

Impact analysis of Ind AS vs ICDS

*Property, Plant & Equipment, Intangible Assets,
Borrowing Costs &
Provisions, Contingent Liabilities and Contingent
Assets*

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Venue: Bandra Kurla Complex

Comparison

Particulars	IND AS	ICDS
Property, Plant & Equipment	IND AS 16	ICDS V
Intangible Assets	IND AS 38	Not yet notified
Borrowing Costs	IND AS 23	ICDS IX
Provisions, Contingent Liabilities and Contingent Assets	IND AS 37	ICDS X

Ind AS- 16 vs.
ICDS- V

Dismantling/ Restoration Costs

IND AS- 16

Cost of asset include initial estimate of dismantling cost / restoration cost of property, plant and equipment. (Para 16(c) of Ind AS 16 –Property, Plant and Equipment)

Further, where the effect of time value of money is material, amount of provision should be present value of expenditures expected to be incurred. (Para 45 of Ind AS 37 - Provisions, Contingent Liabilities and Contingent Assets)

Tax Perspective

- ICDS on tangible assets is silent on this aspect. However, the same needs to be tested under ICDS X on provisions.
- Provisions will be allowed on the principle of matching concept as laid down by **Rajasthan High Court** in case of **Udaipur Mineral Development Syndicate Pvt. Ltd. (261 ITR 706)**

Liquidated Damages

IND AS-16

Liquidated damages (not in the nature of loss of revenue) would be adjusted against the cost of assets.
(Para 16 of Ind AS 16 – Property, Plant and Equipment)

Tax Perspective

ICDS is silent as regards compensation in nature of loss of revenue.

Based on **Supreme Court** decision in **CIT v. Saurashtra Cement Limited (325 ITR 422)**, it would be possible to treat it as capital receipt.

Valuation in case of exchange of assets

IND AS- 16

- In case asset is acquired in exchange of another asset (does not lack commercial substance and assets are reliably measurable), the cost of acquired asset should be recorded at fair value of asset given up or fair value of asset received, whichever is more clearly evident. (Para 24 & Para 27 of Ind AS 16 – Property, Plant and Equipment)
- If the acquired asset is not measured at fair value, its cost is measured at carrying amount of the asset given up. (Para 24 of Ind AS 16 – Property, Plant and Equipment)

Tax Perspective

- As per ICDS, asset acquired in exchange for another asset has to be recognized on the basis of fair value of asset so acquired.
- Asset acquired in exchange for shares or other securities, fair value of asset so acquired
- Implications under section 50D / 50CA / 56(viib)

Stripping Activity Asset

IND AS-16

Treatment of overburden cost in case of mining industry is govern by para 8 of Appendix B of Ind AS 16 – Property, plant and equipment

- Cost incurred to improve access to ore will be recognized as “**Stripping Activity Asset**” and will be recorded as addition / enhancement to existing asset. The same will be amortized on systematic basis over expected useful life of ore body.
- Cost incurred for production of ore will be recognized as cost of inventory.

Tax Perspective

- ICDS is silent on this aspect.
- The said costs will be allowable as revenue expenditure in view of the decision of the **Jabalpur ITAT Bench** in case of **Northern Coalfields Limited v. ACIT (59 taxmann.com 394)**.

Inspection Charges

Ind AS 16

Expenses incurred for major inspection at regular interval are capitalized in the cost of asset. Carrying value of previous inspection charges is derecognized from the cost of asset and is charged to P&L. (Para 14 of Ind AS 16 – Property, Plant and Equipment)

Tax Perspective

- ICDS is silent on this point.
- Inspection expenses does not increase the value of fixed assets and hence the same will not be permitted to be added to the cost.

Expenses incurred between trial run and production

Ind AS 16

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Tax Perspective

FAQ 15 of circular no. 10/2017 states that the expenditure incurred till the plant begun commercial production, that is, production intended for sale or captive consumption, shall be treated as capital expenditure.

Ind AS- 38 vs.
ICDS on Intangible
Assets (to be
notified)

Service Concession Agreement

Ind AS 11

Treatment of capital expenditure incurred for infrastructure project which are covered under para 5 of Appendix A of Ind AS 11 on Service concession arrangement depend on right to receive consideration

- If unconditional right to receive the consideration - Recognized as financial asset
- If right to receive consideration (other than unconditional rights) - Recognized as intangible assets

Tax Perspective

- ICDS (yet to be notified) is silent on this aspect.
- **Bombay High Court** in case of **North Karnataka Expressway Ltd. v CIT (51 taxmann.com 214)** has held that the assessee cannot be said to be owner of the infrastructure created and hence, claim of depreciation cannot be allowed.
- As per **Circular No. 9/2014, dated 23.04.2014**, the assessee can claim deduction of expense incurred for development of infrastructure facility evenly over the period of agreement.



Ind AS- 23 vs.
ICDS- IX

Borrowing Cost

Ind AS 23

For interest on loan under Ind AS 23 – Borrowing cost is calculated as per effective interest method (i.e. amortization of processing charges etc. paid to bank will be amortized over a period of loan).

Tax Perspective

As per ICDS actual borrowing costs incurred shall be considered for the purposes of capitalization.

Ancillary costs (amortized) shall form part of borrowing cost.

Temporary Use of Funds

IND AS-23

Income earned from temporary investment of borrowed funds is deducted while capitalizing the borrowing cost. (Para 12 of Ind AS 23)

Tax Perspective

- ICDS mandates that any income arising from temporary use of funds shall be charged to income tax under the head Income from Other Sources.
- The asset value will have to be shown at gross value only. The above position is in line with the **Supreme Court** decision in case of **Tuticorin Alkali Chemicals & Fertilizers Ltd v. CIT (227 ITR 172)**

Borrowing Cost

Ind AS 23

No capitalization of borrowing cost during the extended period in which active development of qualifying asset is suspended. (Para 20 of Ind AS 23)

Tax Perspective

- As per Sec 36(1)(iii), amount of interest paid in respect of capital borrowed for acquisition of an asset (whether capitalized or not) from the date of borrowing till the time asset was put to use shall not be allowed as a deduction.

Discount on issue, Redemption at Premium

Ind AS 23

Debentures issued at discount with redemption at premium and interest is payable with monthly rest. As per para 5.1.1 of Ind AS 109, debentures needs to account at fair value based on the effective interest method which result into amortization of discount over a tenure of debentures.

Tax Perspective

- Borrowing cost includes amortized amount of discounts or premiums relating to borrowings.
- Treatment is in line with decision of **Madras Investment Corporation Limited v. CIT (55 taxmann.com 361)**

Usance Interest

Ind AS 16

If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is capitalised in accordance with Ind AS 23 (Para 23 of Ind AS 16)

Tax Perspective

- Usance interest is not in the nature of interest on borrowed funds and hence, will not be covered by provisions of section 36(1)(iii) of the Act – It is entitled to deduction u/s. 37(1) of the Act
- **Bombay Steam Navigation Co. Private Limited v. CIT (56 ITR 52) Supreme Court** – loan of money is debt but every debt does not involve a loan; Interest paid on capital borrowed for the purpose of business in context of section 36(1)(iii) means money and not any other asset purchased on credit

Ind AS- 37 vs.
ICDS- X

Provisions and Contingencies

Ind AS 37

- Provision is recognized when outflow of resources **is probable**.
- Contingent asset is recognized when it becomes **virtually certain**. (Para 33)
- Reimbursement (in respect of provision of expenses) is recognized when it becomes **virtually certain** (Para 53)

Tax Perspective

- Provision is recognized when outflow of resources is **reasonably certain**
- Contingent asset is recognized when it becomes **reasonably certain**.
- Reimbursement (in respect of provision of expenses) is recognized when it becomes **reasonably certain**

Provisions and Contingencies

Ind AS 37

Where the effect of time value of money is material, discounting of provision is allowed. (Para 45)

Tax Perspective

Provisions (undiscounted) will be allowed on lines of principles laid down by **Apex Court** in the case of **Rotork Controls**.

Q & A Session



Thank You

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