



ICDS CLAUSES IN TAX AUDIT

A DISCUSSION



SEPTEMBER 3 2022

A FLASHBACK

- 145(2) – Notification No 87/2016- A Y 2017-18
- Chamber of Tax Consultants/ Delhi High Court/ Finance Act 2018

THE APPLICABLE CLAUSES

- 13 (d)- whether any adjustments need to be made for ICDS
- 13(e)- If yes, tabular format for disclosure of differences
- 13(f) – Disclosure as per ICDS

ICDS

ICDS No	Scope
I	Disclosure of Accounting Policies
II	Valuation of Inventories
III	Construction Contracts
IV	Revenue Recognition
V	Tangible Fixed Assets
VI	Effects of foreign exchange rates
VII	Government Grants
VIII	Securities
IX	Borrowing Costs
X	Provisions, Contingent Liabilities
	and Contingent Assets

NO ICDS?

- Employee Benefits
- Revised Revenue standard
- Leases
- Share-based payments
- Financial Instruments
 - EIR
 - ECL
 - MTM

AS 1 VS ICDS 1

- MTM Losses
- Premium, discount or exchange difference
- Accounting Policies shall not be changed without “ Reasonable Clause”

AS 2 VS ICDS II

- Standard Cost omitted in ICDS
- Change in method of inventory shall not be made without “reasonable cause”

REASONABLE CAUSE?

- Under the Act, “reasonable cause” is an existing concept and has evolved well over a period of time conferring desired flexibility to the taxpayer in deserving cases.

AS 7 VS ICDS III

- Retention Money
- Allowability of Losses- actually incurred and POC method
- When to commence POC?

AS 9 VS ICDS IV

- Revenue recognition to be postponed if significant uncertainty exists on collection –AS
- Revenue to be recognised only if there is reasonable certainty of its ultimate collection from sale of goods and rendering of services- ICDS
- Ind AS Companies??

AS 10 VS ICDS V

- AS acknowledges capitalisation of stand-by equipment and servicing equipment as a normal practice but does not mandate it
- ICDS 'mandates' capitalisation of stand-by equipment and servicing equipment
- Machinery Spares- “ may” vs “ shall”

AS II VS ICDS VI

- Paras 46 and 46 A – Not available in ICDS
- Section 43AA of ITA.

AS 12 VS ICDS VII

- PPE Grants- to be reduced from value of PPE
- Income cannot be deferred
- No guidance on grant in nature of promoters' contribution

AS 13 VS ICDS VIII

- Lots of differences!!
- ICDS applies only to securities held as stock in trade
- Year end valuation- lower of cost or NRV- category –wise
- A) Shares b) Debt c) Convertible Securities d) Other securities

AS 16 VS ICDS IX

- Definition of borrowing cost- exchange differences not included in ICDS
- Capitalisation of borrowing costs
 - Weighted Average cost (AS)
 - Pro-rata borrowing cost (ICDS)

AS 29 VS ICDS X

- Onerous Contracts excluded from scope
- No discounting

IN 3CD

ICDS	Scope	Impact on Profit		Net Effect
		Increase	Decrease	
		Rs in Lakhs		
I	Disclosure of Accounting Policies	78	0	78
II	Inventories	5	12	-7
III	Revenue Recognition	46	0	46

DISCLOSURES

XYZ PRIVATE LIMITED

ASSESSMENT YEAR: 2019-20

ANNEXURE TO FORM NO. 3CD

Annexure 5

CLAUSE 13(f)

DISCLOSURE AS PER ICDS

Sr. No.	ICDS	Disclosure
1	ICDS I - Accounting Policies	Disclosure of Policies - Refer Schedule A to the Notes on Financial Statements
2	ICDS II - Valuation of Inventories	Valuation - for policy on inventory valuation refer Para ____ of Schedule A to the Notes on Financial Statements
3	ICDS II - Valuation of Inventories	Inventory is valued at cost or net realisable value, whichever is lower
4	ICDS II - Valuation of Inventories	Cost is determined on specific identification basis
5	ICDS II - Valuation of Inventories	Standard cost has not been used as a measurement of cost
6	ICDS II - Valuation of Inventories	Carrying amount of inventories is Rs. 25,02,500 towards Raw Materials; Rs. 15,92,750 towards Stock-in-process; and Rs. 75,00,350 towards Finished Goods.

DISCLOSURES

7	ICDS III - Construction Contracts	Contract Revenue of Rs. 10,25,750 has been recognised as revenue of the period under consideration
8	ICDS III - Construction Contracts	In respect of contracts in progress, (i) stage of completion is determined by survey of work performed upto 31.3.2019; (ii) Costs incurred upto 31.3.2019 amount to Rs. 25,75,250; (iii) Profits recognised upto 31.3.2019 amount to Rs. 5,15,200; (iv) Amount of advances received upto 31.3.2019 amount to Rs. 27,50,000; and (v) Amount of retentions as on 31.3.2019 is Rs. 2,75,000.
9	ICDS IV - Revenue Recognition	Computation Policy on Revenue Recognition - Refer Para ____ in Schedule A to the Notes on Financial Statements
10	ICDS IV - Revenue Recognition	Disclosures required under this ICDS are either NIL or Not Applicable Authors' Note: In case any of the disclosures required by ICDS IV are applicable in the facts of the case, the same should be disclosed here

DISCLOSURES

11	ICDS V - Tangible Fixed Assets	Refer details given against clause 18 of Form 3CD
12	ICDS VII - Government Grants	Not Applicable
13	ICDS IX - Borrowing Costs	For computation policy on Borrowing Costs - Refer Para ____ in Schedule A to the Notes on Financial Statements
14	ICDS IX - Borrowing Costs	Borrowing costs are claimed in the computation of income in accordance with the provisions of section 36(1)(iii)/ 37 read with the Explanation 8 to section 43(1) of the Act. To the extent the borrowing costs relate to inventory the same are claimed as a deduction under section 36(1)(iii) in line with the ratio of the decision of the Bombay High Court in the case of CIT v. Lokhandwala Construction Industries Ltd. [(2003) 260 ITR 579 (Bom.)]

DISCLOSURES

15	ICDS X - Provisions, Contingent Liabilities and Contingent Assets	For policy in respect of provisions, refer Para ____ in Schedule A to the Notes on Financial Statements
16	ICDS X - Provisions, Contingent Liabilities and Contingent Assets	For policy in respect of Contingent Assets and Contingent Liabilities, refer Para ____ in Schedule A to the Notes on Financial Statements
17	ICDS X - Provisions, Contingent Liabilities and Contingent Assets	The assessee does not have any provision which requires disclosure under ICDS - X

THE FUTURE OF ICDS

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DO WE NEED ICDS?

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THANK YOU!

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