Exploring Provisions

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CBDT notified Income Computation and Disclosure Standards (ICDS)

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PREFACE

This document captures key features of Income Computation and Disclosure Standards (ICDS) Vide Government Notification No. 32 of 2015/S.O.892 (E), dated 31st March 2015. The Central Board of Direct Taxes had initially notified two accounting standards by notification dated January 25, 1996 on the basis of power entrusted by Section 145 of the Indian Tax Laws (ITL) to be followed by any class of taxpayers or in respect of any class of income. The new framework for computation of taxable income has notified 10 income computation and disclosure standards (ICDS), with effect from April 1, 2015, which will bring greater consistency in the application of accounting principles.

In view of significant developments in the convergence to International Financial Reporting Standards (IFRS), This CBDT move is also timely, as it will facilitate the adoption of Ind AS (IFRS converged standards). ICDS are meant for the normal tax computation. Thus, as things stand now, ICDS has no impact on minimum alternate tax (MAT) for corporate taxpayers which will continue to be based on "book profit" determined under current AS or Ind AS, as the case may be.

ICDS shall apply to all taxpayers whether corporate or otherwise and there is no income or turnover criterion for its applicability. An entity need not maintain books of accounts to compute income under ICDS. However, if the differences between ICDS and Ind AS/current AS as the case may be are several, an entity may need to evolve a more sophisticated system of tracking them. It is possible that the current tax audit requirements will be enhanced to require auditors to report on the correctness of tax computation under ICDS. Noncompliance of ICDS gives power to the Tax Authority to assess income on "best judgement" basis and also levy penalty on additions to returned income. Suitable changes in the TAR and ITR forms are also warranted

Purpose of this Document

This Tax Alert encapsulates key features of Income Computation and Disclosure Standards (ICDS) Vide Government Notification No. 32 of 2015/S.O.892 (E), dated 31st March 2015.

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I. Section 145 of the Income tax Act, 1961 and ICDS

Income under the head 'business or profession' or under the head 'income from other sources' can be computed either on cash or mercantile basis at the choice of the assessee. The choice once exercised to be followed regularly though. This rule is applicable to all kinds of assessee's. Section 128 of the Companies Act, 2013 however mandatorily requires Companies to maintain their accounts on accrual basis. Section 133 of the said Act further want mandatory compliance to the Accounting Standards notified by the Central Government. Thus only companies are required to present their accounts and profit in certain manner more particularly in the form prescribed under Schedule III to such Act.

The Central Board of Direct Taxes had initially notified two accounting standards by notification dated January 25, 1996, on the basis of the power entrusted under section 145(2). Accounting Standard No. 1 related to disclosure of accounting policies and Accounting Standard 2 related to disclosure of prior period and extraordinary items and changes in accounting policies. Vide Government Notification No. 32 of 2015/S.O.892 (E), dated 31st March 2015 previous two standards of 1996 are now superseded and new set of tax standards called Income Computation and Disclosure Standards (ICDS) have come into effect from 1st April 2015 and accordingly, shall apply to the assessment year 2016-17 and subsequent assessment years. These would have application to all assessee's having business/professional incomes and income under the head income from other sources such as interest, dividends etc. and who are following mercantile system of accounting. In other words those who follow cash system of accounting would be exempted from application of ICDS. Further non- company assessee's whose accounts are not compliant to the Accounting Standards (Ind AS) would now be required to draw their accounts in conformance with ICDS. The details of ICDSs notified are as under.

ICDS I: Accounting Policies

ICDS II: Valuation of Inventories

ICDS III: Construction Contracts

ICDS IV: Revenue Recognition

ICDS V: Tangible Fixed Assets

ICDS VI: The effects of changes in foreign exchange rates

ICDS VII: Government Grants

ICDS VIII: Securities

ICDS IX: Borrowing Costs

ICDS X: Provisions, Contingent liabilities and Contingent assets

All of these ten accounting standards would be mandatory on revenue and the assessee's. Each of these standards desire showcasing the income computation in accordance with the provisions of such standard. The preamble to each of such standard read it as applicable for computation of income chargeable under the head "Profits and gains of business or profession" or " Income from other sources" and not for the purpose of maintenance of books of account. In other words any departure from ICDS would require a mention either in the return of income and/or in the tax audit report. In case of any departure it would thus provide an opportunity for the Assessing Officer to complete the assessment to the best of his judgment u/s 144 and in a worst scenario convert into special audit situation.

At the same time it is provided that in case of a conflict between the provisions of the Income tax Act and ICDS, the provisions of the Act shall prevail to such extent. However there is no mention of a situation of conflict of ICDS laid down scheme with the settled judicial pronouncements.

II. ICDS 1- Accounting Policies

All assessee's having business or professional incomes or income from other sources are expected to adopt and disclose accounting policies keeping into account the following three fundamental accounting assumptions:

a) Going concern
b) Consistency
c) Accrual.

In the event of any departure from this rule or treatment the AO is expected to go behind the transaction, discard its legal form and find out the substance of the transaction. On currency derivatives the ICAI all along had opined that, keeping in view the principle of prudence as enunciated in Accounting Standard (AS) 1, Disclosure of Accounting Policies, the entity is required to provide for losses in respect of all outstanding derivative contracts at the balance sheet date by marking them to market. However in the ICDS-1 for instance mark to market loss is considered to be in the nature of expected loss or contingent liability and not actual loss incurred under the provision of this standard. So a company may have an accounting policy to book forex loss in case of outstanding derivatives on mark to market basis but the same will be taken as a deviation from ICDS.

Furthermore for any claim of loss or expense it is desirable that the same is recorded in the books of account.

In a further departure from the previous issued Standard I on accounting policy there is no reference to the accounting concept of prudence which has a definite relevance for the purpose of computation of chargeable income.

III. ICDS 2- Valuation of inventories

This ICDS provides that cost of purchase shall consist of purchase price including duties and taxes. In other words duties that are recoverable will also form part of cost. This is in accordance with the provisions of section 145A of the Act. Further only FIFO or weighted average cost method shall be entertained and no other method will be accepted.

Importantly for the first time ever it is now also provided
that method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause. Any distortion in the measurement of costs and cost formulae, exclusions, inclusions etc. would thus be viewed adversely.

Disclosures

a) Accounting policies adopted in measuring inventories including cost formulae used
b) Total carrying amount with head classification

IV. ICDS 3- Construction contracts

Often a dispute arises in the matter of accrual of retention money. Courts have time and again held the contractor gets no right to claim any part of the retention money till the verification of satisfactory execution of the contract is concluded and, therefore, if there is no immediate right to receive the retention money, the said amount cannot be said to have accrued to him. Thus under the new standard retentions will also form part of the contract revenue. ICDS -1 prohibit allowance of expected loss so that in a situation where it is probable that total contract costs will exceed total contract revenue, the expected/foreseeable will not be claimable as an expense no matter that expected loss on the construction contract should be recognized as an expense immediately as per Accounting Standard 7.

Further contract revenues and contract costs are to be recognized on cumulative basis using percentage of completion method (POCM) as distinct from the completed contract method. Percentage of completion method is an accounting method in which the revenues and expenses of long-term contracts are recognized yearly as a percentage of the work completed during that year. This is the opposite of the completed contract method, which allows taxpayers to defer the reporting of any income and expenses until a long-term project is completed. The Percentage of completion method of accounting is also commonly used in construction projects.

Further the Standard prescribes 25 per cent. as benchmark for recognizing profit. In other words income should be recognized as soon as at least 25 per cent. of the work on a project has been completed.

Disclosures

a. Contract revenues recognized as revenue

b. Method used to determine stage of completion for contract in progress with details of cost incurred and profits recognized upto reporting date, advances and retentions.

V. ICDS 4- Revenue recognition

In the matter of recognition of revenue it is desirable that there should be utmost certainty of actual collection of the amount billed and in case of a doubt necessary disclosure is made. Revenue recognition from sale of goods is only when all significant risks and rewards gets transferred to the buyer. Service revenue on the other hand would be recognized on POCM as in case of construction contracts.

Disclosures

a. Unrecognized revenues from sale of goods with nature of uncertainty

b. Service revenue recognized

c. Method used to determine stage of completion of service transaction in progress

d. Service transaction in progress at the end of the previous year with details of cost incurred and profits recognized, advances recd and retentions.

VI. ICDS 6- Effects of changes in foreign exchange rates

The standard harp on the manner of translating/treating the following forex transactions:

a. the transactions in foreign currencies;

b. financial statements of foreign operations;
c. forex contracts differences accounting.

Only monetary items such as cash, receivables, payables would warrant translation.

VII. ICDS 7-Government grants

The standard explains on the treatment of grants, subsidies, incentives etc. either as capital or revenue depending on the nature of such grant.

Disclosure

a. Grants recognized by way of deduction from fixed assets;
b. Grants considered as incomes
c. Grants neither considered as reduction nor as income with reasons

VIII. ICDS -8- Securities

FIFO method is best found to be applicable in determination of actual cost of securities.

IX. ICDS 9- Borrowing costs

The standard set the time of commencement of capitalization and cessation of capitalization. The standard also provide for capitalization of interest cost on general borrowings utilized for the purpose of acquisition, construction or production of a qualifying asset

Disclosure

It requires a disclosure on borrowing costs capitalized during the previous year.

X. ICDS 10-Provisions, contingent liabilities and contingent assets

This standard deals with provisions for any liability.

Disclosures

a. Details of movements in each provisions with opening and closing balance

b. Details of contingent assets with movements and
related income recognized/reversed during the previous year, if any

XI. How far ICDS have any legal relevance?

By far it is a settled law that the question whether the assessee is entitled to a particular deduction or not or a certain amount is chargeable to income tax will depend upon the provisions of the law relating thereto and not the way, in which the entries are made in the books of account. ICDS to some extent also so provide when it admits that they are inferior to the provisions of the Act. In the preamble section it is clearly provided that in case of a conflict between the provision of the Act and ICDS the provisions of the Act shall prevail.

XII. Conclusion

ICDS are harsh in as much as they depart from the well-known principles of commercial accounting and further do away with the flexibility in the choice in the selection of method of accounting and manner of treatment of certain costs and incomes, capitalization rate etc. ICDS-1 for instance is a complete departure from the cardinal principle of commercial accounting that one must avoid anticipating profits, but must take account of and provide for expected losses. Yet again in the context of construction business ICDS-3 regards retention amounts are chargeable upfront which is not in sync with the legal view. Therefore a contractor or small service provider following the cash system of accounting and not governed by ICDS will be better placed. Small businesses and small contractors who follow mercantile system of accounting may therefore shift to cash system of accounting from 1.4.2015 to escape from mandatory application of ICDS. Likewise ICDS V on tangible assets would call for capital treatment of expenditure on major repairs and improvements. Also while ICDS-1 regard marked to market loss on unmatured forward contracts as unrecognizable it does not mention on the treatment of corresponding gain thereon. ICDS-1 does not acknowledge the principle of prudence more particularly recognized and applied by the Supreme Court in the case of CIT v. Woodward Governor India P. Ltd. [2009] 312 ITR 254. By such principle provisions should be made for losses even though the amount cannot be determined with certainty and represents only the basic estimate in the light of available information. To this extent therefore the ICDS-1 tend to supersede the Supreme Court ruling in Woodward Governor case. Even the Accounting

Standard 21 having application in case of companies would not
lend much help after ICDS come into effect as these would be superior to Ind AS notified under the Companies Act, 2013.

XIII. Items on Radar after introduction of ICDS

The erstwhile Notification No. S. O. 69(E) dated January 25, 1996 (annexed to the periodic) issued by the Central Board of Direct Taxes under section 145(2) prescribed accounting standards to be followed by all the assessees following the mercantile system of accounting. From that notification it was clear that the Department had itself accepted the principle that a provision should be made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information. Keeping this into consideration the Courts and Tribunal in the past allowed aseessees deduction of various types of provisions from time to time be it in normal draw of computation of income or in the preparation of MAT computation. The Pune bench of the Income tax Appellate Tribunal in Thermax Babcock and Wilcox Limited v. Additional CIT (2008) 304ITR AT 130 held that once the assessee is maintaining its accounts on the mercantile system, the liability already accrued in a year, though to be discharged at a future date, would be a proper deduction while working out the profits and gains of business, regard being had to the accepted principles of commercial practice and accountancy. The expenditure which is deductible for income-tax purpose is one which is towards a definite and certain liability actually existing at the relevant time. The other condition to be satisfied is that the definite liability in praesenti should also be capable of being estimated with reasonable certainty though the actual quantification may not be possible.

After the introduction of ICDS the principle of prudence is derecognized and it is likely that the following kind of provisions would be considered as contingent in nature and therefore much caution is required to be exercised in making claims for their deduction:-

S. NO.	Item	Impact Sector
1.	Provision for warranty	Manufacturing
2.	Provision for liquidated damages	Both manufacturing and

		Services such as electronics, telecom etc.
3.	Provision for marked to market loss	All
4.	Provision for lease equalization charge	Leasing businesses
5.	Provision for site restoration costs	Energy(petroleum, gas , mining) and telecom industry

Assessing officer would be expected to collect details of actual losses under either heading and may restrict the deduction to that extent.

Annexure 1:

SECTION 145 OF THE INCOME-TAX ACT, 1961 - METHOD OF ACCOUNTING - ACCOUNTING STANDARD I RELATING TO DISCLOSURE OF ACCOUNTING POLICIES

NOTIFICATION NO.9949 [F.NO.132/7/95-TPL]/SO 69(E), DATED 25-1-1996

[SUPERSEDED BY NOTIFICATION NO.32/2015 [F.NO.134/48/2010-TPL]/SO 892(E), DATED 31-3-2015

In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961), the Central Government hereby notifies the following accounting standards to be followed by all assessees following the mercantile system of accounting, namely :

A. Accounting Standard I relating to disclosure of accounting policies :

(1) All significant accounting policies adopted in the preparation and presentation of financial statements shall be disclosed.

(2) The disclosure of the significant accounting policies shall form part of the financial statements and the significant accounting policies shall normally be disclosed in one place.

(3) Any change in an accounting policy which has a material effect in the previous year or in the years subsequent to the previous years shall be disclosed. The impact of, and the adjustments resulting from, such change, if material, shall be shown in the financial statements of the period in which such change is made to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact shall be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the previous year but which is reasonably expected to have a material effect in any year subsequent to the previous year, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted.

(4) Accounting policies adopted by an assessee should be such so as to represent a true and fair view of the state of affairs of the business, profession or vocation in the financial statements prepared and presented on the basis of such accounting policies. For this purpose, the major

considerations governing the selection and application of accounting policies are the following, namely :--

(i) Prudence.--Provisions should be made for all known liabilities and losses even though the amount cannot be determined with certainty and represents only a best estimate in the light of available information ;

(ii) Substance over form.--The accounting treatment and presentation in financial statements of transactions and events should be governed by their substance and not merely by the legal form ;

(iii) Materiality.--Financial statements should disclose all material items, the knowledge of which might influence the decisions of the user of the financial statements.

(5) If the fundamental accounting assumptions relating to going concerns, consistency and accrual are followed in financial statements, specific disclosure in respect of such assumptions is not required. If a fundamental accounting assumption is not followed, such fact shall be disclosed.

(6) For the purposes of paragraphs (1) to (5), the expressions,--

a. "Accounting policies" means the specific accounting principles and the methods of applying those principles adopted by the assessee in the preparation and presentation of financial statements ;
b. "Accrual" refers to the assumption that revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the financial statements of the periods to which they relate ;
c. "Consistency" refers to the assumption that accounting policies are consistent from one period to another ;
d. "Financial statements" means any statement to provide information about the financial position, performance and changes in the financial position of an assessee and includes balance-sheet, profit and loss account and other statements and explanatory notes forming part thereof ;
e. "Going concern" refers to the assumption that the assessee has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business,

profession or vocation and intends to continue his business, profession or vocation for the foreseeable future.

B. Accounting standard II relating to disclosure of prior period and extraordinary items and changes in accounting policies :

(7) Prior period items shall be separately disclosed in the profit and loss account in the previous year together with their nature and amount in a manner so that their impact on profit or loss in the previous year can be perceived.

(8) Extraordinary items of the enterprise during the previous year shall be disclosed in the profit and loss account as part of income. The nature and amount of each such item shall be separately disclosed in a manner so that their relative significance and effect on the operating results of the previous year can be perceived.

(9) A change in an accounting policy shall be made only if the adoption of a different accounting policy is required by statute or if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements by an assessee.

(10) Any change in an accounting policy which has a material effect shall be disclosed. The impact of, and the adjustments resulting from such change, if material, shall be shown in the financial statements of the period in which such change is made to reflect the effect of such change. Where the effect of such change is not ascertainable, wholly or in part, the fact shall be indicated. If a change is made in the accounting policies which has no material effect on the financial statements for the previous year but which is reasonably expected to have a material effect in years subsequent to the previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted.

(11) A change in an accounting estimate that has a material effect in the previous year shall be disclosed and quantified. Any change in an accounting estimate which is reasonably expected to have a material effect in years subsequent to the previous year shall also be disclosed.

(12) If a question arises as to whether a change is a change in accounting policy or a change in an accounting estimate, such a question shall be referred to the Board for decision.

(13) For the purposes of paragraphs (7) to (12), the expressions :--

a. "Accounting estimate" means an estimate made for the purpose of preparation of financial statements which is based on the circumstances existing at the time when the financial statements are prepared ;
b. "Accounting policies" means the specific accounting principles and the method of applying those principles adopted by the assessee in the preparation and presentation of financial statements ;
c. "Extraordinary items" means gains or losses which arise from events or transactions which are distinct from the ordinary activities of the business and which are both material and expected not to recur frequently or regularly. Extraordinary items include material adjustments necessitated by circumstances which though related to the years preceding the previous years are determined in the previous year :

   Provided that income or expenses arising from the ordinary activities of the business or profession or vocation of an assessee though abnormal in amount or infrequent in occurrence shall not qualify as extraordinary items.
d. "Financial statements" means any statement to provide information about the financial position, performance and changes in the financial position of an assessee and includes balance-sheet, profit and loss account and other statements and explanatory notes forming part thereof ;
e. "Prior period items" means material charges or credits which arise in the previous year as a result of errors or omissions in the preparation of the financial statements of one or more previous years :

   Provided that the charge or credit arising on the outcome of a contingency, which at the time of occurrence could not be estimated accurately shall not constitute the correction of an error but a change in estimate and such an item shall not be treated as a prior period item.

This notification shall come into force with effect from 1st day of April, 1996, and shall accordingly apply to the assessment year 1997-98 and subsequent assessment years.

Annexure 2:

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART-II, SECTION 3, SUB-SECTION (ii)]

GOVERNMENT OF INDIA,MINISTRY OF FINANCE, (DEPARTMENT OF REVENUE), (CENTRAL BOARD OF DIRECT TAXES)

NOTIFICATION

New Delhi, the 31st March, 2015

INCOME-TAX S.O. 892 (E) In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961) and in supersession of the notification of the Government of India in the Ministry of Finance, Department of Revenue, published in the Gazette of India, Part II, Section 3, Sub-section (ii), vide number S.O 69(E) dated the 25th January, 1996, except as respects things done or omitted to be done before such supersession, the Central Government hereby notifies the income computation and disclosure standards as specified in the Annexure to be followed by all assessees, following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head “Profit and gains of business or profession” or “ Income from other sources”. This notification shall come into force with effect from 1st day of April, 2015, and shall accordingly apply to the assessment year 2016-17 and subsequent assessment years.

A. Income Computation and Disclosure Standard I relating to accounting policies

Preamble

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

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

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

Fundamental Accounting Assumptions

2. The following are fundamental accounting assumptions, namely:—

(a) Going Concern

"Going concern" refers to the assumption that the person has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation and intends to continue his business, profession or vocation for the foreseeable future.

(b) Consistency

"Consistency" refers to the assumption that accounting policies are consistent from one period to another;

(c) Accrual

"Accrual" refers to the assumption that revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the previous year to which they relate.

Accounting Policies

3. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by a person.

Considerations in the Selection and Change of Accounting Policies

4. Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation. For this purpose,

i) the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and

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.

5. An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies

6. All significant accounting policies adopted by a person shall be disclosed.

7. Any change in an accounting policy which has a material effect shall be disclosed. The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact shall be indicated. If a change is made in the accounting policies which has no material effect for the current previous year but which is reasonably expected to have a material effect in later previous years, the fact of such change shall be appropriately disclosed in the previous year in which the change is adopted and also in the previous year in which such change has material effect for the first time.

8. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

9. If the fundamental accounting assumptions of Going Concern, Consistency and Accrual are followed, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact shall be disclosed.

Transitional Provisions

10. All contract or transaction existing on the 1st day of April, 2015 or entered into on or after the 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income, expense or loss, if any, recognised in respect of the said contract or transaction for the previous year ending on or before the 31st March, 2015.

B. Income Computation and Disclosure Standard II relating to valuation of inventories

Preamble

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

In the case of conflict between the provisions of Income Tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard shall be applied for valuation of inventories, except :

a) Work-in-progress arising under ‘construction contract’ including directly related service contract which is dealt with by the Income Computation and Disclosure Standard on construction contracts;
b) Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;
c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;
d) Producers’ inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value;
e) Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, shall be dealt with in accordance with the Income Computation and Disclosure Standard on tangible fixed assets.

Definitions

2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) “Inventories” are assets:

ii) held for sale in the ordinary course of business;
iii) in the process of production for such sale;

iiii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

(b) "Net realisable value" is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

3. Inventories shall be valued at cost, or net realisable value, whichever is lower.

Cost of Inventories

4. Cost of inventories shall comprise of all costs of purchase, costs of services, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs of Purchase

5. The costs of purchase shall consist of purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.

Costs of Services

6. The costs of services in the case of a service provider shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.

Costs of Conversion

7. The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.

8. The allocation of fixed production overheads for the purpose of
their inclusion in the costs of conversion shall be based on the normal capacity of the production facilities. Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant. Unallocated overheads shall be recognised as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above the cost. Variable production overheads shall be assigned to each unit of production on the basis of the actual use of the production facilities.

9. Where a production process results in more than one product being produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis. Where by-products, scrap or waste material are immaterial, they shall be measured at net realisable value and this value shall be deducted from the cost of the main product.

Other Costs

10. Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

11. Interest and other borrowing costs shall not be included in the costs of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in the Income Computation and Disclosure Standard on borrowing costs.

Exclusions from the Cost of Inventories

12. In determining the cost of inventories in accordance with paragraphs 4 to paragraphs 11, the following costs shall be excluded and recognised as expenses of the period in which they are incurred, namely:—

(a) Abnormal amounts of wasted materials, labour, or other production costs;

(b)Storage costs, unless those costs are necessary in the production process prior to a further production stage;

(c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition ;

(d)Selling costs.

Cost Formulae

13. The Cost of inventories of items

(i) that are not ordinarily interchangeable; and

(ii) goods or services produced and segregated for specific projects

shall be assigned by specific identification of their individual costs.

14. 'Specific identification of cost' means specific costs are attributed to identified items of inventory.

15. Where there are a large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.

First-in First-out and Weighted Average Cost Formula

16. Cost of inventories, other than the inventory dealt with in paragraph 13, shall be assigned by using the First-in First-out (FIFO), or weighted average cost formula. The formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

17. The FIFO formula assumes that the items of inventory which were purchased or produced first are consumed or sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average shall be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances.

Retail Method

18. Where it is impracticable to use the costing methods referred to in paragraph 16, the retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins. The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin. The percentage used takes into consideration inventory, which has been marked down to below its original selling price.

Net Realisable Value

19. Inventories shall be written down to net realisable value on an item-by-item basis. Where 'items of inventory' relating to the same product line having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to net realisable value on an aggregate basis.

20. Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.

21. Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.

Value of Opening Inventory

22. The value of the inventory as on the beginning of the previous year shall be

(i) the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

(ii) the value of the inventory as on the close of the immediately preceding previous year, in any other case.

Change of Method of Valuation of Inventory

23. The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.

Valuation of Inventory in Case of Certain Dissolutions

24. 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.

Transitional Provisions

25. Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1st day of April, 2015, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginning on or after 1st day of April, 2015 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1st day of April, 2015.

Disclosure

26. The following aspects shall be disclosed, namely:—

(a) the accounting policies adopted in measuring inventories including the cost formulae used; and

(b) the total carrying amount of inventories and its classification appropriate to a person.

C. Income Computation and Disclosure Standard III relating to construction contracts

Preamble

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

In the case of conflict between the provisions of the Income-tax Act, 1961(‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent

Scope

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

Definitions

2 (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) “Construction contract” is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes :

(i) contract for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects;

(ii) contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.

(b) “Fixed price contract” is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which may be subject to cost escalation clauses.

(c) “Cost plus contract” is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark up on these costs or a fixed fee.

(d) “Retentions” are amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.

(e) "Progress billings" are amounts billed for work performed on a contract whether or not they have been paid by the customer.

(f) "Advances" are amounts received by the contractor before the related work is performed.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

3. A construction contract may be negotiated for the construction of a single asset. A construction contract may also deal with the construction of a number of assets which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

4. Construction contracts are formulated in a number of ways which, for the purposes of this Income Computation and Disclosure Standard, are classified as fixed price contracts and cost plus contracts. Some construction contracts may contain characteristics of both a fixed price contract and a cost plus contract, for example, in the case of a cost plus contract with an agreed maximum price.

Combining and Segmenting Construction Contracts

5. The requirements of this Income Computation and Disclosure Standard shall be applied separately to each construction contract except as provided for in paragraphs 6, 7 and 8 herein. For reflecting the substance of a contract or a group of contracts, where it is necessary, the Income Computation and Disclosure Standard should be applied to the separately identifiable components of a single contract or to a group of contracts together.

6. Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

7. A group of contracts, whether with a single customer or with
several customers, should be treated as a single construction contract when:

(a) the group of contracts is negotiated as a single package;

(b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and

(c) the contracts are performed concurrently or in a continuous sequence.

8. Where a contract provides for the construction of an additional asset at the option of the customer or is amended to include the construction of an additional asset, the construction of the additional asset should be treated as a separate construction contract when:

(a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or

(b) the price of the asset is negotiated without having regard to the original contract price.

Contract Revenue

9. Contract revenue shall be recognised when there is reasonable certainty of its ultimate collection.

10. Contract revenue shall comprise of:

(a) the initial amount of revenue agreed in the contract, including retentions; and

(b) variations in contract work, claims and incentive payments:

(i) to the extent that it is probable that they will result in revenue; and

(ii) they are capable of being reliably measured.

11. Where contract revenue already recognised as income is subsequently written off in the books of accounts as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.

Contract Costs

12. Contract costs shall comprise of :

(a) costs that relate directly to the specific contract;

(b) costs that are attributable to contract activity in general and can be allocated to the contract;

(c) such other costs as are specifically chargeable to the customer under the terms of the contract; and

(d) allocated borrowing costs in accordance with the Income Computation and Disclosure Standard on Borrowing Costs.

These costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue.

13. Costs that cannot be attributed to any contract activity or cannot be allocated to a contract shall be excluded from the costs of a construction contract.

14. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that are incurred in securing the contract are also included as part of the contract costs, provided

(a) they can be separately identified; and

(b) it is probable that the contract shall be obtained.

When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

15. Contract costs that relate to future activity on the contract are recognised as an asset. Such costs represent an amount due from the customer and are classified as contract work in progress.

Recognition of Contract Revenue and Expenses

16. Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

17. The recognition of revenue and expenses by reference to the stage of completion of a contract is referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

18. The stage of completion of a contract shall be determined with reference to:

(a) the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or

(b) surveys of work performed; or

(c) completion of a physical proportion of the contract work.

Progress payments and advances received from customers are not determinative of the stage of completion of a contract.

19. When the stage of completion is determined by reference to the contract costs incurred upto the reporting date, only those contract costs that reflect work performed are included in costs incurred upto the reporting date. Contract costs which are excluded are:

(a) contract costs that relate to future activity on the contract; and

(b) payments made to subcontractors in advance of work performed under the subcontract.

20. 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.

Changes in Estimates

21. The percentage of completion method is applied on a cumulative basis in each previous year to the current estimates of contract revenue and contract costs. Where there is change in

estimates, the changed estimates shall be used in determination of
the amount of revenue and expenses in the period in which the change is made and in subsequent periods.

Transitional Provisions

22. Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised as revenue and costs respectively in accordance with the provisions of this standard. The amount of contract revenue, contract costs or expected loss, if any, recognised for the said contract for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue and costs of the said contract for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

Disclosure

23. A person shall disclose:

(a) the amount of contract revenue recognised as revenue in the period; and

(b) the methods used to determine the stage of completion of contracts in progress.

24. A person shall disclose the following for contracts in progress at the reporting date, namely:—

(a) amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;

(b) the amount of advances received; and

(c) the amount of retentions.

D. Income Computation and Disclosure Standard IV relating to revenue recognition

Preamble

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1(1) This Income Computation and Disclosure Standard deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from

(i) the sale of goods;

(ii) the rendering of services;

(iii) the use by others of the person's resources yielding interest, royalties or dividends.

1(2) This Income Computation and Disclosure Standard does not deal with the aspects of revenue recognition which are dealt with by other Income Computation and Disclosure Standards.

Definitions

2(1) The following term is used in this Income Computation and Disclosure Standard with the meanings specified:

(a) "Revenue" is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person's resources yielding interest, royalties or dividends. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

Sale of Goods

3. In a transaction involving the sale of goods, the revenue shall be
recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.

4. Revenue shall be recognised when there is reasonable certainty of its ultimate collection.

5. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved

Rendering of Services

6. Revenue from service transactions shall be recognised by the percentage completion method. Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed. Income Computation and Disclosure Standard on construction contract also requires the recognition of revenue on this basis. The requirements of that Standard shall mutatis mutandis apply to the recognition of revenue and the associated expenses for a service transaction.

The Use of Resources by Others Yielding Interest, Royalties or Dividends

7. Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable. Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

8. Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis.

9. Dividends are recognised in accordance with the provisions of the Act.

Transitional Provisions

10. The transitional provisions of Income Computation and Disclosure Standard on construction contract shall mutatis mutandis apply to the recognition of revenue and the associated costs for a service transaction undertaken on or before the 31st day of March, 2015 but not completed by the said date.

11. Revenue for a transaction, other than a service transaction referred to in Para 10, undertaken on or before the 31st day of March, 2015 but not completed by the said date shall be recognised in accordance with the provisions of this standard for the previous year commencing on the 1st day of April, 2015 and subsequent previous year. The amount of revenue, if any, recognised for the said transaction for any previous year commencing on or before the 1st day of April, 2014 shall be taken into account for recognising revenue for the said transaction for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

Disclosure

12. Following disclosures shall be made in respect of revenue recognition, namely:—

(a) in a transaction involving sale of good, total amount not recognised as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty;

(b) the amount of revenue from service transactions recognised as revenue during the previous year;

(c) the method used to determine the stage of completion of service transactions in progress; and

(d) for service transactions in progress at the end of previous year:

(i) amount of costs incurred and recognised profits (less recognised losses) upto end of previous year;

(ii) the amount of advances received; and

(iii) the amount of retentions.

E. Income Computation and Disclosure Standard V relating to tangible fixed assets

Preamble

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

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

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

Definitions

2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) “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.

(b) “Fair value” of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

Identification of Tangible Fixed Assets

3. The definition in clause (a) of sub-paragraph (1) of paragraph 2 provides criteria for determining whether an item is to be classified as a tangible fixed asset.

4. Stand-by equipment and servicing equipment are to be capitalised. Machinery spares shall be charged to the revenue as and when consumed. When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.

Components of Actual Cost

5. The actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes, excluding those subsequently recoverable, and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.

6. The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of

(i) price adjustment, changes in duties or similar factors; or

(ii) exchange fluctuation as specified in Income Computation and Disclosure Standard on the effects of changes in foreign exchange rates.

7. Administration and other general overhead expenses are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset. Expenses which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset.

8. The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. The expenditure incurred after the plant has begun commercial production, that is, production intended for sale or captive consumption, shall be treated as revenue expenditure.

Self- constructed Tangible Fixed Assets

9. In arriving at the actual cost of self-constructed tangible fixed assets, the same principles shall apply as those described in paragraphs 5 to 8. Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in

general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any internal profits shall be eliminated in arriving at such costs.

Non- monetary Consideration

10. 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.

11. 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.

Improvements and Repairs

12. An Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.

13. The cost of an addition or extension to an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

Valuation of Tangible Fixed Assets in Special Cases

14. Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the tangible fixed assets register.

15. Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

Transitional Provisions

16. The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2015 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2014

shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2015 and subsequent previous years.

Depreciation

17. Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of the Act.

Transfers

18. Income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of the Act.

Disclosures

19. Following disclosure shall be made in respect of tangible fixed assets, namely:—

(a) description of asset or block of assets;

(b) rate of depreciation;

(c) actual cost or written down value, as the case may be;

(d) additions or deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of—

(i) Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004;
(ii) change in rate of exchange of currency;

(iii) subsidy or grant or reimbursement, by whatever name called;

(e) depreciation Allowable; and

(f) written down value at the end of year.

F. Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates

Preamble

This Income Computation and Disclosure Standard is applicable for
computation of income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with:

(a) treatment of transactions in foreign currencies;

(b) translating the financial statements of foreign operations;

(c) treatment of foreign currency transactions in the nature of forward exchange contracts.

Definitions

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) "Average rate" is the mean of the exchange rates in force during a period.

(b) "Closing rate" is the exchange rate at the last day of the previous year.

(c) "Exchange difference" is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates.

(d) "Exchange rate" is the ratio for exchange of two currencies.

(e) "Foreign currency" is a currency other than the reporting currency of a person.

(f) "Foreign operations of a person" is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India.

(g) "Foreign currency transaction" is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person:—

i. buys or sells goods or services whose price is denominated in a foreign currency; or
ii. borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
iii. becomes a party to an unperformed forward exchange contract; or
iv. otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

(h) "Forward exchange contract" means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature;

(i) "Forward rate" is the specified exchange rate for exchange of two Currencies at a specified future date;

(j) "Indian currency" shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);

(k) "Integral foreign operation" is a foreign operation, the activities of which are an integral part of the operation of the person;

(l) "Monetary items" are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Cash, receivables, and payables are examples of monetary items;

(m) "Non-integral foreign operation" is a foreign operation that is not an integral foreign operation;

(n) "Non-monetary items" are assets and liabilities other than monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items;

(o) "Reporting currency" means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.

(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

Foreign Currency Transactions

Initial Recognition

3(1) A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(2) An average rate for a week or a month that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.

Conversion at Last Date of Previous Year

4. At last day of each previous year:—

(a) foreign currency monetary items shall be converted into reporting currency by applying the closing rate;

(b) where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and

(c) non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.

Recognition of Exchange Differences

5. (i) In respect of monetary items, exchange differences arising on the settlement thereof or on conversion thereof at last day of the previous year shall be recognised as income or as expense in that previous year.

(ii) In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognised as income or as expense in that previous year.

Exceptions to Paragraphs 3, 4 and 5

6. Notwithstanding anything contained in paragraph 3, 4 and 5; initial recognition, conversion and recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of Income-tax Rules, 1962, as the case may be.

Financial Statements of Foreign Operations

Classification of Foreign Operations

7. (1) The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to a person. For this purpose, foreign operations are classified as either “integral foreign operations” or “non-integral foreign operations”.

(2) The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:—

(a) while the person may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from the activities of the person;

(b) transactions with the person are not a high proportion of the foreign operation’s activities;

(c) the activities of the foreign operation are financed mainly from its own operations or local borrowings;

(d) costs of labour, material and other components of the foreign operation’s products or services are primarily paid or settled in the local currency;

(e) the foreign operation’s sales are mainly in currencies other than Indian currency;

(f) cash flows of the person are insulated from the day-to-day activities of the foreign operation;

(g) sales prices for the foreign operation's products or services are
not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation;

(h) there is an active local sales market for the foreign operation's products or services, although there also might be significant amounts of exports.

Integral Foreign Operations

8. The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.

Non-integral Foreign Operations

9. (1) In translating the financial statements of a non-integral foreign operation for a previous year, the person shall apply the following, namely:—

(a) the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation shall be translated at the closing rate;

(b) income and expense items of the non-integral foreign operation shall be translated at exchange rates at the dates of the transactions; and

(c) all resulting exchange differences shall be recognised as income or as expenses in that previous year.

(2) Notwithstanding anything stated in sub-paragraph 1, translation and recognition of exchange difference in cases referred to in section 43A of the Act or Rule 115 of Income-tax Rules, 1962 shall be carried out in accordance with the provisions contained in that section or that Rule, as the case may be.

Change in the Classification of a Foreign Operation

10(1) When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.

(2) The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the person may lead to a change in the classification of that foreign operation.

Forward Exchange Contracts

11. (1) Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognised as income or as expense for the previous year.

(2) The provisions of sub-para (1) shall apply provided that the contract:

(a) is not intended for trading or speculation purposes; and

(b) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.

(3) The provisions of sub-para (1) shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year.

(4) The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between:

(a) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year; and

(b) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.

(5) Premium, discount or exchange difference on contracts that are
intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement.

Transitional Provisions

12. (1) All foreign currency transactions undertaken on or after 1st day of April, 2015 shall be recognised in accordance with the provisions of this standard.

(2) Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2015 or on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2015, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March,2015 for an item, if any, which is carried forward from said previous year.

(3) The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2015 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2015 for an item, if any, which is carried forward from said previous year.

(4) All forward exchange contracts existing on the 1st day of April, 2015 or entered on or after 1st day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March, 2015.

G. Income Computation and Disclosure Standard VII relating to government grants

Preamble

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

In case of conflict between the provisions of the Income Tax Act, 1961 ('the Act') and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with the treatment of Government grants. The Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc.

2. This Income Computation and Disclosure Standard does not deal with:—

(a) Government assistance other than in the form of Government grants; and

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

Definitions

3(1) The following terms are used in the Income Computation and Disclosure Standard with the meanings specified:

(a) "Government" refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international.

(b) "Government grants" are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.

3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

Recognition of Government Grants

4(1) Government grants should not be recognised until there is reasonable assurance that (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.

4(2) Recognition of Government grant shall not be postponed beyond the date of actual receipt.

Treatment of Government Grants

5. Where the Government grant relates to a depreciable fixed asset or assets of a person, 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.

6. Where the Government grant relates to a non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognised as income over the same period over which the cost of meeting such obligations is charged to income.

7. Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, shall be deducted from the actual cost of the asset or shall be reduced from the written down value of block of assets to which the asset or assets belonged to.

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.

9. The Government grants other than covered by paragraph 5, 6, 7, and 8 shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate.

10. 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.

Refund of Government Grants

11. The amount refundable in respect of a Government grant referred to in paragraphs 6, 8 and 9 shall be applied first against any unamortised deferred credit remaining in respect of the

Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.

12. The amount refundable in respect of a Government grant related to a depreciable 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.

Transitional Provisions

13. All the Government grants which meet the recognition criteria of para 4 on or after 1st day of April, 2015 shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31st day of March, 2015.

Disclosures

14. Following disclosure shall be made in respect of Government grants, namely:—

(a) nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year;

(b) nature and extent of Government grants recognised during the previous year as income;

(c) nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof; and

(d) nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

H. Income Computation and Disclosure Standard VIII relating to securities

Preamble

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

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with securities held as stock-in-trade.

2. This Income Computation and Disclosure Standard does not deal with:

(a) the bases for recognition of interest and dividends on securities which are covered by the Income Computation and Disclosure Standard on revenue recognition;

(b) securities held by a person engaged in the business of insurance;

(c) securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013).

Definitions

3(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) “Fair value” is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction.

(b) “Securities” shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956 (42 of 1956), other than Derivatives referred to in sub-clause (1a) of that clause.

3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition and Initial Measurement of Securities

4. A security on acquisition shall be recognised at actual cost.

5. The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.

6. Where a security is acquired in exchange for other securities, the fair value of the security so acquired shall be its actual cost.

7. Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost.

8. Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

Subsequent Measurement of Securities

9. At the end of any previous year, 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.

10. For the purpose of para 9, the comparison of actual cost initially recognised and net realisable value shall be done categorywise and not for each individual security. For this purpose, securities shall be classified into the following categories, namely:-

(a) shares;

(b) debt securities;

(c) convertible securities; and

(d) any other securities not covered above.

11. The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be:

(a) the cost of securities available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and

(b) the value of the securities of the business as on the close of the immediately preceding previous year, in any other case.

12. Notwithstanding anything contained in para 9, 10 and 11, at the end of any previous year, 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.

13. For the purposes of para 9, 10 and 11 where the actual cost initially recognised cannot be ascertained by reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method.

I. Income Computation and Disclosure Standard IX relating to borrowing costs

Preamble

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

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. (1) This Income Computation and Disclosure Standard deals with treatment of borrowing costs.

(2) This Income Computation and Disclosure Standard does not
deal with the actual or imputed cost of owners' equity and preference share capital.

Definitions

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) "Borrowing costs" are interest and other costs incurred by a person in connection with the borrowing of funds and include:

(i) commitment charges on borrowings;

(ii) amortised amount of discounts or premiums relating to borrowings;

(iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;

(iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.

(b) "Qualifying asset" means:

(i) land, building, machinery, plant or furniture, being tangible assets;

(ii) know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;

(iii) inventories that require a period of twelve months or more to bring them to a saleable condition.

(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

Recognition

3. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Income Computation

and Disclosure Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.

4. For the purposes of this Income Computation and Disclosure Standard, “capitalisation” in the context of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2means addition of borrowing cost to the cost of inventory.

Borrowing Costs Eligible for Capitalisation

5. To the extent the funds are borrowed specifically for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.

6. To the extent the funds are borrowed generally and utilised for the purposes of acquisition, construction or production of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

A X

B

C

Where

A =

borrowing costs incurred during the previous year except on borrowings directly relatable to specific purposes;

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 or both on the first day and the last day of previous year, half of the cost of qualifying asset;

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

other than those qualifying assets which are directly funded out of specific borrowings; or

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 those assets which are directly funded out of specific borrowings;

Commencement of Capitalisation

7. The capitalisation of borrowing costs shall commence:

(a) in a case referred to in paragraph 5, from the date on which funds were borrowed;

(b) in a case referred to in paragraph 6, from the date on which funds were utilised.

Cessation of Capitalisation

8. **Capitalisation of borrowing costs shall cease:**

(a) in case of a qualifying asset referred to in item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such asset is first put to use;

(b) in case of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such inventory for its intended sale are complete.

9. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part shall cease:—

(a) in case of part of a qualifying asset referred to in item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such part of a qualifying asset is first put to use;

(b) in case of part of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

Transitional Provisions

10. All the borrowing costs incurred on or after 1st day of April, 2015 shall be capitalised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31st day of March, 2015.

Disclosure

11. The following disclosure shall be made in respect of borrowing costs, namely:—

(a) the accounting policy adopted for borrowing costs; and

(b) the amount of borrowing costs capitalised during the previous year.

J. Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets

Preamble

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

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with provisions, contingent liabilities and contingent assets, except those:

(a) resulting from financial instruments;

(b) resulting from executory contracts;

(c) arising in insurance business from contracts with policyholders; and

(d) covered by another Income Computation and Disclosure Standard.

2. This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure Standard - Revenue Recognition.

3. The term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this Income Computation and Disclosure Standard.

Definitions

4(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) “Provision” is a liability which can be measured only by using a substantial degree of estimation.

(b) “Liability” is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.

(c) “Obligating event” is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.

(d) “Contingent liability” is:

(i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; or

(ii) a present obligation that arises from past events but is not recognised because:

(A) it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(B) a reliable estimate of the amount of the obligation cannot be made.

(e) “Contingent asset” is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.

(f) “Executory contracts” are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

(g) “Present obligation” is an obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

4(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition

Provisions

5. A provision shall be recognised when:

(a) a person has a present obligation as a result of a past event;

(b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

6. No provision shall be recognised for costs that need to be incurred to operate in the future.

7. It is only those obligations arising from past events existing independently of a person’s future actions, that is the future conduct of its business, that are recognised as provisions

8. Where details of a proposed new law have yet to be finalised, an
obligation arises only when the legislation is enacted.

Contingent Liabilities

9. A person shall not recognise a contingent liability.

Contingent Assets

10. A person shall not recognise a contingent asset.

11. 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.

Measurement

Best Estimate

12. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.

13. 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.

Reimbursements

14. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

15. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.

16. An obligation, for which a person is jointly and severally liable,
is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Review

17. Provisions 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 outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

18. An asset and related income recognised as provided in para 11 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.

Use of Provisions

19. A provision shall be used only for expenditures for which the provision was originally recognised.

Transitional Provisions

20. All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1st day of April, 2015 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31st day of March, 2015.

Disclosure

21(1) Following disclosure shall be made in respect of each class of provision, namely:-

(a) a brief description of the nature of the obligation;

(b) the carrying amount at the beginning and end of the previous year;

(c) additional provisions made during the previous year, including increases to existing provisions;

(d) amounts used, that is incurred and charged against the provision, during the previous year;

(e) unused amounts reversed during the previous year; and

(f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

21(2) Following disclosure shall be made in respect of each class of asset and related income recognised as provided in para 11, namely:—

(a) a brief description of the nature of the asset and related income;

(b) the carrying amount of asset at the beginning and end of the previous year;

(c) additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and

(d) amount of asset and related income reversed during the previous year.

[Notification No.33/2015, F. No. 134/48/2010-TPL] (RAJESH KUMAR BHOOT) DIRECTOR (TAX POLICY AND LEGISLATION)

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Our Values: