UNDERSTANDING

Income Computation and Disclosure Standards

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GMJ & Co.

ICDS	AS (Indian GAAP)	Ind AS
ICDS I: Accounting policies	AS 1: Disclosure of Accounting Policies AS 5: Net profit or loss for the period, prior period items and changes in accounting policies	Ind AS 1: Presentation of financial statements Ind AS 8: Accounting policies, changes in accounting estimates and errors
ICDS II: Valuation of inventories	AS 2: Valuation of inventories	Ind AS 2: Inventories
ICDS III: Construction contracts	AS 7: Construction contracts	Ind AS 115: Revenue from contracts with customers
ICDS IV: Revenue recognition	AS 9: Revenue recognition	Ind AS 115: Revenue from contracts with customers
ICDS V: Tangible fixed assets	AS 10: Accounting for fixed assets AS 6: Depreciation accounting	Ind AS 16: Property, plant and equipment

ICDS	AS (Indian GAAP)	Ind AS
ICDS VI: The effects of changes in foreign exchange rates	AS 11: The effects of changes in foreign exchange rates	Ind AS 21: The effects of changes in foreign exchange rates
ICDS VII: Government grants	AS 12: Accounting for government grants	Ind AS 20: Accounting for government grants and disclosure of government assistance
ICDS VIII: Securities	AS 13: Accounting for investments	Ind AS 109: Financial instruments
ICDS IX: Borrowing costs	AS 16: Borrowing costs	Ind AS 23: Borrowing costs
ICDS X: Provisions, contingent liabilities and contingent assets	AS 29: Provisions, contingent liabilities and contingent assets	Ind AS 37: Provisions, contingent liabilities

ICDS Disclosure in ITR Form

ITR	Description	Yes/No
ITR 1	For Individuals having Income from Salaries, one house property, other sources (Interest etc.) and having total income upto Rs.50 lakh	No
ITR 2	For individuals and HUFs not carrying out business or profession under ant proprietorship	No
ITR 3	For individuals and HUFs having income from a proprietary business or profession	**Yes**
ITR 4(Sugam)	For presumptive income from Business & Profession	No
ITR 5	For persons other than,- (i) individual, (ii) HUF, (iii) company and (iv) person filing Form ITR-7	**Yes**
ITR 6	For Companies other than companies claiming exemption under section 11	**Yes**
ITR 7	For persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F)	No

Disclosure Requirements in Form 3CD

ICDS	Description	Increase in Profit	Decrease in Profit	Net Effect (Rs.)
ICDS I	Accounting policies			
ICDS II	Valuation of Inventories			
ICDS III	Construction Contracts			
ICDS IV	Revenue Recognition			
ICDS V	Tangible Fixed assets			
ICDS VI	Effects of changes in Foreign Exchange rates			
ICDS VII	Government Grants			
ICDS VIII	Securities			
ICDS IX	Borrowing			
ICDS X	Provisions, Contingent liabilities and Contingent Assets			

Applicability of ICDS

- It is applicable to **all assessees** following the mercantile system of accounting, except-

  - An individual who is not subject to tax audit.

  - A HUF who is not subject to tax audit.

- It is introduced to minimize the tax related disputes by bringing greater consistency in the application of accounting principles governing the computation of income. These standards were developed using the old Indian General Audit and Accounting Practices (GAAP)

Transitional Provisions

- 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, recognized in respect of the said contract or transaction for the previous year ending on or before the 31st March, 2015.

- 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.

Income Computation and Disclosure Standard I

Disclosure of Accounting Policies

Income Computation and Disclosure Standard I
Accounting policies

- In ICDS-I it is mentioned that the accounting policies being fundamental in nature which shall be applicable for computing 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.

Fundamental Accounting Assumptions

- **Going Concern-** It is assumed that the enterprise has neither the intention nor the necessity of liquidation or curtailing, materially its scale operations.

- **Consistency-**It is assumed that accounting policies are consistent from one period to another.

- **Accrual-**Revenues and costs are recorded as they are accrued even though payment and receipt of actual cash has not been taken place.

Accounting policies

- 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,
  - the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and
  - marked to market loss or an expected loss shall not be recognized unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

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

Basis of difference	AS-1	ICDS- I
Concept of Prudence	Provision is made for all known liabilities and losses on best estimate basis	Marked to market (MTM) loss or an expected loss shall not be recognised unless permitted by any other ICDS and shall apply mutatis mutandis to MTM gains or an expected profit
Change in accounting policy	Change in accounting policy permitted if - (a) required by statute (b) required for compliance of AS, or (c) change results in more appropriate presentation of financial statements	Accounting policies shall not be changed without a “reasonable cause” whereas reasonable clause is not defined in ICDS and thus would involve exercise of judgement by management and tax authorities.

Basis of difference	AS-1	ICDS- I
Disclosure of change in accounting policy	Disclosure of change in accounting policy is required in period of change even if impact is not material in current period but material in later periods	Disclosure of change in accounting policy is required in period of change and also required in first year in which change has material effect, if impact is not material in current period but material in later periods.(Here Materiality Concept is applied)
Prior Period Items	Prior period items are included in determination of net profit or loss of the period in which the error pertaining to a prior period is discovered and are separately disclosed in the statement of profit and loss A/c	ICDS 'does not' consider prior period items

Disclosure of Accounting Policies

- All significant accounting policies adopted by a person shall be disclosed.
- 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.
- Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.
- 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.

Income Computation and Disclosure Standard II

Valuation of Inventories

Scope

- This shall be applied for valuation of inventories, except :
- Work-in-progress arising under ‘construction contract’
- Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;
- Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;
- Producers’ inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value;
- 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.

<u>“Inventories” are assets:</u>

- Which are held for sale in the ordinary course of business;
- in the process of production for such sale;
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

“<u>Net realisable value</u>” 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.

<u>Measurement</u>

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

Cost of Inventories

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

- 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

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

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.

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.

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

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.

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

Abnormal amounts of wasted materials, Labour, or other production costs;

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

Administrative overheads that do not contribute to bringing the inventories to their present location and condition ;
Selling costs.

Cost Formulae

- The Cost of inventories of items that are not ordinarily interchangeable; and goods or services produced and segregated for specific projects shall be assigned by specific identification of their individual costs.

- ‘Specific identification of cost’ means specific costs are attributed to identified items of inventory.

- 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

Cost of inventories, other than the inventory dealt with in **paragraph 13(specific projects)**, 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.

Retail Method

Where it is impracticable to use the costing methods referred to in **paragraph 16(FIFO,WAC)**, 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

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.

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.

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

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

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

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.

Basis of difference	AS-2	ICDS- II
Valuation of service inventory	No specific provision	Inventory of services is to be valued at cost or net realizable value,whichever is lower. Cost of services shall consist of labour and other cost of personnel directly engaged in providing the service including supervisory personnel and attributable overheads
Opening inventory	No specific provision	Value of opening inventory of a business shall be the same as the value of inventory at the end of the immediately preceding financial year In case of commencement year of business, Cost of inventory on the day of commencement of business will be opening inventory

Basis of difference	AS-2	ICDS- II
Change in method of inventory valuation	The Changes are permitted if- (a) required by statute; (b) required for compliance of AS; (c) change results in more appropriate presentation of financial statements	Method of valuation once adopted shall not be changed without “reasonable cause"
Inventory valuation in case of certain dissolutions	No specific provision	In case of partnership firm, AOP or BOI inventory on the date of dissolution shall be valued at NRV, whether or not business is discontinued

Disclosure

The following aspects shall be disclosed, namely:—

- the accounting policies adopted in measuring inventories including the cost formulae used; and
- the total carrying amount of inventories and its classification appropriate to a person.

Income Computation and Disclosure Standard III

Construction Contracts

Definitions

- "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 :
- 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;
- contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.
- "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.
- "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.
- "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.
- "Progress billings" are amounts billed for work performed on a contract whether or not they have been paid by the customer.
- "Advances" are amounts received by the contractor before the related work is performed.

Combining and Segmenting Construction Contracts

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

- separate proposals have been submitted for each asset;
- 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
- the costs and revenues of each asset can be identified.

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

- the group of contracts is negotiated as a single package;
- the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
- the contracts are performed concurrently or in a continuous sequence.

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:

- the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or
- the price of the asset is negotiated without having regard to the original contract price.

Contract Revenue

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

Contract revenue shall comprise of:

- the initial amount of revenue agreed in the contract, including retentions; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

- 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

Contract costs shall comprise of :

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract;
- such other costs as are specifically chargeable to the customer under the terms of the contract; and
- 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.

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.

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

they can be separately identified; and

it is probable that the contract shall be obtained.

When costs incurred in securing a contract are recognized 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.

Contract costs that relate to future activity on the contract are recognized 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

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.

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.

The stage of completion of a contract shall be determined with reference to the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; **or**

surveys of work performed; **or**

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.

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:

contract costs that relate to future activity on the contract; and

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

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

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.

Basis of difference	AS-7	ICDS- III
Pre construction Income	As per AS – 7, cost that relate directly to a specific contract may be reduced by 'any' incidental income that is not included in contract revenue.	Pre – construction income in the nature of interest, dividend and capital gains shall not be reduced from the cost of construction, rather they will be taxed as income. But income other than interest, dividend and capital gains shall be reduced from contract cost which are not included in contract.
Retention money	Silent on treatment of accrual of income.	Retention money to be considered as part of contract revenue and revenue to be recognized on POCM basis
Allow ability of losses including probable / expected loss	Losses fully allowable irrespective of commencement, stage of completion and expected profits from other independent contracts	Losses not allowable unless actually incurred and only on POCM basis. ICDS on accounting policies also does not permit recognition of foreseeable loss

Disclosure

- The amount of contract revenue recognised as revenue in the period; and
- the methods used to determine the stage of completion of contracts in progress.

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

- the amount of costs incurred and recognised profits less recognised losses upto the reporting date;
- the amount of advances received; and
- the amount of retentions.

Income Computation and Disclosure Standard IV

<u>Revenue recognition</u>

Scope

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

- the sale of goods;
- the rendering of services;
- the use by others of the person's resources yielding interest, royalties or dividends.

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.

<u>Definitions</u>

- “**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.

Sale of Goods

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

- Revenue from service transactions shall be recognised by the **percentage completion method**.
- Under this method, revenue from service transactions is matched with the service 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

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

Basis of difference	AS-9	ICDS- IV
Method of revenue recognition for service contracts	– Proportionate completion method or – Completed service contract method	– Mandatory to recognize revenue based on Percentage completion method – ICDS requires application of ICDS III on Construction contracts for recognition of such revenue on mutatis mutandis basis
Postponement of revenue recognition	Revenue recognition to be postponed if significant uncertainty exists on measurability and collect ability of revenue from sale of goods, rendering of services, interest, royalties and dividends	Revenue to be recognized only if there is reasonable certainty of its ultimate collection from sale of goods and rendering of services
Disclosure requirement	Disclose circumstances in which revenue recognition has been postponed or for pending significant uncertainties.	Disclosures for amounts not recognized as revenue due to lack of reasonable certainty of its ultimate collection along with nature of uncertainty

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

- 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;
- the amount of revenue from service transactions recognised as revenue during the previous year;
- the method used to determine the stage of completion of service transactions in progress; andfor service transactions in progress at the end of previous year:
- amount of costs incurred and recognised profits less recognized losses upto end of previous year;
  - the amount of advances received;

    and
  - the amount of retentions

Income Computation and Disclosure Standard V

Tangible Fixed Assets

Definitions

- “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.

- “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.

Identification of Tangible Fixed Assets

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- 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

- 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.
- The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of price adjustment, changes in duties or similar factors; or
- exchange fluctuation as specified in Income Computation and Disclosure Standard on the effects of changes in foreign exchange rates.

- 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.

- The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalized.

- 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

- In arriving at the actual cost of self-constructed tangible fixed assets, the same principles shall apply as those described earlier.
- 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

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.

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

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

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

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.

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

Depreciation

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

Transfers

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

Basis of difference	AS-10	ICDS- V
Applicability	Fixed assets such as land, building, plant and machinery, vehicles, furniture and fittings, goodwill, patents, trademarks and designs, royalties and dividends	Tangible fixed assets being land, building, machinery, plant or furniture
Component of cost	Cost of fixed asset comprises its purchase price, non- refundable taxes and any directly attributable cost of bringing the asset to its working condition for its intended use. Trade discount and rebates will be deducted while computing cost	It has similar definition to AS 10 but words used are 'actual cost' as compared to 'cost' in AS 10
Stand-by equipment and servicing equipment	AS acknowledges capitalization of stand-by equipment and servicing equipment as a normal practice but does not mandate	ICDS 'mandates' capitalization of stand-by equipment and servicing equipment

Basis of difference	AS-10	ICDS- V
Machinery spares	– It is 'usually' charged to P&L a/c on consumption. – However, if spares are used only in connection with the item of fixed asset with irregular use then it 'may' be appropriate to capitalize	– It 'shall' be charged to P&L a/c on consumption – However, if spares are used only in connection with the item of fixed asset with irregular use then it 'shall' be capitalized
Asset acquired against non-monetary consideration	When fixed asset is acquired in exchange for another asset, shares or other securities issued, cost of asset acquired should be recorded either at fair market value of asset given up / shares or securities issued or fair market value of asset acquired, whichever is more clearly evident.	When a tangible fixed asset is acquired in exchange for another asset, or in exchange for shares or other securities , the fair value of the tangible fixed asset so acquired shall be its actual cost.

Basis of difference	AS-10	ICDS- V
Revaluation of assets	It recognized the concept of revaluation while calculating income.	It does not includes revaluation of fixed assets, hence revaluation would not be recognized while computing income
Disclosure requirement	Gross and net book values at beginning and end of year showing additions, deletions and other movements, expenditure incurred in course of construction and revalued amount, if any.	Description of assets/block of assets, depreciation rate and allowable depreciation, actual cost / opening WDV and closing WDV showing additions or deduction including adjustment for CENVAT, exchange difference and subsidy, grant or reimbursement

Disclosures

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

- description of asset or block of assets;
- rate of depreciation;
- actual cost or written down value, as the case may be;
- 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—
  - 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;
- depreciation Allowable; and
- written down value at the end of year.