



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

JALGAON BRANCH OF WIRC OF ICAI

@E-Newsletter June 2017

Branch Management Committee

CA Pallavi Mayur
Chairperson

CA Ajay Jain
Vice-Chairman

CA Smita Bafna
Secretary

CA Sagar Patni
Treasurer

CA Pankaj Agrawal
Member

CA Nitin Zawar
Imm. Past Chairman

RCM CA Shruti Shah
Branch Nominee



Plot No 10, ICAI Bhawan, Gajanan Colony, Ring Road, Jalgaon-425001
Ph.0257-2232205 | Email: Jalgaon@icai.org
Web: www.jalgaon-icai.org

Chairperson Desk

**Respected Members
Greeting of the day !**

***"Networking is not collecting Contacts,
Networking is about Planting Relations"
"Everyone should build their network before they need
it"***



The concept of Joint programs is somewhat based on these quotes. Coming together of few branches and organizing the mega events leads to getting the best of the faculties and also develop Networking.

In this month, On 9th and 10th June we had a joint programme "VIBRANT" National Residential Refresher Course at shirdi hosted by Ahmednagar Branch jointly with Jalgaon, Dhule, Pimpri, Chinchwad and Satara Branch.

CA Bimal Jain, CA Kapil Goel, CA Madhukar Hiregange, CA K K Chythanya, CA Padam Kincha, Adv. C B Thakkar were the eminent speakers.

On 17th and 18th June we had scheduled a Sub Regional Conference of WIRC along with Aurangabad branch and other branches. Best of the speakers shared their views on important topics.

From 2nd June the branch has inaugurated "GST Sahayata Desk" an help desk for common man, to get their GST queries solved.

21st June International CA day was celebrated in branch premises wherein Basics of Pranayam and Yoga were taught by Smt Hemangini Sonawane, Yoga guru.

Lot of programmes for WICASA student in the month of June were conducted. Thank you for motivating the article clerks to participate in all the events.

Dear Members, 1st July we are celebrating CA Day, lot of activities are planned, kindly take the benefit of all the medical activities and also participation will increase our moral.

Warm Regards,

**CA Pallavi Mayur
Chairperson**

Joint Program with Aurangabad & Ahmednagar Branch





CA Darshan Jain

DISCLOSE THE UNDISCLOSED UNDER ICDS – Part - I

The Income Computation and Disclosure Standards (for short the "ICDSs") undoubtedly is a beginning of a new epoch in the method of computation of income under the head of Profits and Gains of Business or Profession and Income from Other Sources. The ICDS draws power from Section 145(2) of the Act and accordingly every assessee (with certain exceptions) has to compute taxable income under the said heads of income only after making appropriate adjustments to the financial statements. Usually financial statements are prepared following the Accounting Standards (for short the "AS") prescribed by Institute of Chartered Accountants of India (for short the "ICAI") or the new set of standards called Ind-AS which have set the IFRS regime rolling in India. While these standards are important to ensure consistent recognition, measurement and disclosures in the general purpose financial statements; the ICDS overrides them so far as computation of income for tax purposes is concerned.

There has been a lot of hue and cry by both the assesseees' as well as the Chartered Accountants fraternity over the additional compliance burden instigated by the new standards issued by the Tax Department. Meanwhile, the ICAI has come out with a fantastic technical guide on ICDS in the month of July, 2017. The technical guide covers each of the aspect of the 10 ICDS so notified, in great detail and also explains the carve-ins and carve-outs with reference to the accounting standards as well as the Ind-AS. As the name suggests ICDS are not merely Computational Standards but they also require certain amount of disclosures. These disclosures are required to be made in Para 13(f) of the Form 3CD. There has been a lot of confusion over the nature and method of providing the required disclosures as per ICDSs. The fields provided for disclosure in Form 3CD could not exceed 500 characters and probably in most of the cases the disclosures to be made could not fit in the allotted space. With the tax audit due date drawing near, a simple guide to the disclosure requirements and sample disclosures are the covered by this article.

In the clarifications issued by the CBDT on ICDS vide CIRCULAR NO. 10/2017, DATED: 23-03-2017 (for short "FAQ"), has specifically dealt with the disclosure requirements as per ICDS in its last question, which reads as under

“Question 25: ICDS-I requires disclosure of significant accounting policies and other ICDS requires specific disclosures. Where is the taxpayer required to make such disclosures specified in ICDS?”

Answer: Net effect on the income due to application of ICDS is to be disclosed in the Return of income. The disclosures required under ICDS shall be made in the tax audit report in Form 3CD. However, there shall not be any separate disclosure requirements for persons who are not liable to tax audit.”

While the assessee is obliged to disclose the net effect of ICDS in its return of income, the core disclosures are required to be made in the Tax Audit Report. It is also clarified that no separate disclosures are required to be made by persons not liable for tax audit even when they are obliged to compute income as per the ICDS.

ICDS I: Accounting Policies

Para 6 All significant accounting policies adopted by a person shall be disclosed

Explanation It is said that “Well begun is half done”. The para 6 of ICDS I is a superb case of well begun in terms of confusion on part of the department. On one hand, it has been clarified that ICDS would not apply for maintenance of books but on the other hand it requires significant accounting policies to be disclosed. In response to question 1 of the FAQ, the department has clarified that the accounting policies mentioned in ICDS-I being fundamental in nature shall be applicable for computing income under the heads "Profits and gains of business or profession" or "Income from other sources".

Sample The company’s financial statements have been prepared in accordance with the provisions of the Companies Act, 2013 and the Indian Accounting Standards (“Ind AS”) notified under the Companies (Indian Accounting Standards) Rules, 2015 issued by Ministry of Corporate Affairs. The Company maintains accounts on accrual basis following the historical cost convention, except for certain financial instruments that are measured at fair value in accordance with Ind AS. The accounts comply with the ICDSs referred to u/s. 145 of the Income Tax Act, 1961 except for matters reported in notes to Clause 13(e) of Form 3CD. The accounting policies are separately disclosed in Notes to Accounts forming part of Financial Statements.

-
- Para 7**
- a. **Any change in an accounting policy which has a material effect shall be disclosed.**
 - b. **The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable.**
 - c. **Where such amount is not ascertainable, wholly or in part, the fact shall be indicated.**
 - d. **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.**

Explanation An accounting policy once adopted must be followed consistently year after year. However, a change may be required by law or if it leads to a more appropriate presentation of financial statement. In case of ICDS although a change in policy could be made if there exists a reasonable cause. In case change in policy is effected the assessee would have to disclose the 4 parameters of Para 7.

Sample In order to follow uniform accounting policy across all the group companies, the company has changed the method of charging depreciation from SLM to WDV method of charging depreciation during the year under consideration. As a result of the change the depreciation charged in profit and loss has reduced by Rs. 20 Lakhs and depreciation of the preceding years amounting to Rs. 120 Lakhs has been reversed. Consequently, the profit for the year and the reserves are higher by Rs. 140 Lakhs.

Para 9 **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**

Explanation Going Concern, Consistency and Accrual are the three fundamental accounting assumptions. The method of accounting and/or presentation of financial statements could undergo a change, if any, of these assumptions is jeopardized. Disclosure is required only in event of deviation from the fundamental assumptions and not otherwise.

Sample The company is unable to continue as a going concern in view of the change in government policy on Liquor. It is required to realize assets and settle liabilities otherwise than in the normal course of business. The financial statements are accordingly drawn at realizable values instead of historical costs.

ICDS II : Valuation of Inventories

- Para 26(a)**
1. **The accounting policies adopted in measuring inventories including the cost formulae used.**
 2. **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**

Explanation This is one of the most important ICDS. Its application has become a big headache due to the "Inclusive Method" prescribed for taxes. The technical guide in para 6.4 on page no. 45, has prescribed that the assessee should prepare a Memorandum Account in order to demonstrate that following exclusive method instead of inclusive, is tax neutral. The whole circus of following inclusive method seems to be there in order to support disallowance u/s. 43B(a) for unpaid duties and taxes. Usually, government doesn't shy away from inserting deeming fictions. It would have been better if a deeming fiction would have been added to 43B(a) instead of imposing the inclusive method through ICDS-II.

Para 4 of the said ICDS requires all inventories to be measured at Cost or Net Realizable Value, whichever is lower. Thus, in pt. 1 above the assessee is required to disclose the accounting policy adopted in the measurement of inventories.

Para 13-17 deals with Cost Formulae, which requires assessee to follow Specific Identification method (for short "SIM) for the purposes of arriving cost of inventory and where the application of SIM is not possible, the cost may be assigned using the First-in First-out (FIFO) or the weighted average cost formula. It may be noted that cost formula shall assume importance only when inventories are valued at cost and not at net realizable value.

Para 18(1) and 18(2) provides for techniques for measurement of costs. Thus, apart from calculating actual cost as enunciated in para 4-12 of ICDS -2, an assessee could also use the Standard Cost Method or Retail Method, if such methods provide a base which approximates actual costs. The assessee thereby has the flexibility to adopt any of the techniques, of course, subject to fulfillment of the conditions. In case the assessee follows standard costing for measurement, the assessee would be required to disclose and confirm that the standard cost approximates actual cost. No such disclosure requirement is laid down for Retail Method.

- Sample**
1. Inventories are valued at lower of cost or net realizable value. Cost of inventories comprises of all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their current location. Cost is determined by the Weighted Average Cost method. The cost of purchase is *exclusive* and not inclusive of duties and taxes that are subsequently recoverable. The net effect of such deviation from ICDS – II is *NIL* and is duly supported by an inclusive memorandum account attached separately.
 2. Inventories are valued at lower of cost or net realizable value. Cost of WIP and Finished Goods includes the cost of purchases, fixed and variable production overheads and other costs incurred in bringing the inventories to their present location. *Cost is determined using standard cost method that approximates actual cost.*

Para 26(b)	The total carrying amount of inventories and its classification appropriate to a person.	
Explanation	Ideally, the carrying amount of inventories would be the amount at which such inventories are carried in books of accounts and not the amount as determined under ICDS – II. However, there would no use of reiterating what has already been disclosed as per AS – 2. Since the disclosures are to be made in point 13(f) of Form 3CD, it could reasonably be construed that what should be disclosed here is the amount determined as per ICDS – II. However, in a case where the carrying amount under AS – 2 and ICDS – II is equal a reference to the relevant note prepared as per AS – 2 should be sufficient to comply with the disclosure requirement under this para of ICDS.	
Sample	The total carrying amount of inventories computed as per ICDS – II and its classification is as under:	

Classification of Inventories	Carrying Amount as on 31.03.20XX
Raw Materials	xxx
Packing Materials	xxx
Work-in-Progress	xxx
Finished Goods	xxx
Traded Goods	xxx
Stores and Recurring Spares	xxx
Total	xxx

ICDS III : Construction Contracts

- Para 23(a)** The amount of contract revenue recognized as revenue in the period and
- Para 23(b)** The methods used to determine the stage of completion of contracts in progress.

Explanation Both contract revenues, as well as contract costs, are to be recognized by reference to the stage of completion of contract at the reporting date. Thus, the method used for determining the stage of completion becomes important. The para 18 provides for 3 methods of determining the stage of completion which is similar to para 29 of AS-7 issued by ICAI. The contractor could choose any of three methods, however, a suitable disclosure would have to be made about the method opted by the contractor. There could still be a difference between the contract revenue recognized as per ICDS-III and AS-7 on account of terminologies used in both the standards for recognition of contract revenue. Hence, a separate disclosure of contract revenues recognized as per ICDS – III is required to be made in clause 13(f) of Form 3CD. It may be noted that the disclosure requirements have to be fulfilled separately for each construction contracts in terms of Para 5 of ICDS – III.

Sample Revenues from contracts are recognized when there is a reasonable certainty of its ultimate collection on the percentage of completion method *in proportion that the contract costs incurred for work performed up to the reporting date bears to the estimated total contract costs*. The total amount of contract revenue so recognized amounted to Rs xxx

To be continued....

Forthcoming Events of December 2017

Date	Subjects	Speaker	CPE Hours	Venue
1-Jul-17	CA Day Celebration - Flag Hoisting	Hon. Kishorraje Nimbalkar, Collector, Jalgaon City	NA	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	Walkthon for Swachh & Green India	CA Anil Rao		ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	Blood Donation Camp	NA	NA	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	Eye Check-Up Camp	NA	NA	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	Medical Check-Up Camp	NA	NA	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	AGM	NA	NA	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	Live Screening of Interaction with On. Prime Minister Shri. Narendra Modi	Shri. Narendra Modi	2	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
1-Jul-17	Cultural Evening for Members	NA	NA	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon
5-Jul-17	Brain Trust Query Session on Transition and Issues in GAT	RCM CA Umesh Sharma, Aurngabad	2	ICAI Bhavan, 10, Gajanan Colony, Ring Road, Jalgaon

Thank you



Programes of June 2017

