

33rd Regional Conference of WIRC of ICAI

Interplay Reporting on Audit under Companies Act & Income Tax Act

CA Kamlesh Vikamsey

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Evolution of Accounting Standards vis-à-vis Companies Act

1857

First Companies Act in India Legislated

1866

Introduction of Maintenance of Books of Accounts and Audit

1977-88

Setting up of ASB by ICAI and notification of 11 AS

1999

Statutory Recognition to AS by Companies Act and formation of NACAS

2009

G-20 Summit held after 2008 crisis for convergence of AS globally

2010-11

Ind AS prepared by ICAI and approved by NACAS

2015

39 Ind AS notified by MCA

2016

Amendment to few AS – Steps towards harmonizing AS and Ind AS

One of the key reason for delay in implementation of IndAS was tax implications....

Evolution of Standards in Income Tax

1995-96

S 145(2) empowered CG to notify AS and notification of 2 ASs

2010

CBDT constituted committee to Harmonise GAAP with Income Tax

2011

MCA issued 35 Ind AS to be implemented after tax related issues were resolved

2012

Draft of 14 Tax Accounting Standards (TAS) released for public comments

2014

Amendment to S 145(2) empowering CBDT to issue ICDS instead of AS

2016

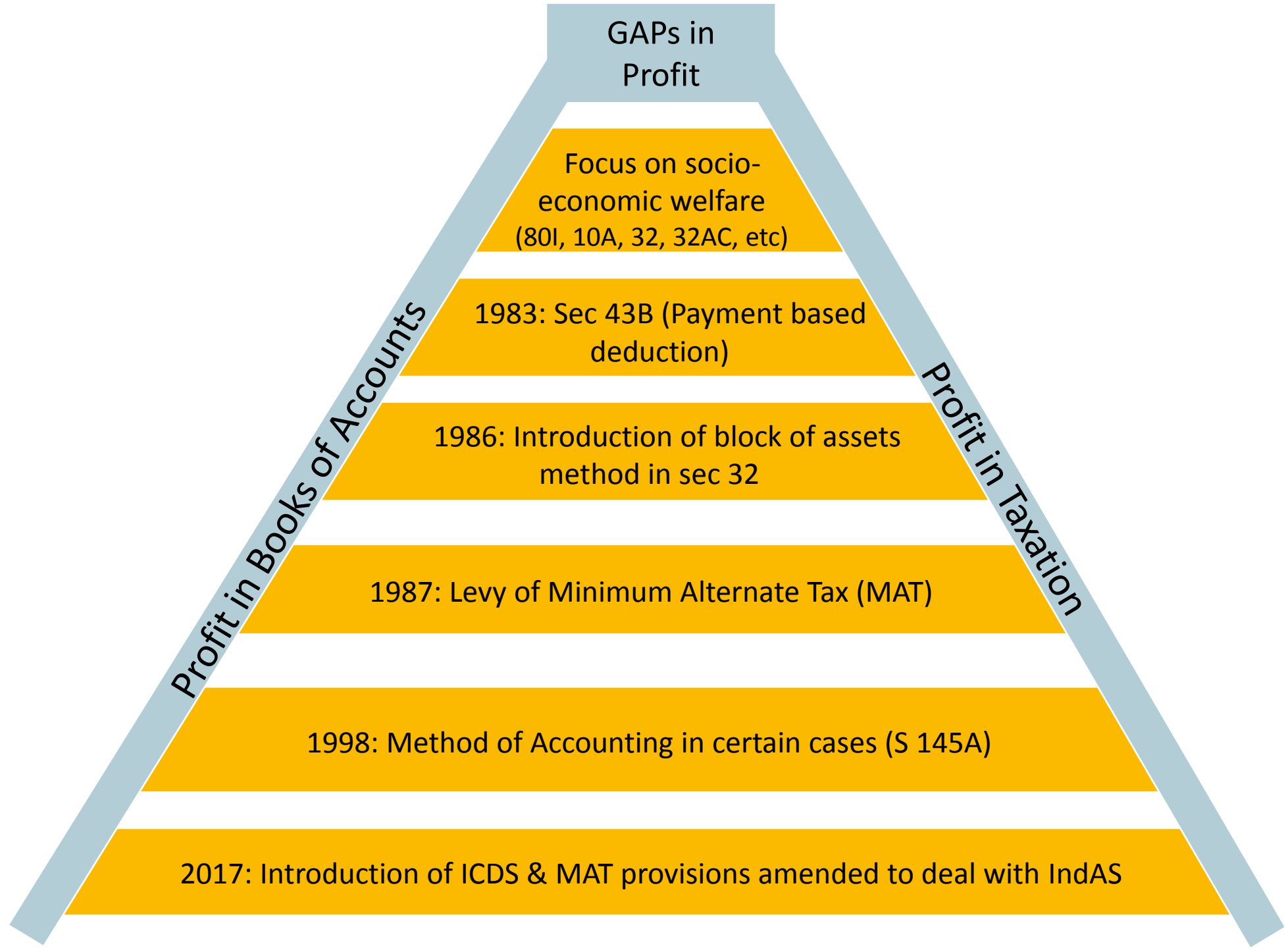
CBDT notified 10 ICDS

2017

Delhi HC - ICDS cannot override binding judicial precedents or provision of Act

2018

Finance Act 2018 amended Income Tax Act to overrule Delhi HC



Reporting Objective

- Companies Act – Stakeholders

- True and Fair view of Financials, Prudence, Conservatism
- Uniform accounting, presentation, disclosures and comparability
- Audit Report – Standards on Auditing, CARO, Internal Controls, Going Concern, Fraud Reporting, etc.

- Income Tax Act – Revenue

- True and Correct information to enable proper computation of taxable income
- Compliance with Tax Laws – TDS, DDT, other filings
- Information relating to GST and other tax laws
- Reporting on Income Computation & Disclosure Standards (ICDS)

ICDS vs. IGAAP vs. Ind AS – Key Gaps

- Prudence and Materiality
- Revenue Recognition of Service contracts
 - Ind AS 115 : Performance obligation
 - IGAAP : Percentage of Completion Method (POCM) or Completed Service Method (CSM)
 - ICDS : POCM (CSM only if project < 90 days)
- Concept of revenue – different in Ind AS, IGAAP, Income Tax and GST
 - Ind AS : Revenue @ Fair Value (direct cost like commission, scheme promotions are netted off)
 - Income Tax / GST : Revenue @ Contractual Value
(GST - inter unit transfer of goods also added)

ICDS vs. IGAAP vs. Ind AS – Key Gaps

- Borrowing Cost

- Qualifying Asset (QA) :
 - ICDS : In case of Specific borrowings, all fixed assets are QA
 - IndAS/ IGAAP : Qualifying period of 12M required in case of both specific & general borrowings
- Borrowing Cost formula for apportionment of General borrowings to QA
- Commencement of capitalization of borrowing cost
 - ICDS : Date of borrowing
 - IndAS / IGAAP : Date of use of borrowings
- Cessation of capitalization of borrowing cost :
 - ICDS : Put to use
 - IndAS/ IGAAP : Ready for Intended use

Interplay – ICDS vs. IGAAP vs. Ind AS

- Foreign Exchange Gain\ Loss

ECB utilized for acquisition of local assets

- ICDS : FCY gain/loss on monetary items to be recognised
- IGAAP / IndAS : FCY gain/loss capitalized to the extent of eligible borrowing cost

Non Integral Foreign Operations

- ICDS : FCY gain/loss on translation of monetary items to be recognised
- IGAAP / IndAS : FCY gain/loss on translation of all items goes to FCTR

These are mere few illustrations of GAPS

Adding one more dimension for highly regulated entities such as Banks, Insurances, NBFCs, etc, would add to further GAPS

Interplay

- Creation of timing differences (Preponing income & Postponing expenses)
- Increase in overall cost of compliance
- Requirement of robust financial reporting system to cater to multiple legislation and regulatory requirements
- Increase in requirement of documentation and retention thereof
- Requirement to reconcile data between Books of accounts, Income Tax, GST, etc.
- Blockage of working capital of taxpayers

When difference between Books & Tax widens - Revenue Leakage / loss to taxpayer increases dramatically

Interplay

- Are we achieving the objectives?
- Are we encouraging entrepreneurial interest – Existing & New?
- Are we attracting Foreign Investors?
- Are we moving towards EASE OF DOING BUSINESS?
- Are our National resources – Entrepreneurs, Professionals, Administrators – being channelized in right direction?
- As Professionals, “Partners in Nation Building” –
 - Are we getting opportunity to channelize our time and efforts in the right direction
 - Or are we merely INTERPLAYING in these administrative compliances

As a Nation, is it time to introspect???

THANK YOU

-CA Kamlesh Vikamsey