# **ICDS An introduction**

The Central Government has notified the Income Computation and Disclosure Standard wide notification. It is further states that these standards are required to be followed while computing income under the heads “Profit and Gain from Business or Profession” or “Income from other sources”. This notification will come into force with effect from 1st Day of April,2015 and shall accordingly apply to the Assessment Year 2016-17 and subsequent years.

Applicability:

The standards will apply while calculating Income under head Profit and Gains from Business or Profession or Income from Other Sources. These standards need to apply only where assessee is following Mercantile System of Accounting.

From the above we can conclude that:

a. These standards need to apply only when an assessee is following Mercantile System of Accounting.

b. These standards need not to apply where “No books of account kept”

c. These Standards need to apply from Assessment Year 2016-17

and onwards

d. These Standards will to be followed only when Income is to be computed under the Head of “Profit and Gains from Business or Profession” or “Income from Other Sources”

It seems that now whoever is filing return of income of any assessee who is required to keep books of accounts under mercantile system of book keeping, he/she need to apply this standards while

computing Income which is chargeable under Profit and Gains from Business or Profession or Income from Other Sources. It also seems that Income Tax Department will upgrade the return forms and might include the requirement of this standard in future.

List of ICDS:

Following is the list of ICDS which are notified by the Central Government.

|  |  |  |  |
| --- | --- | --- | --- |
| Sr.No | Number | Description | Look like AS issued by ICAI |
| A | 1 | Accounting Policies | AS 1 |
| B | 2 | Valuation of Inventories | AS 2 |
| C | 3 | Construction Contracts | AS 7 |
| D | 4 | Revenue Recognition  | AS 9 |
| E | 5 | Tangible Fixed Assets | AS 10 |
| F | 6 | Effects of Changes in Foreign Exchange Rates | AS 11 |
| G | 7 | Government Grants | AS 12 |
| H | 8 | Securities | AS 13 |
| I | 9 | Borrowing Costs | AS 16 |
| J | 10 | Provisions Contingent Liabilities and Contingent Assets | AS 29 |

While reading the standards, it gives us the impression that this seems to be in line with or Accounting Standards which are issued by Institute of Chartered Accountants of India(ICAI).

In this article I have tried to summarise some important points regarding following two standards:

1. Accounting Policies

2. Valuation of Inventories.

1. Accounting Policies:

Major Points to be considered under this standard:

a. Deals with Disclosure of Significant Accounting Policies.

b. Specifies following three Fundamental Accounting Assumptions”

i. Going Concern

ii. Consistency

iii. Accrual.

c. The standard mentions what is the meaning of Going concern, Consistency and also of accrual.

d. Accounting Policy has also been defined. As per this standard Accounting Policy refers to

Accounting Principles and Methods of applying those principles adopted by a person.

e. This standard also specifies that Accounting policies which are adopted by a person should be such that it should represents “True and Fair View” of “State of Affairs” and also “Income”

f. Accounting policy should not be changed without any reasonable cause.

g. As this is a “Disclosure Standard”, it requires that a person should disclose all significant policies which are adopted in computation of income which ultimately represents “True and Fair “view.

h. A policy if changed during the year if due to such change there is any material effect that should be disclosed

i. If such change has no material effect in current period but if in later period, then also such fact has to be disclosed. Meaning there by if a policy changes does not material effect in current previous year but if the same has effect in future previous year then the fact of such change shall be adopted and to be appropriately disclosed.

j. If fundamental Accounting Assumptions are followed then there is no requirement of its disclosure but if it is not followed, disclosure is required to be made.

2. Valuation of Inventories.

Major Points to be considered under this standard

a. Deals with Valuation of Inventories

b. This standard does not applies to

i. WIP arising under Construction Contracts

ii. WIP dealt with by any other Standards

iii. Share, Debenture and other Financial Instruments which are dealt with by other Standard

c. Inventories to be valued at COST OR NET Realisable VALUE whichever is lower.

d. Cost of Inventories means addition of :

i. Cost of Purchase

ii. Cost of Services

iii. Cost of Conversion AND

iv. Other Costs

e. Each component of cost has been further defined in the standard.

f. Cost of Purchase shall consist of Purchase price including duties and taxes, Freight Inward and other directly attributable expenditure.

g. Cost of services in case of service provider shall consists of Labour and other costs of personnel directly engaged in providing service including Supervisory personnel and attributable Overhdeads

h. The costs of conversion of inventories shall include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods.

i. The standard further states that Fixed Overheads should be allocated on Normal Capacity of Production Facility.

j. Where a production process results in more than one product being produced simultaneously and the costs of conversion of each product are not separately identifiable, the costs shall be allocated between the products on a rational and consistent basis.

j. Only those costs are to be included in cost of Inventories which are necessary in bringing the inventories in to its present location and condition

k. Certain costs are excluded from Cost like

i. Abnormal amounts of wasted material, labour and other production cost

ii. Administrative Overheads that do not contribution to bringing Inventories into its present location and condition

iii. Selling costs

l. Cost of Inventories may be fixed by following formulae:

i. First IN First Out (FIF)

ii. Weighted Average Cost

iii. Specific Identification

m. Retail Method is to be used where it is not possible to use either FIFo or Weighted Average cost method.

n. Also states how the value of opening inventory to be arrived

o. Method of Valuaton can’t be changed without any reasonable cause

p. In case of Dissolution of Firms, Inventories to be measured at NRV only

q. Disclosure is required to be made

Accounting Policy adopted in measuring inventories(include cost formula)

Carrying amount with its classification.

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