ERNAKULAM BRANCH OF SICASA

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

E-NEWSLETTER

IGNITE

- Aspired minds, Inspire.

JANUARY 2018

CHAIRMAN'S MESSAGE

Dear Young Friends,

We are in the new year 2018 now.
As we move ahead, nothing in the past, particularly the previous year 2017, has any power to affect what we do now. We are entirely new persons, different from the persons we were. This year has never been lived before and we have never had the consciousness we have now. We are setting sail on a great adventure determined only by how grand we are willing to think. This new year, think big thoughts to create miraculous results....

Yes, the wonderful SICASA 2017 is a memory now and we are on to have a great year of SICASA 2018. It was a great opportunity for me to work along with you as the SICASA Chairman for the year 2017. And I must thank the entire SICASA 2017 Managing committee members for their committed and dedicated work and involvement and the entire SICASA membership for extending unstinted support and participation for every one of the SICASA activities during 2017 and making the year memorable and colourful. It is my wish and hope that you all will continue your support during the current year also.

I must also place on record the support and guidance of the entire MC Members of the Branch under the leadership of Chairman CA. Lukose Joseph and CCM CA. Babu Abraham Kallivayalil and RCM CA. Jomon K George. It is my privilege to thank President of ICAI CA Nilesh Vikamsey, BOS Chairman and members and staff, SIRC Chairman CA Cotha Srinivas and all other Central and Regional Council members for their support in making our SICASA 2017 vibrant, meaningful and successful.

Friends, Success is about dedication. You may not be where you want to be or do what you want to do when you're on the journey. But you've got to be willing to have vision and foresight that leads you to an incredible end.

As per the words of Harvey Mackay
"A great accomplishment shouldn't be the end of the road, just the starting point for the next leap forward"

Let us all continue our work and move ahead to make SICASA 2018, a more active and successful year, which brings more laurels and glory to our Branch.

With warm regards and love

CA Roy Varghese
Chairman, SICASA Ernakulam Branch

SECRETARY'S REPORT

Hello friends,

This will be the last edition of our e-newsletter Ignite under the present committee. The past year has been a memorable one as far as Ernakulam SICASA has been concerned. We have done our best to conduct events in a manner that we thought would benefit the student community. It has been said that the journey is always more beautiful than the destination. However in this case it is safe to say that the both the journey as well as the destination have been equally beautiful. It has been an honour to serve as the Secretary of SICASA Ernakulam. The experiences I have had during the past year will always remain as my most cherished memories. There are a lot of things in life that you need to be thankful for. Though I believe it is the people that we come across that matter the most. Our beloved SICASA Chairman CA Roy Varghese has been tremendous throughout the year. It is his support and guidance that has been the driving force behind every event that we have conducted. I would like to congratulate our editor Sreelakshmi Babu and sub-editor Rio Tommy for their efforts behind the last 12 editions of the newsletter. For every organization to be successful, it is necessary for every single member to carry out their responsibilities. I would like to express my respect and gratitude and respect to the members of my committee for all their efforts and their undying support over the past year. Most of all I would like to thank the entire student community for the enthusiasm and support you have shown over the past year.

Regards,
Farzeen Fazal

EDITOR'S NOTE

Dear friends,

It was indeed my honor to be part of the SICASA Committee 2017-18 and serve the post of editor this year. This newsletter has been a joint effort of several people and I would like to thank and bring into limelight my sub-editor, Rio Tomy who has equally helped me in creating these newsletters. Special thanks to Merryn John, Farzeen Fazal and S. Ajay Ganesh for putting in their contributions and effort in making few editions of this magazine. The participation and involvement shown by students were really over whelming and hope this continues. The journey of twelve editions of this magazine was basically a recap of every month's journey of the SICASA Committee 2017-18. The last edition of Ignite is here for all of you and hope you enjoy reading it as much as we had in making!

Best wishes to all!

Regards,
Sreelakshmy Menon

Disclosure requirements under ICDS: A Practical Approach

The computation of income under various heads of income, and in particular, under the head "Profits and Gains of Business or Profession" has been the subject matter of innumerable disputes, ever since the introduction of income tax in India. Such computation was generally based on the accounts maintained by an assessee, and was dependent upon the method of accounting, subject to the adjustments for deductions, allowances and disallowances provided under the Income-tax Act, 1961. However, considering the never-ending disputes relating to computation of income and uniformity in the methods employed in income computation, CBDT has notified 10 Income Computation and Disclosure Standards (ICDS) with effect from assessment year 2017-18.

Applicability of ICDS

The standards are applicable to all assessees (other than Individual/ HUF not liable for audit under section 44AB in the previous year) following mercantile basis of accounting while computing income under the heads "Profits and Gains of Business or Profession" and "Income from other sources".

That is, the following persons are not required to comply with ICDS:
•Individuals/ HUF not liable for audit under section 44AB
•Assessees following cash basis of accounting.
It is also to be noted that assessees other than Individuals/HUF who are not liable to audit under section 44AB is required to comply with ICDS.

Notified ICDS and their corresponding accounting standards

Sl. No.	ICDS	Corresponding AS	Corresponding Ind AS
1	ICDS I- Accounting polcies	AS 1 & AS 5	Ind AS 1 & Ind AS 8
2	ICDS II- Valuation of Inventories	AS 2	Ind AS 2
3	ICDS III- Construction Contracts	AS 7	Ind AS 115
4	ICDS IV- Revenue Recognition	AS 9	Ind AS 18 & Ind AS 109
5	ICDS V- Tangible Fixed Assets	AS 10	Ind AS 16
6	ICDS VI- The effects of changes in Foreign Exchange Rate	AS 11	Ind AS 21
7	ICDS VII- Government Grants	AS 12	Ind AS 20
8	ICDS VIII- Securities	AS 13	Ind AS 40 & Ind AS 109
9	ICDS IX- Borrowing Costs	AS 16	Ind AS 23
10	ICDS X- Provisions, Contingent Liabilities and Contingent Assets	AS 29	Ind AS 37

Disclosure requirements under ICDS

Various ICDS provide for various disclosure requirements and considering the fact that ICDS are not to be followed in the books of account, the disclosures are not required to be made in the financial statements prepared by the assessee.Then the question is Where should such disclosures to be made? The TAS Committee had recommended as under in its August 2012 report:
"*For ensuring compliance with the provisions of TAS by the taxpayer, the Committee recommends appropriate modification in the return of income. For tax audit cases, the Form 3CD should also be modified so that a tax auditor is required to certify that the computation of taxable income is made in accordance with the provisions of TAS*."

Accordingly, the CBDT had amended the return of income (ITR3,ITR5 and ITR6) to be filed by various assessees for AY 2017-18, incorporating a schedule (Schedule ICDS) showing "effect of income computation and disclosure standards on profits".
Further, from Schedule ICDS, it is clear that only the amount of net effect under each ICDS is required to be disclosed. There is no place in the returns of income for the various disclosures required to be made under each ICDS.

In addition to this, CBDT has also modified clause 13 of Form 3CD to incorporate the effects of ICDS on profits and to disclose the various disclosure requirements set out in the Standards. The auditor needs to disclosure increase/decrease in profit consequent to each IDCS separately in Clause 13(e) to Form 3CD and disclosure requirement under each ICDS needs to be disclosed in Clause 13(f). It may also be noted that there are 2 ICDS standards which does not require for any disclosures, viz.,
•ICDS VI- The effects of changes in Foreign Exchange Rate
•ICDS VIII- Securities

In order to have a better conceptual clarity, we will have a Standard-wise analysis of various disclosure requirements under ICDS and additional disclosures set-out in each standard(except the two standards without disclosure requirements) as compared to accounting standards.

ICDS-I:Accounting policies

This standard deals with application of significant accounting assumptions and policies in computation of income for the purposes of the income tax as the income for a particular year is significantly affected by the accounting assumptions and policies followed in the preparation of the financial statements. To ensure uniformity, it is imperative to outline the accounting policies and assumptions that need to be applied while computing income for the year. An important aspect is that as compared to AS-1, ICDS excludes the concept of prudence and materiality while framing accounting policies. The disclosure requirement under this standard are as follows:

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

1.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.

1.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.

1.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.

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

The disclosure requirements set-out in this standard is similar to AS-1 and the disclosures made in the financial statements itself will contribute to the requirement of this standard. However, two important aspect to be considered while making disclosure under ICDS-I are:

1. The standard does not consider the concepts of materiality and prudence. Thus, adjustments/ modifications are required to be made policies adopted based on these concepts.
2. As per AS-5and Ind AS-8, the standards itself provide for situations in which the accounting policy can be changed. However, ICDS-I say that the accounting policy cannot be changed without a reasonable cause and the clarification for reasonable cause as provided by CBDT is as follows:

"*Reasonable cause is an existing concept and has evolved well over a period of time conferring desired flexibility to the tax payer in deserving cases.*"

ICDS-II:Valuation of inventories

This ICDS is corresponding and similar to AS-2 Valuation of inventories. A significant difference between these two standards is that the cost of inventory as per ICDS II includes all taxes and duties even if the same is recoverable as input tax credit. This concept was introduced by income tax authorities way back through the section 145A of Income Tax Act, 1961. Thus, while making disclosure under this standard, the auditors need to make adjustments and reconcile the same with clause no. 14(b) to Form 3CD which deals with adjustment required with respect to section 145A. The important disclosure requirement as per ICDS-II are as follows:

1.The accounting policies adopted in measuring inventories including the cost formulae used. Where Standard Costing has been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost approximates the actual cost and

1.The total carrying amount of inventories and its classification appropriate to a person.

Common classification for inventory as per para 27 of the Revised AS-2 is raw materials and components, work in progress, finished goods, stock-in-trade (in respect of goods acquired for trading), stores and spares, loose tools and others. The classification of inventories should be done keeping in mind the activities of the assessee.

ICDS-III: Construction Contracts

This ICDS is required to be applied in determination of income from a construction contract of a contractor and it recognizes percentage of completion method (POCM) for recognizing contract revenue and contract cost associated with a construction contract. A significant change as per this ICDS as compared to AS-7 is that with respect to recognition of expected loss on construction contract. AS-7 permits recognition of expected loss on construction contract as well as contract costs, recovery of which is not probable, as an expense immediately on the basis of prudence concept. However, ICDS-III does not provide for such a specific requirement and by implication such losses are to be recognized on POCM as per ICDS-III. The TAS Committee in Para 5.2.5 of its report also stated that only the “actual losses” (and not expected losses) are to be recognized. The disclosure requirements set-out in the standard is as follows;

1.the amount of contract revenue recognised as revenue in the period;

1.methods used to determine the stage of completion of contracts in progress; and

1.With respect to Contracts in progress at the reporting date:

a.amount of costs incurred and recognised profits (less recognised losses) up to the reporting date.	a.the amount of advances received and	the amount of retentions.

It is also clarified that the disclosure requirement will also apply to the new contracts as per transitional provisions contained in the Standard.

ICDS-IV: Revenue Recognition

This Income Computation and Disclosure Standard is based on AS-9:Revenue Recognition. While some of the principles contained in AS-9 have been adopted in this ICDS, there are also certain differences between the ICDS and AS-9. Following disclosures shall be made in respect of revenue recognition as per the requirement of the standard:

1.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

1.The amount of revenue from service transactions recognised as revenue during the previous year

1.The method used to determine the stage of completion of service transactions in progress and

1.For service transactions in progress at the end of previous year:

- amount of costs incurred and recognised profits (less recognised losses) up to end of previous year
- the amount of advances received and
- the amount of retentions.

In case of service transactions, the amount of revenue from service transactions recognised during the previous year and the method used to determine the stage of completion of service transactions in progress have to be disclosed. This ICDS read with para 18 of the ICDS-III provides for three options to determine stage of completion. The ICDS requires disclosure as to how the stage of completion of service transactions is determined.

ICDS-V: Tangible Fixed Assets

This ICDS is based on the old AS-10: Accounting for Fixed Assets and deals with treatment of tangible fixed assets which comes under the meaning of property, plant and equipment as per AS-10(Revised) and Ind AS-16. As against the detailed methodology for providing for depreciation in AS/ Ind AS, the ICDS simply says that the depreciation on such assets and income arising on transfer of such assets shall be computed in accordance with the provisions of the Income Tax Act, 1961.

The disclosure requirement set-out through this standard is similar to Clause 18 to Form 3CD and no other additional disclosure is provided. Thus, we can say that the disclosure requirement as per AS-10(Revised), Ind AS-16 along with Schedule II and III to the Companies Act, 2013 provides for a more elaborate disclosure requirement than this standard. The disclosure requirement under the standard is as follows;

1.Description of asset or block of assets

1.Rate of depreciation

1.Actual cost or written down value, as the case may be

1.Additions or deductions during the year with dates

1.In the case of any addition of an asset, date put to use including adjustments on account of

- Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004
- Change in rate of exchange of currency
- Subsidy or grant or reimbursement, by whatever name called;

1.Depreciation allowable and

Written down value at the end of year.

ICDS VII- Government Grants

Broadly, there are two variants of grants deliberated in this ICDS. One which requires to be reduced from actual cost or written down value of asset and other which requires recognition of grants as income for a year. The ICDS requires disclosure in respect of both these grants to the extent recognised (and not recognised) during the year. The following disclosures are therefore prescribed:

1.With respect to Government grants relating to specific assets:

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 and

a.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.

1.With respect to other grants:

a.nature and extent of Government grants recognised during the previous year as income and

a.Nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

ICDS-IX: Borrowing Costs

This ICDS deals with the treatment of borrowing cost. It requires that borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset to be capitalized as part of cost of that asset. Other borrowing costs have to be recognized in accordance with the provisions of Income Tax Act, 1961. The standard provides for two disclosure requirements, viz.,

1.The accounting policy adopted for borrowing costs and

1.The amount of borrowing costs capitalised during the previous year.

The accounting policy required to be disclosed in respect of borrowing costs would be the policy followed as per ICDS-I. The ICDS requirement of disclosure of the amount of borrowing costs capitalised during the previous year does not state whether such details are required to be given block -wise or whether such disclosure has to be given in aggregate. A disclosure of the aggregate amount should suffice. It is, however, necessary to keep the details of block -wise, capitalisation of borrowing costs to tally the total figure with the additions to the respective blocks of assets.

ICDS-X: Provisions, Contingent Liabilities and Contingent Assets

As per ICDS-X, Provision shall be recognized if it is reasonably certain that outflow of economic resources will be required. Criteria for recognition of provision on basis of 'Probable' replaced with 'reasonable certain'. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognized in the previous year in which the change occurs. The standard provides separate disclosure requirements for provisions and contingent assets and related income. They are:

1.With respect to each class of provision:

- a.a brief description of the nature of the obligation
- a.the carrying amount at the beginning and end of the previous year
- a.additional provisions made during the previous year, including increases to existing provisions
- a.amounts used, that is incurred and charged against the provision, during the previous year

1.With respect to each class of contingent asset and related income recognized:

- a.a brief description of the nature of the asset and related income
- a.the carrying amount of asset at the beginning and end of the previous year
- a.additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised and

The disclosures under this ICDS are fairly extensive, and need to be made for each class of provision and asset. They are however similar to the disclosures required under AS-29 and under Ind AS-37.

Conclusion

Various ICDS provide for various disclosure requirements and considering the fact that ICDS are not to be followed in the books of account, the disclosures are not required to be made in the financial statements prepared by the assessee. However, the return to be furnished by assessee does not have schedules to disclose the same except the disclosure relating to effect on profit/ loss whereas the amendments made to Form 3CD with effect from assessment year 2017-18, provides for disclosure requirements in the Form which provides extra burden for auditors. However, we have to remember the words of Robin Sharma "Changes is hard at first, messy in the middle and gorgeous at the end".

-Mohammed Yaseen. SRO0358879

ANNOUNCEMENT

Announcement on coverage of Accounting Standards (AS) / Indian Accounting Standards (Ind AS) for May, 2018 and Forthcoming Examinations under Final (old course) Paper 1 : Financial Reporting-(25-01-2018)

Students appearing in May, 2018 or forthcoming examinations under old course, may note that the existing Accounting Standards will continue to be applicable for all chapters of the Final Paper 1 : Financial Reporting Study Material except for chapters 2 and 6 which are Ind AS based.

Therefore, in respect of the following two chapters the relevant Ind AS would be applicable :

Chapter 2 "Introduction of Indian Accounting Standards (Ind AS); Comparative study of AS vis-a-vis Ind AS; Carve outs/ins in Ind AS vis-à-vis International Financial Reporting Standards (IFRS)" and

Chapter 6 'Accounting and Reporting of Financial Instruments' which is based on Ind AS 32, 107 and 109.

Students under old course, may further note that with respect to Chapter 2 of the Study Material, they are expected to have an overall knowledge of the contents covered in the topic of "Introduction of Indian Accounting Standards (Ind AS); Comparative study of AS vis-a-vis Ind AS; Carve outs/ins in Ind AS vis-à-vis International Financial Reporting Standards (IFRS)" as discussed in the Study Material. However, in view of the complexities involved in Ind AS, concepts of all the Ind AS have been discussed broadly in the chapter by sidestepping the intricacies involved in it. Accordingly, the students would be expected to answer simple knowledge / application based questions testing their conceptual understanding of the Ind AS as discussed in the chapter.

Half Day Seminar on Companies Act and Insolvency

Inter Branch Football – Winners – Ernakulam Branch team

SICASA STUDY TOUR TO WAYANAD