conflict

# Reporting under Form 3CD

Clause 13(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)

Clause 13(e): If answer to (d) above is in the affirmative, give details of such adjustments:

| | | Increase in profit ( Rs. ) | Decrease in profit ( Rs.) | Net effect ( Rs.) |
|---|---|---|---|---|
| ICDS I | Accounting Policies | | | |
| ICDS II | Valuation of Inventories | | | |
| ICDS III | Construction contract | | | |
| ICDS IV | Revenue Recognition | | | |
| ICDS V | Tangible Fixed Assets | | | |
| ICDS VI | Changes in Foreign Exchange Rates | | | |
| ICDS VII | Government Grants | | | |
| ICDS VIII | Securities | | | |
| ICDS IX | Borrowing Costs | | | |
| ICDS X | Provisions, Contingent Liabilities and Contingent Assets | | | |
| | Total | | | |

# Reporting under Form 3CD

Clause 13(f): Disclosure as per ICDS:

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

# List of ICDS with corresponding AS

| ICDS | Corresponding AS |
|---|---|
| ICDS I - Accounting Policies | 1 |
| ICDS II - Valuation of Inventories | 2 |
| ICDS III - Construction Contracts | 7 |
| ICDS IV - Revenue Recognition | 9 |
| ICDS V - Tangible Fixed Assets | 10 |
| ICDS VI - Effects of changes in Foreign Exchange rates | 11 |
| ICDS VII - Government Grants | 12 |
| ICDS VIII – Securities | 13 |
| ICDS IX - Borrowing costs | 16 |
| ICDS X - Provisions, Contingent Liabilities and Contingent Assets | 29 |

# ICDS I – Accounting Policies

| Basis of difference | ICDS –I | AS-1 |
|---|---|---|
| Concept of Prudence | **Marked to market (MTM) loss or an expected loss shall not be recognised** unless permitted by any other ICDS. | Provision is made for all known liabilities and losses on best estimate basis. Anticipated profits are not recognized. |
| Materiality omitted | Concept of **Materiality is not recognized** in ICDS | Materiality should be considered while selecting and applying accounting policy |
| Consideration in selection of accounting Policies | To represent a true and fair view of the state of affairs and income of the business, profession or vocation, the treatment and presentation of transactions and events shall be **governed by their substance and not merely by the legal form**. | The major considerations governing the selection and application of accounting policies are:-<br>a. Prudence<br>b. Substance over Form<br>c. Materiality |
| Change in accounting policy | I. Accounting policies shall not be changed without a "**reasonable cause**".<br>II. If impact is not material in current period but material in later periods, the fact of such change should be disclosed in period of change and **also required in first year in which change has material effect** | I. Change in accounting policy permitted if<br>a. required by statute;<br>b. required for compliance of AS;<br>c. change results in more appropriate presentation of financial statements<br>II. If impact is not material in current period but material in later periods, the fact of such change should be disclosed in period of change. |

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Chartered Accountants

# ICDS I – Accounting Policies

- Delhi High Court - "*non-acceptance of the concept of prudence in ICDS I is per se contrary to the provisions of the Act and therefore, cannot be countenanced.*"

- Finance Act, 2018:
  - Section 36(1)(xviii) inserted to provide deduction of marked to market loss or other expected loss as computed in accordance with the ICDS.
  - Simultaneously, 40A(13) added to provide that no deduction or allowance shall be allowed in respect of any marked to market loss or other expected loss except as allowable in section 36(1)(xviii).

# ICDS II – Valuation of Inventories

| Basis of difference | ICDS -II | AS-2 |
|---|---|---|
| Cost of inventories | Cost of inventories shall comprise of all costs of purchase, **costs of services**, costs of conversion….The cost of services comprises of labour and personnel cost directly engaged in providing services. | No specific mention of cost of services |
| Costs of purchase | Purchase price **including duties and taxes**… | Purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities)… |
| Valuation of Inventories in case of certain Dissolution | 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**. | No such reference |

# ICDS II – Valuation of Inventories

- Delhi High Court - "*if, on dissolution of a firm, the business is not discontinued, stock-in-trade has to be valued at cost or market value whichever is lower…The upshot of the above discussion is that ICDS II is also an attempt to overreach the binding judicial precedents by the device of notifications issued by the central government. It is an exercise of excessive delegation of legislative power which is impermissible in law.*"

- Finance Act, 2018:
  - Section 145A is substituted as under –

    (i) valuation of inventory shall be made at lower of actual cost or net realisable value computed in accordance with ICDS;

    (ii) valuation of purchase or sale of goods or services and of inventory is to 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;

# ICDS III – Construction Contracts

| Basis of difference | ICDS -III | AS-7 |
|---|---|---|
| Definition of construction contracts | Includes contract for **services that are directly related to construction of an asset** like project managers and architects. **Also included are contracts for destruction or restoration of assets** like demolition of buildings, ship breaking, etc. | No specific inclusion in definition. |
| Contract Revenue | Contract revenue shall be recognised when there is **reasonable certainty of its ultimate collection**. | Contract revenue should be recognised if the outcome of a contract can be estimated reliably. |
| Retention money | **Included in initial amount of contract revenue.** It shall be recognised as revenue subject to reasonable certainty of its ultimate collection. | No specific mention. |
| Recognition of Contract Revenue and Expenses | 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.** | 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 that are expected to be recovered. |
| Recognition of Estimated Loss | When it is probable that total contract costs will exceed total contract revenue, **the loss would be allowable in proportion of work completed.** | When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately. |

# ICDS III – Construction Contracts

- Delhi High Court - "*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 Respondents would be acting contrary to the settled position in law as explained in the above decisions.*

  *…Para 12 of ICDS III read with 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 (1999) 236 ITR 315 wherein it was held that if an Assessee receives any amounts which are inextricably linked with the process of setting up of its plant and machinery, such receipts would go to reduce the cost of its assets. Plainly therefore, to the extent that ICDS III is interpreted and applied in a manner contrary to the law settled by the various decisions of the Supreme Court and the High Courts, it cannot be sustained.*"

# ICDS III – Construction Contracts

- Finance Act, 2018:
  - New Section 43CB is inserted under which:

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 ICDS:

2. For the purposes of percentage of completion method, project completion method or straight line method —

   (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.

# ICDS IV – Revenue Recognition

| Basis of difference | ICDS -IV | AS-9 |
|---|---|---|
| Revenue from short term service contracts | Revenue from service contracts **with duration of not more than ninety days** may be recognised when the rendering of services under that contract is completed or substantially completed. | No such distinction within service contracts. |
| Method of revenue recognition for service contracts | It is mandatory to recognize revenue based on Percentage completion method. **Completed service method to recognise revenue is not permitted.** | Revenue from service transactions is usually recognised as the services are performed either by the proportionate completion method or by the completed service contract method. |
| Dividends | **Dividends are recognised in accordance with the provisions of the Act.** | When dividends on equity shares are declared from pre-acquisition profits, the same is deducted from cost, only if they clearly represent a recovery of a part of the cost. |

# ICDS IV – Revenue Recognition

- Delhi High Court - "*The proportionate completion method as well as the contract completion method have been recognized as valid method of accounting under mercantile system of accounting …However, para 6 of ICDS-IV permits only one of the methods, i.e., proportionate completion method and therefore, it is contrary to the above decisions.*"

- Finance Act, 2018:
  - Under the new section 43CB, the profits and gains arising from a contract for providing services shall be determined on the basis of percentage of completion method in accordance with the ICDS notified:

    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.

# ICDS V – Tangible Fixed Assets

| Basis of difference | ICDS -V | AS-10 |
|---|---|---|
| Dismantling Cost | There is **no reference of dismantling cost**. | Initial estimate of the said costs are to be included in the cost of the respective item of the plant and equipment. |
| Criteria for initial recognition | 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.** | In addition to defining fixed assets, AS 10 lays down the following criteria for recognition of items of PPE:<br>(i) It is probable that future economic benefits associated with the item will flow to the entity, and<br>(ii) The cost of the item can be measured reliably. |
| Criteria for recognition of subsequent expenses | Subsequent expenditures are capitalised only if they increase the future benefits from the existing assets **beyond its previously assessed standard of performance** | Same as criteria for initial recognition as mentioned above |
| Major spare parts capitalisation | Only those spares are required to be capitalised which **can be used in connection with fixed assets and whose use is expected to be irregular.** | Major spare parts qualify as property, plant and equipment when an entity expects to use them during more than one period and when they can be used only in connection with an item of property, plant and equipment. |

# ICDS V – Tangible Fixed Assets

| Basis of difference | ICDS -V | AS-10 |
|---|---|---|
| Cost of Major inspections | Does not deal with this aspect and **hence, should be expensed off.** | Cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection. |
| Non-monetary consideration - Option to measure at carrying value of asset given up under AS | 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.**<br><br>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.** | The cost of an item of property, plant and equipment is measured at fair value unless<br>(a) the exchange transaction lacks commercial substance or<br>(b) the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up. |

# ICDS V – Tangible Fixed Assets

| Basis of difference | ICDS -V | AS-10 |
|---|---|---|
| Revaluation | Not covered by ICDS. However, under the Act, **gains are recognised only on actual realisation.** | If an entity adopts the revaluation model, revaluations are required to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. |
| Depreciation | Depreciation on a tangible fixed asset shall be computed **in accordance with the provisions of section 32 of the IT Act, 1961.** | • Various methods prescribed for computing depreciation to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method.<br>• Changes in depreciation method are considered as change in accounting estimate and applied prospectively.<br>• Estimates of residual value need to be reviewed at least at each year end.<br>• Requires annual reassessment of useful life and depreciation method. |

# ICDS VI – The effects of changes in Foreign Exchange Rates

| Basis of difference | ICDS –VI | AS-11 |
|---|---|---|
| Scope exception | **There is no scope exception** for exchange differences arising from foreign currency borrowings which may be regarded as an adjustment to interest costs. | There is exception for exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs. |
| Scope of the term "Foreign operation" | The term covers only "**a branch**, by whatever name called, the activities of which are based or conducted in a foreign country". | The term covers subsidiary, associate, joint venture or branch of reporting enterprise, the activities of which are based or conducted in a foreign country. |
| Translation of financial statements (FS) of Foreign operations (FO) | FS of a foreign operation of a person (whether integral or non-integral foreign operation) are to be translated as if the transactions of the foreign operation had been those of the person himself. **There is no concept of Integral and Non-integral foreign operations in ICDS.**<br><br>**Exchange difference relating to monetary items are treated as income/expenses of previous year.** | Depends on whether foreign operation is integral foreign operation or non-integral foreign operation.<br>(a) FS of an integral foreign operation are to be translated as if the transaction of the foreign operations had been of the person himself.<br>(b) In case of non-integral foreign operations, assets and liabilities are to be translated at the closing rate and income and expenses are translated at actual rates or at an average rate if it approximates the actual rate and the resulting exchange differences are accumulated in foreign currency translation reserve. |

# ICDS VI – The effects of changes in Foreign Exchange Rates

| Basis of difference | ICDS –VI | AS-11 |
|---|---|---|
| Forward exchange or similar contracts entered into for trading or speculation purposes | All gains or losses (premium, exchange differences/ discount) on such contracts to be recognised on settlement. **Unrealised gains/losses on MTM are disallowed.** | Contracts to be marked to market at balance sheet date and resultant exchange differences to be recognised in the profit and loss. |

**Taxability of forex gains / losses (not covered by Section 43A) as per Section 43AA read with ICDS VI:**

| Nature of fluctuation | Monetary items (including pertaining to foreign operations) | Non-monetary items (including pertaining to foreign operations) | Forward exchange contracts for trading/ speculative purposes/ highly probable transactions | Forward exchange contracts other than for trading/ speculative purposes/ highly probable transactions |
|---|---|---|---|---|
| At the year- end (unrealised/MTM) | Taxable / tax deductible | Not taxable / not tax deductible | Not taxable / not tax deductible | Taxable / tax deductible |
| On Settlement | Taxable / tax deductible | Full gains taxable / full losses deductible | Full gains taxable / full losses deductible | Taxable / tax deductible |

# ICDS VI – The effects of changes in Foreign Exchange Rates

- Delhi High Court - "*The 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.*"

- Finance Act, 2018:
  - New Section 43AA inserted which states that any gain or loss arising on account of any change in foreign exchange rates shall be treated as income or loss, and shall be computed in accordance with ICDS notified.
  - gain or loss arising 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.

# ICDS VII – Government Grants

| Basis of difference | ICDS -VII | AS-12 |
|---|---|---|
| Recognition of Government Grants | Same as AS 12<br>However, recognition of Government grant **shall not be postponed beyond the date of actual receipt.** | Government grants should not be recognised until there is reasonable assurance that<br>(i) the person shall comply with the conditions attached to them, and;<br>(ii) the grants shall be received. |
| Treatment of Government grant related to fixed assets | **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.<br>**No option to recognize as deferred income over the useful life.** | The same may be deducted from the assets concerned or treated as deferred income over the useful life on a systematic and rational basis. |
| Treatment of Government Grants / Promoter's contribution | Where the Government grant cannot be directly relatable to the asset acquired, **the grant shall be proportionately reduced from the cost of assets**, in the ratio of assets for which grant is received to all the assets. The remaining amount shall be considered as income. | To be credited to share holder's funds /capital reserve |

# ICDS VII – Government Grants

| Basis of difference | ICDS -VII | AS-12 |
|---|---|---|
| Non-monetary government grants | **There is no guidance included for non-monetary grants free of cost.** | Non-monetary assets given free of cost are recorded at a nominal value. |
| Refund of grant – relating to fixed assets | The amount refundable in respect of a Government grant related to a 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.** | The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset. |
| Refund of grant – other than those relating to fixed assets | **There is no such reference of promoters' contribution in ICDS.** | Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfilment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve. |

# ICDS VII – Government Grants

- Delhi High Court - "*it cannot be said that there is any accrual of income although the money has been received in advance. ICDS VII however requires that amount has to be taxed in the year of receipt. This again is contrary to and in conflict with the accrual system of accounting.*"

- Finance Act, 2018:

New Section 145B(3) inserted under which 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.

# ICDS VIII – Securities

| Basis of difference | ICDS -VIII | AS-13 |
|---|---|---|
| Scope | This ICDS deals only with **securities held as stock in trade.** | Securities held as stock-in-trade are outside the scope of AS 13. However, provisions of AS 13 relating to current investments are applicable to securities held as stock-in- trade with suitable modifications. |
| Applicability | Part B of ICDS VIII, deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so declared under the Companies Act.<br><br>As per ICDS, **securities shall be classified, recognised and measured in accordance with the extant guidelines of RBI.** Provisions of ICDS VI relating to foreign exchange contracts shall not apply to that effect. | AS-13 does not deal with mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013. |

# ICDS VIII – Securities

| Basis of difference | ICDS –VIII | AS-13 |
|---|---|---|
| Initial Measurement | When a security is acquired in exchange of other securities, or another asset, **the fair value of the security so acquired shall be its actual cost.** | If an investment is acquired by issue of shares or other securities, the acquisition cost is the fair value of securities issued. And if an investment is acquired by exchange of any other asset, the fair value of asset given up is the acquisition cost of an investment. |
| Subsequent Measurement | 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.**<br><br>The comparison of actual cost initially recognised and net realisable value **shall be done category wise** and not for each individual security.<br><br>Securities, not listed, shall be valued at actual cost initially recognised. | Current investments are carried at lower of cost and fair value.<br><br>Valuation of current investments may be computed category wise, however, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value. |

# ICDS VIII – Securities

- Delhi High Court - "*ICDS VIII pertains to valuation of securities. For those entities not governed by the RBI to whom Part A of ICDS VIII is applicable, the accounting prescribed by the AS has to be followed which is different from the ICDS. In effect, 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. To this extent Part A of ICDS VIII is held to be ultra vires the Act and is struck down as such.*"

- Finance Act, 2018:

Section 145A amended which now includes:

(iii) Inventory being unlisted securities, 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 ICDS notified

(iv)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 ICDS:

The comparison of actual cost and net realisable value of securities shall be made category-wise.

# ICDS IX – Borrowing Costs

| Basis of difference | ICDS –IX | AS-16 |
|---|---|---|
| Exchange differences arising from foreign currency borrowings | **Does not include exchange differences arising from foreign currency borrowings**, to the extent that they are regarded as an adjustment to interest costs, in the definition of Borrowing Costs. | AS-16 includes exchange difference arising from foreign currency borrowings, to the extent they are regarded as an adjustment to interest costs, in the definition of Borrowing costs. |
| Definition of Qualifying Asset (QA) | **Qualifying asset means:**<br>(a) Land, Building, Plant or Furniture being tangible assets.<br>(b) know-how, patents, copyrights trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets<br>(c) inventories that require a period of twelve months or more to bring them to a saleable condition. | A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.<br><br>Following are not Qualifying assets:<br>(a) Assets that are ready for their intended use or sale when acquired and<br>(b) inventories that are routinely manufactured or produced in larger quantities on repetitive basis over a short period of time. |

# ICDS IX – Borrowing Costs

| Basis of difference | ICDS –IX | AS-16 |
|---|---|---|
| Consideration of Temporary Income | Any income earned on temporary investment of specific borrowings **is not allowed to be deducted from the cost** of borrowing incurred. | In case of specific borrowings, income on temporary investments on those borrowings are to be deducted from the borrowings costs capitalised. |
| Substantial period | **For the purpose of general borrowing**, qualifying asset shall be such asset that **necessarily require a period of twelve months or more** for its acquisition, construction or production. | Substantial period is not defined as such. A period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. |
| Impairment provisions | **There is no provision for such impairment in tax laws.** | When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Accounting Standards. |

# ICDS IX – Borrowing Costs

| Basis of difference | ICDS –IX | AS-16 |
|---|---|---|
| Formula for capitalisation of borrowing cost on **general borrowings** | A x B / C<br>A= Borrowing costs incurred during the period on General borrowings<br>B=<br>(i) Average of costs of QA as appearing in the balance sheet of a person on the first day and the last day of the previous year.<br>(ii) QA does not appear on the first and last day of the previous year half of the cost of QA.<br>(iii) In case the QA does not appear in the balance sheet of a person on the last day of the previous year, the average of the costs of QA 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 specific borrowings.<br>C = Average of the amount of Total Assets as appearing in the balance sheet on the first and last day of the previous year other than those directly funded out of specific borrowings. | The amount of borrowing costs to be capitalised shall be determined by applying a capitalisation rate to expenditure on that asset.<br><br>Capitalisation rate should be weighted average of borrowing costs applicable to the borrowings of enterprise that are outstanding during the period other than borrowings specifically made for purpose of obtaining a Qualifying asset.<br><br>Borrowing cost capitalised shall not exceed borrowing costs incurred. |

# ICDS IX – Borrowing Costs

| Basis of difference | ICDS –IX | AS-16 |
|---|---|---|
| Commencement of Borrowing Costs | **Capitalisation of borrowing cost shall commence:**<br>(i) In case of specific borrowings, from the date on which funds are borrowed.<br>(ii) In case of general borrowings, from the date on which funds are utilised. | Capitalisation of borrowing cost shall commence when:<br>(i) expenditure for the acquisition, construction or production of a qualifying asset is being incurred;<br>(ii) borrowing costs are being incurred; and<br>(iii) activities that are necessary to prepare the asset for its intended use or sale are in progress. |
| Suspension of Borrowing Costs | **No such condition** | Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted. |
| Cessation of capitalisation | Capitalisation of borrowing costs shall cease:<br>(a) in case of a qualifying asset i.e. tangible or intangible fixed asset, **when such asset is first put to use;**<br>(b) in case of inventory, **when substantially all the activities necessary** to prepare such inventory for its intended sale **are complete.**<br>The same provision is applicable if the construction of qualifying assets is completed in parts. | Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. |

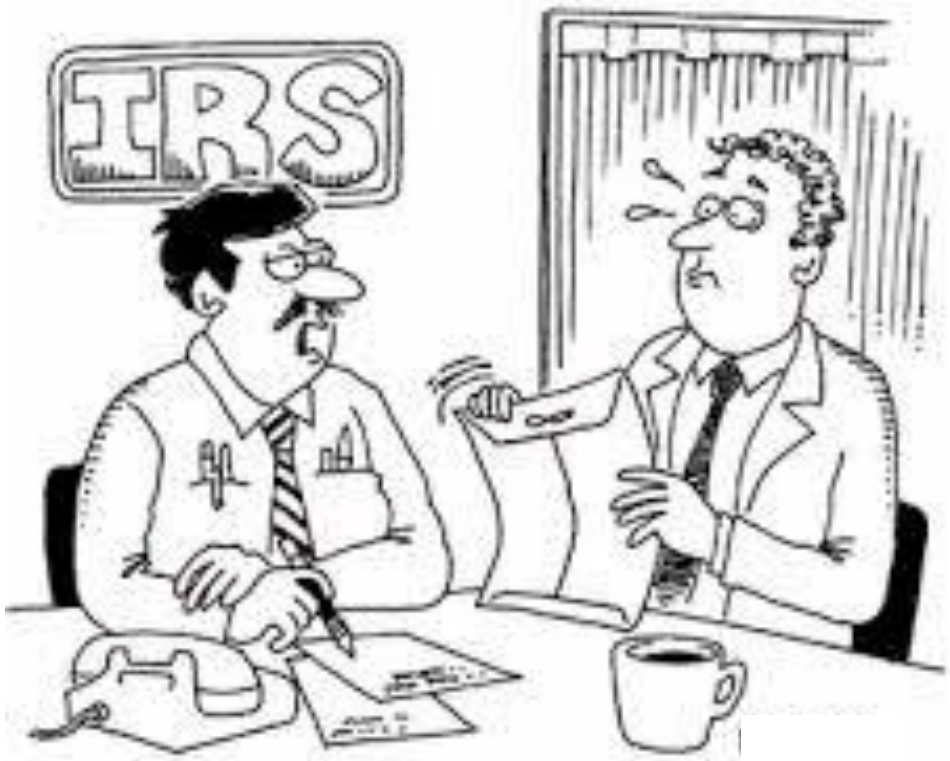
# ICDS X – Provisions, Contingent Liabilities and Contingent Assets

| Basis of difference | ICDS –X | AS-29 |
|---|---|---|
| Onerous Contracts | Onerous executory contracts **excluded from the scope** of ICDS | Includes onerous executory contracts within its scope and its upfront recognition of liabilities required under onerous contracts. |
| Recognition of Provisions | A provision shall be recognised when all of the following conditions are met:<br>(a) there is a present obligation as a result of a past event;<br>(b) it is **reasonably certain** that an outflow of resources embodying economic benefits will be required to settle the obligation; and<br>(c) a reliable estimate can be made of the amount of the obligation.<br>The term 'reasonably certain' has not been defined in the ICDSs, the Act or the Rules. | A provision shall be recognised when all of the following conditions are met:<br>(a) an enterprise has a present obligation as a result of a past event;<br>(b) it is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation; and<br>(c) a reliable estimate can be made of the amount of the obligation. |
| Recognition of Contingent Assets | 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. | Contingent assets are assessed continually and when it becomes **virtually certain** that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs. |

# ICDS X – Provisions, Contingent Liabilities and Contingent Assets

| Basis of difference | ICDS –X | AS-29 |
|---|---|---|
| Provisions-discounting | **Discounting of liabilities is not permitted** and provisions are carried at their full values. | When the effect of time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects the current market assessment of the time value of money and risks specific to the liability. |
| Measurement-Contingent Asset | 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. | No such measurement for assets in AS-29 |
| Review of Contingent Assets | An asset and related income recognised 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. | No such measurement for assets in AS-29 |

# Disclosures




"It's relatively simple. We only want what's ours, plus 30% of what you think is yours."

# Don’t forget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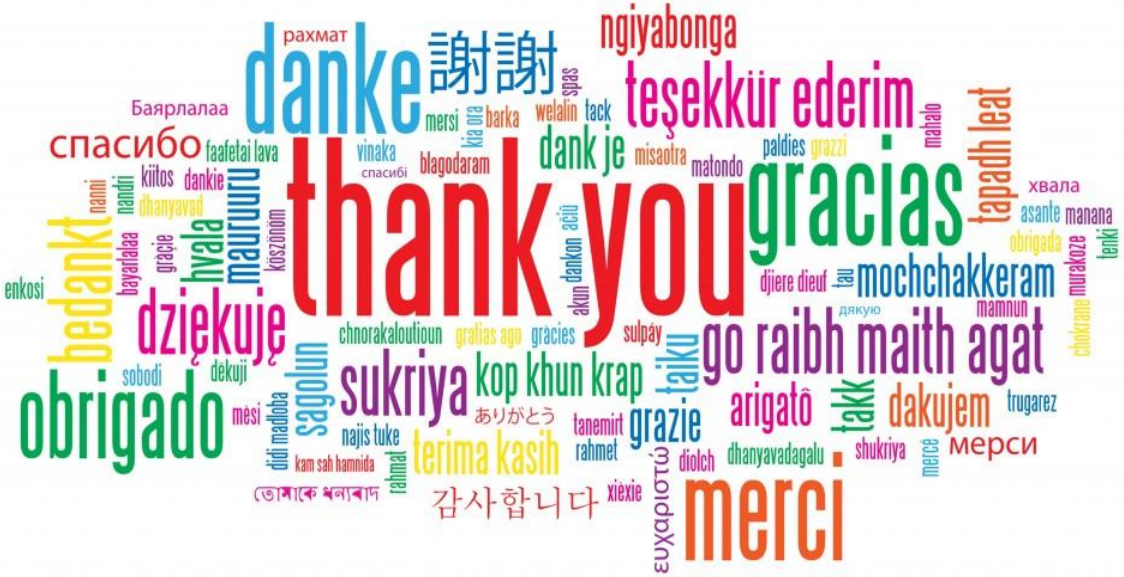


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