

# CBDT releases revised Income Computation and Disclosure Standards

*The Income Computation and Disclosure Standards ("ICDS") were first released by the CBDT on 31 March 2015, to be applied with effect from 01 April 2015. The ICDS were applicable to all taxpayers following mercantile system of accounting for the purpose of computation of income under the head "Profits and gains from business or profession" or "Income from other sources".*

*The CBDT has revised these ICDS and has made them applicable from 01 April 2016 (notification dated 29 September 2016\*). Also, individual or HUF taxpayers who are not required to get their accounts audited under section 44AB are now excluded from applicability of ICDS. Further, Form 3CD has also been amended to capture the information relevant to ICDS (vide notification dated 29 September, 2016\*).*

## Summary

- *Standard costing method has been permitted as technique for measurement of cost of inventory.*
- *Ongoing construction contracts as at 31 March 2016 have been permitted to recognise their contract revenue and cost on the basis of the method of accounting regularly being followed by them.*
- *Revenue from service contracts with duration of not more than 90 days may be recognised when the rendering of services under that contract is completed or substantially completed.*
- *For the purpose of capitalisation of general purpose borrowing, it has been clarified that a qualifying asset shall be such asset that necessarily requires a period of 12 months or more for its acquisition, construction or production.*
- *No new ICDS has been prescribed and there are no changes in ICDS I relating to Accounting Policies, ICDS VII relating to Government grants and ICDS X relating to provisions, contingent liabilities and contingent assets. However, transitional provisions for all ICDS have been amended to give effect to new date of implementation.*

## Key amendments

### **ICDS II relating to valuation of inventories**

- *Standard cost method may be used as a technique for measurement of cost of inventories for convenience, if the results approximate the actual cost.*



- *It has been explained that standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of the current conditions.*

### **ICDS III relating to construction contracts**

- *Contract revenue and contract costs associated with a construction contract, which commenced on or before the 31 March 2016 but not completed by the said date, shall be recognised based on the method regularly followed by the person prior to the previous year beginning on the 01 April 2016.*

### **ICDS IV relating to revenue recognition**

- *Revenue from a service contracts with duration of not more than 90 days may be recognised when the rendering of services under that contract is completed or substantially completed.*
- *In case of rendering of services, revenue shall be recognised by applying percentage of completion method. However, where services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.*
- *Revenue on account of 'interest' income shall accrue on the time basis determined by the amount outstanding and rate applicable. However in case of interest on refund of any tax, duty or cess shall be deemed to be income of the previous year in which such interest is received.*

### **ICDS V relating to tangible fixed assets**

- *Details of jointly owned tangible fixed asset are not required to be mentioned separately in the tangible fixed assets register.*

### **ICDS VI relating to effects of changes in foreign exchange rates**

- *Definition and classification of foreign operations between integral and non-integral foreign operations has been removed.*
- *Conversion at last date of previous year in respect of non-monetary item being inventory, which is carried at net realisable value denominated in a foreign currency shall be reported using the exchange rate that existed when such value was determined.*

### **ICDS VIII relating to securities**

- *The definition of "securities" has been expanded to include share of a "company in which public are not substantially interested".*
- *For subsequent measurement of securities, weighted average cost can be used, in addition to FIFO, in cases where actual cost could not be ascertained using specific identification method.*
- *Part B has been added which deals with classification, recognition and measurement principles for securities held by a scheduled bank or PFI formed under Central or State Act or so declared under Companies Act. It provides that securities shall be classified,*

*recognised and measured in accordance with the extant guidelines issued by RBI in this regard and any claim for deduction in excess of the said guidelines shall not be taken into account.*



**ICDS IX relating to borrowing cost**

- *For the purpose of capitalisation of general purpose borrowing, it has been clarified that a qualifying asset shall be such asset that necessarily require a period of 12 months or more for its acquisition, construction or production.*

