

# Contents

	PAGE
<i>Chapter-heads</i>	<i>I-5</i>
<i>CBDT's Clarifications on Income Computation and Disclosure Standards (ICDS)</i>	<i>I-19</i>

## 1

### INTRODUCTION

<b>1.1</b>	Income Computation and Disclosure Standards (ICDSs) notified by CBDT	2
<b>1.2</b>	Section 145(2) read down by the Delhi High Court to restrict power of Central Govt.	2
<b>1.3</b>	Retrospective validating provision enacted by Finance Act, 2018 with retrospective effect from AY 2017-18	3
<b>1.3-1</b>	Constitutional validity of retrospective amendments made with retrospective effect from AY 2017-18	9
<b>1.4</b>	Accounting standards - Concept and role	10
<b>1.4-1</b>	Obligation to comply with Indian Accounting Standards (Ind AS)	12
<b>1.4-2</b>	Income computation and disclosure standards vis-a-vis accounting standards	18
<b>1.4-3</b>	Whether ICDS applicable to companies which have adopted?	20
<b>1.5</b>	Whether ICDS applicable to Banks, NBFCs, Insurance Co. & Power-Sector ?	20

2**SALIENT FEATURES OF THE NOTIFIED INCOME  
COMPUTATION & DISCLOSURE STANDARDS**

<b>2.1</b>	Salient features of ICDS	21
<b>2.2</b>	ICDS applicable w.e.f. AY 2017-18	22
<b>2.3</b>	ICDS applicable to assessee following mercantile system of accounting	22
<b>2.4</b>	ICDS for income computation, not for maintenance of books of account	22
	<b>2.4-1</b> ICDS not applicable for computation of MAT	23
<b>2.5</b>	Provisions of Act to prevail in case of conflict with ICDS	24
<b>2.6</b>	Rules to prevail in case of conflict with ICDS	24
<b>2.7</b>	Judicial precedents to prevail over ICDS in case of conflict	24
<b>2.8</b>	Applicability to assessee covered by presumptive taxation u/ss 44AD, 44ADA and 44AE	25

3**ICDS-I (NEW) - ACCOUNTING POLICIES**

<b>3.0</b>	Legislative History	26
<b>3.1</b>	Effective Date	26
	<b>3.1-1</b> Transitional provisions	26
<b>3.2</b>	Preamble to ICDS-I (New)	26
<b>3.3</b>	Scope of ICDS-I (New)	27
	<b>3.3-1</b> ICDS-I applicable to derivatives not within the scope of ICDS-VI	27
<b>3.4</b>	ICDS-I (New) vis-a-vis ICDS-I	27
<b>3.5</b>	'Prudence' recognized by ASs not recognized by ICDS	28
<b>3.6</b>	ICDS-I (New) v. (AS)1	31
<b>3.7</b>	ICDS-I (New) vs. Ind AS 1	32
<b>3.8</b>	Fundamental accounting assumptions	33
	<b>3.8-1</b> Accrual	34
	<b>3.8-2</b> Going Concern Assumption	36

**I-9** CONTENTS

	PAGE
<b>3.9</b> Accounting policies	37
<b>3.10</b> Considerations in the selection of accounting policies	38
<b>3.10-1</b> “Substance”	38
<b>3.11</b> Change in accounting policy	40
<b>3.12</b> Disclosure of significant accounting policies and changes in accounting policies	41
<b>3.12-1</b> “Significant accounting policy”	41
<b>3.12-2</b> Disclosure of change in accounting policy	42
<b>3.12-3</b> How to make disclosures required by ICDS-I (New) in Form No. 3CD?	43
<b>3.13</b> Disclosure of effect of ICDSs on profit in ITRs	44

**4**

**ICDS-II (NEW) - VALUATION OF INVENTORIES**

<b>4.0</b> Legislative History	46
<b>4.1</b> Effective date	46
<b>4.1-1</b> Transitional provisions	46
<b>4.2</b> Preamble	47
<b>4.3</b> Scope [Para 1 of ICDS-II (New)]	47
<b>4.4</b> ICDS-II (New) vis-a-vis ICDS-II	48
<b>4.5</b> ICDS-II (New) vs. (AS) 2	48
<b>4.6</b> ICDS-II (New) vs. Ind AS 2	49
<b>4.7</b> Whether stock is an asset or a cost?	53
<b>4.8</b> ICDS-II (New) vis-a-vis section 145A	53
<b>4.9</b> Definitions	54
<b>4.9-1</b> “Inventories”	54
<b>4.9-2</b> “Net realisable value”	56
<b>4.9-3</b> Words and expressions used and not defined	56
<b>4.10</b> Measurement	56
<b>4.11</b> Cost of inventories	59
<b>4.12</b> Costs of purchase	59
<b>4.13</b> Costs of services	60
<b>4.14</b> Costs of conversion	60
<b>4.14-1</b> Fixed Production Overheads	61

CONTENTS

I-10

	PAGE
4.14-2 Variable Production Overheads	63
4.14-3 Allocation of fixed production overheads	63
4.14-4 Allocation of variable production overheads	64
4.14-5 Valuation of WIP on basis of raw material cost - When acceptable ?	64
4.14-6 Conversion costs in case of joint products	65
4.15 Other costs	65
4.15-1 Inclusion of other costs of tank farm and pipeline, viz., depreciation/depletion, operation and maintenance cost and insurance charges of tank farm and pipeline in the cost of finished crude oil stock	66
4.16 Exclusions from the cost of inventories	67
4.16-1 Administrative overheads	67
4.16-2 Demurrage - Whether includible in cost of inventories?	67
4.17 Cost formulae	68
4.17-1 Specific identification of cost	69
4.17-2 First-in First-out and Weighted Average Cost Formula	69
4.17-3 Techniques for the Measurement of Cost - Standard Cost Method/Retail Method	70
4.18 Net realisable value	71
4.19 Value of opening inventory	72
4.20 Change of method of valuation of inventory	72
4.21 Valuation of inventory in case of dissolution of Partnership Firm/AOP/BOI	73
4.22 Disclosure	74

**5**

**ICDS-III (NEW) - CONSTRUCTION CONTRACTS**

5.0 Legislative History	76
5.1 Effective date	76
5.1-1 Transitional Provisions	76
5.2 Preamble	77

	PAGE
<b>5.3</b> Scope	77
<b>5.3-1</b> Applicability to BOT projects, real estate developers and leases	77
<b>5.4</b> ICDS (New) vs. ICDS-III (New) vs. (AS) 7	77
<b>5.5</b> ICDS-III (New) v. (AS) 7	78
<b>5.6</b> ICDS-III (New) v. Ind (AS) 11	81
<b>5.7</b> ICDS-III (New) vs. The Act	83
<b>5.8</b> Definitions	84
<b>5.8-1</b> "Construction contract"	84
<b>5.8-2</b> "Fixed price contract"	85
<b>5.8-3</b> "Cost plus contract"	85
<b>5.8-4</b> "Retentions"	85
<b>5.8-5</b> "Progress billings"	85
<b>5.8-6</b> "Advances"	85
<b>5.8-7</b> Words and expressions used and not defined in this ICDS	86
<b>5.9</b> Combining and segmenting construction contracts	86
<b>5.10</b> Contract revenue	87
<b>5.11</b> Contract costs	88
<b>5.12</b> Recognition of contract revenue and expenses	89
<b>5.12-1</b> Determination of stage of completion	90
<b>5.12-2</b> Changes in Estimates	92
<b>5.13</b> Disclosure	95

## 6

### ICDS-IV (NEW) - REVENUE RECOGNITION

<b>6.0</b> Legislative History	98
<b>6.1</b> Effective date	98
<b>6.1-1</b> Transitional provisions	98
<b>6.2</b> Preamble	99
<b>6.3</b> Scope	99
<b>6.4</b> ICDS-IV (New) vs. ICDS-IV	100
<b>6.5</b> ICDS-IV (New) vs. (AS) 9	100
<b>6.6</b> ICDS-IV vs. Ind AS 18	103

CONTENTS

**I-12**

		PAGE
<b>6.7</b>	ICDS-IV (New) <i>vs.</i> The Act	105
<b>6.8</b>	“Revenue”	107
	<b>6.8-1</b> Duty Credit Entitlement Certificates issued under the ‘Served from India Scheme’ - Whether Revenue?	108
<b>6.9</b>	Sale of goods	109
	<b>6.9-1</b> Performance (i.e. transfer of all significant risks and rewards of ownership)	110
	<b>6.9-2</b> “Seller retains no effective control...”	111
	<b>6.9-3</b> Sales in documents through bank cases	112
	<b>6.9-4</b> Sales on FOR destination basis	112
<b>6.10</b>	Rendering of services	113
<b>6.11</b>	The use of resources by others yielding interest, royalties or dividends	115
	<b>6.11-1</b> Interest/Premium/Discount	115
	<b>6.11-2</b> Royalties	116
	<b>6.11-3</b> Dividends	116
<b>6.12</b>	Recognition of escalation claims and export incentives	116
<b>6.13</b>	Disclosure	116

**7**

**ICDS-V (NEW) - TANGIBLE FIXED ASSETS**

<b>7.0</b>	Legislative History	118
<b>7.1</b>	Effective date	118
	<b>7.1-1</b> Transitional provisions	118
<b>7.2</b>	Preamble	119
<b>7.3</b>	Scope	119
<b>7.4</b>	ICDS-V (New) <i>vs.</i> ICDS-V	119
<b>7.5</b>	ICDS-V (New) <i>vs.</i> (AS) 10	119
<b>7.6</b>	ICDS-V (New) <i>vs.</i> Ind AS 16	120
<b>7.6A</b>	ICDS-V (New) <i>vs.</i> The Act	121
	<b>7.6A-1</b> New proviso inserted by Finance Act, 2017 to exclude from actual cost any expenditure involving cash payment above the threshold of Rs. 10,000	124