

Income Computation and Disclosure Standards (ICDS)

ICDS VI, VII and VIII

WIRC of ICAI - CPE Program Discussion

By

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Topics

- Background of ICDS
- Scope and coverage
- ICDS VI – Effects of changes in foreign currency rates
- ICDS VII – Government Grants
- ICDS VIII – Securities
- Conclusion

Background & scope

Background

- Method of accounting
- Section 145(2)
- Tax Accounting Standards
- ICDS
 - March 31, 2015
 - Sept 29, 2016
 - March 23, 2017 clarifications

Scope of ICDS

- Covers all taxpayers
 - Except individual/ HUF not liable to tax audit
- Adopting mercantile system of accounting
 - Cash system & ICDS
- Income under the heads
 - Income from business or profession
 - Income from other sources
- Disclosure in Form 3CD

Foreign currency translation

Definitions

- Reporting currency
 - India operations
 - Overseas branch v. overseas JV/ subsidiary
- Foreign currency
- Foreign currency transactions
 - Denominated in foreign currency
 - Settlement in foreign currency
- Monetary v. non-monetary items

Recognition of foreign currency transaction

- Initial measurement - Para 3(1)
 - In reporting currency
 - At transaction rate or average rate
 - When average rate not to be applied – Para 3(2)
- Year end measurement
 - Closing rate for monetary items – Para 4(a)
 - Transaction rate for non-monetary items – Para 4(c)
 - When rates may be different – Paras 4(b) & 4(d)

Effect of measurement rules

- Exchange difference
 - On monetary items – income/ loss – Para 5(i)
 - On non-monetary items – no impact on taxable income – Para 5(ii)
- Paras 3, 4 and 5 not to override
 - Section 43A
 - Rule 115
- Foreign operation - apply above rules – Para 7
- Foreign currency translation reserve as at April 1, 2016 - Q 16 Of FAQs
 - recognised as income for FY 2016-17
 - to the extent not recognised in the past

Forward contracts

- Initial premium/ discount – Para 8(1)
 - amortised over contract period, except where entered into for [Paras 8(2) and (3)]
 - Trading/ speculation
 - Determining reporting currency at settlement
 - Hedging firm commitment or highly probable forecast
- Initial premium/ discount – meaning [Para 8(4)] – challenges in determination – forwards over one year tenor
- Recognition of premium/ discount at settlement – Para 8(5)

Forward contracts by type

- OTC v. exchange traded
- FX forwards
- Cross currency swaps
- Interest rate swaps
- Options
 - Zero strike options
 - Option premium

Discussion points

- Translation of consultancy fee payable to NRI
 - For India operations
 - For branch in Netherlands
 - For subsidiary in Singapore
- Translation of salary payable to foreign citizen employed under foreign currency compensation package
 - For India operations
 - For branch in HK
 - For subsidiary in the US
 - Does analysis differ on whether salary paid in India/overseas

Discussion points

- Foreign currency transactions of
 - Banks
 - Client facing
 - Interbank hedge
 - Open (unhedged) position
 - Money changers
 - Cash with employees on overseas tour/ travel
 - Balances on pre-paid forex cards
 - FPIs/ FDI investors

Discussion points

- Bank balance in Dubai FTZ
- Inventory in Dubai FTZ – exported from India
- Inventory in Dubai FTZ – procured from Sri Lanka
- Imported fixed asset with supplier credit – FX forward booked to discharge supplier liability
- Imported fixed asset – ECB for financing – ECB principal hedged – ECB interest hedged
- Fixed asset purchased from France for operations in Dubai

Government grants

Government grants

- Para 1 – nomenclature not material
- What is excluded – Para 2
 - Assistance other than grant
 - Participation in ownership
- Grant – Para 3
 - Includes international/ local agencies
 - Conditions precedent or subsequent

Recognition – timing

- Conditions for recognition – reasonable assurance that
 - Conditions shall be complied with
 - Grant will be received
- No postponement beyond actual receipt
- Impact of direct benefit scheme i.e. transfer to bank account – effect of wrong credit

Recognition – methodology

- Where related to depreciable asset – Paras 5 and 12
- Where relates to non-depreciable assets – income recognition – Paras 6 and 11
- Where not directly relatable to particular assets – Paras 7 and 11
- Compensation for losses – Para 8
- Other grants including non-monetary assets – Paras 9, 10
- Effect of Section 43(1) and 43(5)

Disclosure

- For assets
- For income statement
- Grants not recognised

Discussion points

- Whether grant
 - Govt. constructing highway in backward area to promote development of that area – cost of road
 - Road constructed to lead to a factory
 - Costs paid entirely by Govt.
 - Costs paid entirely by assessee
 - Costs reimbursed by Govt.
 - Special rail connection to reach a place of pilgrimage
 - MIDC water treatment plant
 - SIDBI loan
 - Section 10AA tax deduction for SEZ unit
 - Disaster relief compensation given to business affected by landslide
 - Compensation given for loss of limb in rail accident
 - Govt. decision to allow PSUs to supply to Govt.
 - Govt. sharing oil exploration output
 - Govt. capital infusion in PSU banks

Securities

Securities – Part A

- Application to (Paras 1 and 2)
 - Securities held as stock in trade
 - Excludes
 - Recognition of dividend or interest
 - Securities held by person in the business of insurance
 - MFs, VCFs, banks, public FIs
- Securities – Section 2(h) of SCRA
 - Excluding derivatives

Measurement and valuation

- Actual Cost – Paras 4 to 8
 - General
 - Exchange of securities or other assets
 - Broken period interest – Q 18 of FAQ
 - Interplay with Sections 45, 47, 55
- Subsequent valuation – Paras 9 and 10
 - Lower of cost or NRV
 - By category and not by individual security – Q 19 of FAQ
- Valuation of opening stock – Para 11
- Valuation of unlisted/ listed but not traded securities – at cost – Para 12
- Categories
 - Shares
 - Debt securities
 - Convertible securities
 - Others

Securities – Part B

- Applicable to scheduled banks & to public financial institutions
- Securities – Section 2(h) of SCRA – includes shares of companies in which public are not substantially interested
 - Forex derivatives
- Valuation to be as per RBI directions – no excess deduction
 - MTM loss on HTM portfolio

Discussion points

- Securities
 - Mutual fund units
 - Categorisation
 - Debt mutual fund
 - Balanced fund
 - PTCs
 - SRs under SARFAESI
 - REIT units
- Valuation
 - Whether STT is a cost
 - Whether debt security trade on C-BRICS/ EBP is 'listed'
 - Whether NAV of MF units - 'unlisted' category

Discussion points

- F&O positions
 - Paras 1(c), 2(1)(a) of ICDS II
 - ICDS II inapplicable to “... other financial instruments ...” covered under ICDS VIII
 - Inventories
 - Held for sale
 - Ordinary course of business
 - Materials/ supplies for consumption in production/ rendering of services
 - Paras 1 (a), 5, 10 and 11 of ICDS X
 - Inapplicable to financial instruments
 - Provision
 - Present obligation of past event
 - Reasonable certainty of outflow
 - Reliable estimate of amount
 - Contingent gain not to be recognised, unless
 - Reasonable certainty of inflow of economic benefits
 - Para 4(ii) of ICDS I

Discussion points

- Stock brokers
 - Error trades
 - Client code modification
- Assessee opting for Portfolio Management Services (PMS)
- MTM loss on HTM portfolio of banks

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