# A quick comparison of ICDS IX and AS 16

The ministry of finance has issued Income Computation and Disclosure Standards for

computation of Taxable income for all corporate and non-corporate assesses who follow

mercantile system of accounting in relation to their income under the heads ‘Profits and gains

from business and profession’ and ‘Income from other sources’. These standards are

applicable from financial year 2015-2016.

Numerous adjustments would be required to be made in the financial statements prepared under existing AS or Ind-AS. ICDS IX is for borrowing costs which is slightly different from the conventional Accounting Standard 16.

Let’s summarize the major points of differences.

**1. Borrowing costs**

Definition of borrowing costs under accounting standard 16 is quite wide but under ICDS IX

Narrow definition has been given. Under AS 16, exchange differences arising from foreign currency

borrowings to the extent that they are regarded as an adjustment to interest costs are included in

borrowing costs but no such inclusion has been provided in ICDS IX.

**2. Qualifying Asset**

Qualifying asset is an asset that takes substantial period of time to get ready for its intended use.

Under AS 16, Asset needs to be a qualifying asset for capitalization of interest costs but under ICDS IX

interest costs may be capitalized even if the asset is not a qualifying asset(Except inventories).

3. Borrowing costs on general borrowings

Under ICDS IX a new formula has been prescribed for the computation of borrowing costs on general

borrowings. General borrowing costs will be allocated in the ratio of the average costs of qualifying

assets on the first and last day of previous year and the average of cost of total assets on the first and

last day of previous year. However, under AS 16 allocation is based on weighted average of borrowing costs.

**4. Commencement of Capitalization**

As per AS 16, the capitalization of borrowing costs as part of the cost of a qualifying asset should

commence when all the following conditions are satisfied:

(a) Expenditure for the acquisition, construction or production of a qualifying asset is being incurred;

(b) Borrowing costs are being incurred; and

(c) Activities that are necessary to prepare the asset for its intended use or sale are in progress.

But ICDS states that capitalization should commence from the date of borrowing in case of specific

borrowings and from the date of utilization of funds in case of general borrowings.

**5. Suspension of Capitalization**

Under AS 16 Capitalization of borrowing costs should be suspended during extended periods in which

active development is interrupted. But there is no such requirement in ICDS IX.

**6. Income from temporary investment of funds**

Under ICDS, income from temporary use of funds will not be deducted from the borrowing costs to be

capitalized. Rather, these will be treated as income. But as per AS 16 In determining the amount of

borrowing costs eligible for capitalization during a period, any income earned on the temporary

investment of those borrowings is deducted from the borrowing costs incurred.

**Conclusion**

Now from the financial year 2015-2016 onwards, Assesses both corporate and non-corporate will have

to adjust their financial statements which are made in compliance with the accounting standards

issued, in line with INCOME COMPUTATION AND DISCLOSURE STANDARDS to compute the taxable

income.

Source courtesy:Taxguru.in