

The Institute of Chartered Accountants of India

(Set up by an Act of Parliament)

Chengalpattu District Branch of SIRC of ICAI

(Formerly Known as Kanchipuram District Branch)



**E- Newsletter
October 2023**

Address : Flat No: 402, Fourth Floor No.1A, Periyalwar Street,
Sundaram Colony, East Tambaram, Chennai – 600059.

Phone : 044-22390098 | 8056244300 | 7550009811

Email : chengalpattu@icai.org

Website : www.chengai-icai.org

Chengalpattu District Branch of SIRC of ICAI

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Branch Chairman



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CA. Sundararajan R
RCM, SIRC



CA. Rekha Uma Shiv
RCM, SIRC

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ARTICLES INVITED FROM MEMBERS

Note: Articles are invited from members for publishing in newsletter. The articles shall be either on the specific subject or a general article. Members can mail their article with Name, Membership Number, Mobile Number, Residential Address, Office Address & Photo to our Mail mentioned below

Email id: chengalpattu@icai.org

Note: The views expressed in the articles published are their own views and Chengalpattu District Branch does not endorse or take responsibility for the views expressed in the articles.

From the Chairman's Desk

Esteemed Professional Colleagues, Greetings!



First of all, I wish to congratulate our Career Counselling Member Volunteers for devoting their valuable time for our Super Mega Career Counselling as per ICAI Guidelines held on 8th September 2023.

Our Chengalpattu District Branch conducted Career counselling programs at 11 places covering more than 2500 Students.

The Institute of Chartered Accountants of India [ICAI] Celebrates the 75th year BREAKING the GUINNESS WORLD RECORD tile for the Largest Accounting Lesson, organised by COMMITTEE ON CAREER COUNSELLING, ICAI on 8th September 2023. This Super Mega Career Counselling programs conducted at various places in our country on the same date. Being a part of this Super Mega Program, we feel proud at this moment.

Programs which were carried out in the month of September 2023 are;

- Teachers Day Celebrations on 5th September 2023
- Super Mega Career Counselling programs organised at 11 Places
- CPE Program "Discussion on filing Returns under GST Law" held on 14th September 2023
- MSME Awareness Program in Association with INDIAN BANK & MEPZ manufacturer's Association held on 29th September 2023

Now, I wish to move towards the upcoming programmes for the month of October. The following activities have been planned for the current month.

- CPE Program on TRANSFER PRICING Audit Methods & Documentation
- CPE Program on Annual Returns filing under the Companies Act
- CPE Program – Discussion on Filing of Form10B & Form10BB under Income Tax
- CPE Program on ITC under GST – Saga of Reversal and Reclaim
- Professional Opportunities in MSME

I request the members to take the advantages of Annual membership facility at our branch. For Registration, please click on <https://events.cglportal-icai.org/arc> and also we request all the members to share your suggestions /ideas if any to Chengalpattu@icai.org

**With Best Regards,
CA. Sivagurunathan. T
Chairman
1st October 2023**

Discussion on filing Returns under GST Law

Why there is a need to file returns?

Sec. 39 of the CGST Act, 2017/TN GST Act, 2017.

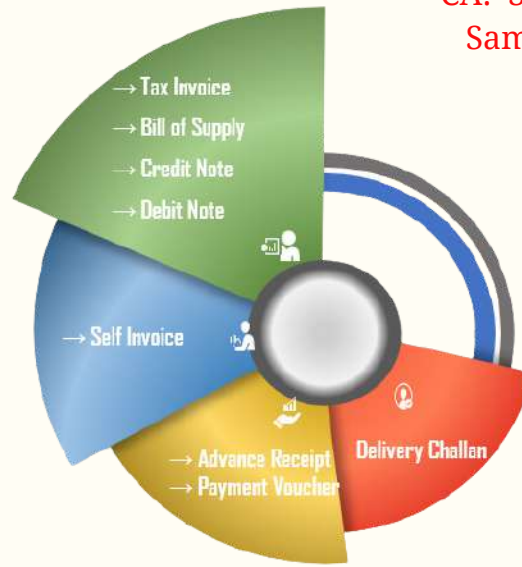


CA. Shaikh Abdul Samad Ahmad

SELF ASSESS'T

Sec. 59 - Self-assessment

Every registered person shall self-assess the taxes payable under this Act and furnish a return for each tax period as specified under section 39.



Sr. No.	Section No.	Nature of Document	Who has to raise	When to Issue
1	31 (1)	Tax Invoice	Registered person supplying taxable goods.	a. Movement of Goods - before or at the time of removal b. Others - delivery of Goods
2	31 (2)	Tax Invoice	Registered person Supplying taxable services.	30 days from the date of supply of Services (Proposed Rules)
3	31 (3) (c)	Bill of Supply	Registered person supplying exempted Goods or Services or both or availed person under composite levy.	a. Supply of exempted Goods or Services or Both b. Paying Tax under section 10 of CGST Act, 2017
4	31 (3) (d)	Receipt Voucher	Registered person on receipt of advances.	On receipt of advance Payment with respect to <u>any</u> supply of Goods or Services or both
5	31 (3) (e)	Refund Voucher	Registered person on repayment of advances.	When no supply is made or no tax invoice is issued against the receipt voucher
6	31 (3) (f)	Self-Generated Invoice	Registered person liable to pay tax under reverse charge	When Goods or Service or both received from the supplier who is not registered under GST
7	31 (3) (g)	Payment Voucher	Registered person liable to pay tax under reverse charge	When PAYMENT IS MADE for the Goods or Service or both received from the supplier who is not registered under GST
8	Rule 10	Delivery Challan	a. Supply of liquid gas b. Supply to Job Worker c. Transportation of Goods other than by way of sales d. supply notified by board	Before or at the time of removal - When the Goods are removed without Taxable Invoice/ Bill of Supply
9	34 (1)	Credit Note	Registered person, who had issued Tax Invoice	a. when the taxable value or tax charged in tax invoice exceeds the taxable value or tax payable. b. when the goods supplied are returned by the recipient. c. Goods or Services or both supplied are found to be deficient.
10	34 (3)	Debit Note	Registered person, who had issued Tax Invoice	d. when the taxable value or tax charged in tax invoice less than the taxable value or tax payable.

Form GSTR 3B

Details of outward supplies and inward supplies liable to reverse charge

3.1 Details of outward supplies and inward supplies liable to reverse charge					
Nature Of Supplies	Total Taxable Value	IGST	CGST	SGST	CESS
Outward taxable supplies					
(a) other than zero rated, nil rated and exempted					
(b) zero-rated					
(c) Nil rated, exempted					
(d) Inward supplies (liable to reverse charge)					
(e) Non-GST outward supplies					
Total of Taxable supplies					

Form GSTR 3B

Eligible ITC

3.1 Details of outward supplies and inward supplies liable to reverse charge					
Nature Of Supplies	Total Taxable Value	IGST	CGST	SGST	CESS
Outward taxable supplies					
(a) other than zero rated, nil rated and exempted					
(b) zero-rated					
(c) Nil rated, exempted					
(d) Inward supplies (liable to reverse charge)					
(e) Non-GST outward supplies					
Total of Taxable supplies					

Form GSTR 3B
Eligible ITC

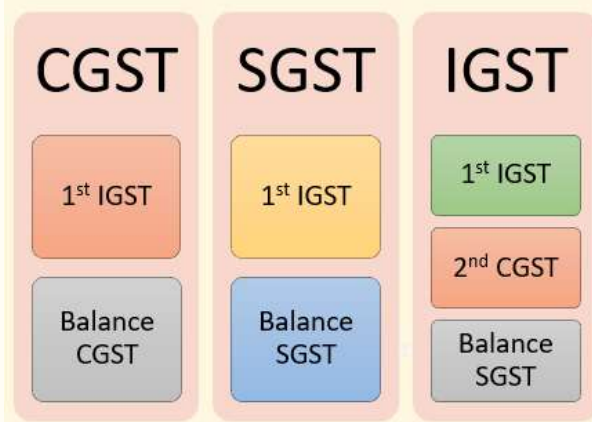
Eligible ITC	IGST	CGST	SGST	CESS
(A) ITC Available (whether in full or part)				
(1) Import of goods				
(2) Import of services				
(3) Inward supplies liable to reverse charge				
(4) Inward supplies from ISD				
(5) All other ITC				
(B) ITC Reversed				
(1) As per rules 42 & 43 of CGST Rules & Section 17(5)				
(2) Others				
Total				
(D) Ineligible ITC				
(1) ITC reclaimed which was reversed under Table 4(B)(2) in earlier tax period				
(2) Ineligible ITC under section 16(4) & ITC restricted due to PoS rules				

Form GSTR 3B
Payment of Taxes

IGST LIABILITY VIS-À-VIS IGST ITC

→ Sec. 49A and Sec. 49B read with rule 88A

→ Circular No. 98/17/2019 balance credit in IGST can be used for paying CGST and SGST/UTGST liabilities in any order.



SENARIO - A
E CREDIT LEDGER: IGST : Rs. 3,000.00
 CGST : Rs. 1,000.00
 SGST : Rs. 1,000.00
LIABILITY LEDGER: IGST : Rs. 1,000.00
 CGST : Rs. 2,000.00
 SGST : Rs. 2,000.00

Description	Tax Payable	Paid through ITC			
		Central Tax	State Tax / UT Tax	Integrated Tax	Cess
1	2	4	5	6	7
Integrated Tax	1,000.00	1,000.00	1,000.00	1,000.00	
Central Tax	2,000.00	1,000.00		1,000.00	
State/UT Tax	2,000.00		1,000.00	1,000.00	
Cess	-				-

Income Computation and Disclosure Standards Practical Issues



SECTION 145(1) - INCOME CHARGEABLE UNDER THE HEADS "PROFITS AND GAINS FROM BUSINESS OR PROFESSION" OR "INCOME FROM OTHER SOURCES" - SUBJECT TO 145(2) - AS PER METHOD OF ACCOUNTING REGULARLY FOLLOWED



SECTION 145(2) - THE CENTRAL GOVERNMENT HAS POWER TO NOTIFY "ICDS"



CBDT VIDE NOTIFICATION DATED MARCH 31, 2015 INTRODUCED 10 ICDS TO BE EFFECTIVE FROM APRIL 1, 2015 AND THUS, THE SAME WAS APPLICABLE FROM AY 2016-17 ONWARDS



ON SEPTEMBER 29, 2016, REVISED ICDS NOTIFIED EFFECTIVE FROM AY 2017-18 AND FORM 3CD WAS AMENDED



CA. Karthik Srinivasan

ICDS	Income Computation and Disclosure Standards	Equivalent AS	Equivalent IND AS
ICDS I	Accounting Policies	AS-1/5	IND AS-1 and 8
ICDS II	Valuation of Inventories	AS-2	IND AS-2
ICDS III	Construction contracts	AS-7	IND AS-11
ICDS IV	Revenue Recognition	AS-9	IND AS-18
ICDS V	Tangible Fixed Assets	AS-10	IND AS-16
ICDS VI	Effects of Changes in Foreign Exchange Rates	AS-11	IND AS-21
ICDS VII	Government Grants	AS-12	IND AS-20
ICDS VIII	Securities	AS-13	IND AS-32
ICDS IX	Borrowing Costs	AS-16	IND AS-23
ICDS X	Provisions, Contingent Liabilities and Contingent Assets	AS-29	IND AS-37



Applicability of ICDS

- ▶ ICDS will apply to:
 - ▶ An assessee
 - ▶ Following mercantile system of accounting
 - ▶ Computing taxable income under the following heads of income:
 - ▶ Profit and gains of business or profession
 - ▶ Income from other sources
- ▶ No Net worth or Turnover Criteria prescribed for applicability
- ▶ However, Individuals and HUFs not subject to tax audit u/s. 44AB exempted
- ▶ ICDS are mandatory in nature
- ▶ Not for the purpose of maintenance of books of account
- ▶ In case of conflict between ICDS and Act, the Act shall prevail (Preamble to every ICDS)

ICDS II Valuation of Inventories



Form 3CD – Clause 13 ICDS

Issues Under Consideration

ICDS II - Valuation of Inventories

- Inventories to be valued at lower of cost or net realizable value
- ICDS II permits FIFO, Standard cost and Weighted Average Cost formula for inventory valuation
- Retail method permitted in specified situations
- Entities must apply chosen valuation method consistently from one accounting period to another accounting period
- Provision created on slow moving Inventory. ICDS X or II?

Case laws discussed

- *A.L.A. Firm v. CIT [1991] 55 Taxman 497 (SC) / 189 ITR 285*

In cases of dissolution of firm, the stock-in-trade will have to be valued at the prevailing market price while preparing the accounts if the business of the firm is discontinued.

- *Sakthi Trading Co. v. CIT [2001] 118 Taxman 301 (SC) / 250 ITR 871*

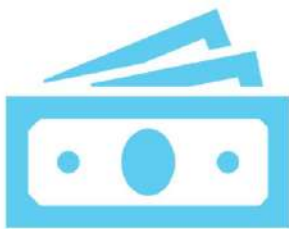
If on dissolution of the firm the business is not discontinued, then, the ordinary principle of commercial accounting permitting valuation of stock-in-trade at Cost or Net Realizable value whichever is lower will apply.

Valuation of Inventories in case of Firm/AOP/BOI Dissolution

- ▶ According to ICDS, in case of dissolution of a partnership firm or association of person or body of individuals, ***notwithstanding whether business is discontinued or not***, the inventory on the date of dissolution shall be valued at the ***net realizable value***.
- ▶ This is unfair particularly as there is no specific provision for allowing such NRV as the cost to the successor of the business.
- ▶ Also this is contrary to law settled by Apex court in the case of *Sakthi Trading Co. v. CIT*



Retention Money



- ❑ Retentions -
 - ❑ “amounts of progress billing which are not paid until satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified”
- ▶ AS/Ind AS -
 - ▶ Silent on treatment of retention money.
 - ▶ It requires separate disclosure of retention money.
 - ▶ Recognition of revenue is based on PCM method, subject to ultimate recovery.

Retention Money



Judicial View -

More than 6 High Courts have held that retention money doesn't accrue during the performance of contract based on the principle of 'accrual'

For instance:

- CIT vs. Simplex Concrete Piles India Pvt. Ltd. (179 ITR 8) (Cal HC);
- CIT vs. East Coast Constructions & Industries Ltd. (283 ITR 297)(Mad HC);
- CIT vs. Associated Cables Pvt. Ltd. (286 ITR 596)(Bom HC);
- CIT vs. P&C Constructions Pvt Ltd (318 ITR 113)(Mad HC)].



Committee Report -

To overcome unintended meaning given by judicial pronouncements.

Retention Money

- ▶ ICDS -
 - ▶ Contract revenue defined to include the initial amount of revenue agreed in the contract, including retentions.
 - ▶ Further, contract revenue is to be recognized by reference to the stage of completion of contract activity.
- ▶ FAQ of CBDT
 - ▶ Retention money, being part of overall contract revenue, shall be recognized as revenue subject to reasonable certainty of its ultimate collection condition contained in para 9 of ICDS - III. (Q 11)

Expected Loss

- ▶ ICDS I -(ICDS III is silent)
 - ▶ Principle of 'prudence' not regarded as one of the principles for selecting accounting policy
 - ▶ Expected loss shall not be recognised unless such recognition is in accordance with any other ICDS
- ▶ ICDS X-
 - ▶ Unlike AS 29, ICDS X does not allow creation of provision for 'onerous contracts'
 - ▶ Whether provision for expense can be allowed or not under ICDS X has to be analyzed on case to case basis



Expected Loss

- ▶ Judicial Pronouncements -
 - ▶ Courts have allowed deduction for expected losses on construction contract considering commercially accepted accounting principles. See:
 - ▶ CIT vs. Triveni Engineering & Industries Ltd. (336 ITR 374) (Delhi HC);
 - ▶ CIT vs. Advance Construction Co. Pvt. Ltd. (275 ITR 30) (Gujarat HC);
 - ▶ Mazagon Dock Ltd. v. Jt. CIT (29 SOT 356)(Mum);
 - ▶ Jacobs Engineering India (P.) Ltd. (14 taxmann.com 186)(MumT);
 - ▶ ITD Cementation India Ltd (36 taxmann.com 74) (MumT).



Implication of non-allowance of expected loss

▶ Example :-

- ▶ Expected loss in the 1st year of a 3 year contract is Rs. 300.
- ▶ Actual Loss on completion of the contract in the third year is Rs. 240.

Year	Book Profit	Profit as per Income Tax
I	(300)	(100)
II	-	(100)
III	60	(40)

- ▶ It can be observed that, without any actual income there would be taxable income u/s. 115JB, for wrong estimation of loss even though no deduction is allowable for same.

Limit for Early Stage of Contract

- ▶ Treatment during early stage of contract-
 - ▶ If during early stage of contract, the outcome of the contract cannot be estimated reliably, both AS and ICDS require that the contract revenue is recognised only to the extent of costs incurred.
- ▶ AS/Ind AS-
 - ▶ The AS do not provide for any criteria on what is the early stage of a contract. Hence, under AS, where the outcome cannot be estimated reliably, no profits may be recorded even if say, 50% of project is already completed.



Limit for Early Stage of Contract

GN on accounting for Real Estate Transactions:

- Rebuttable presumption for completion of early stage:
 - All critical approvals necessary for commencement of the project have been obtained.
 - When the stage of completion of the project reaches a reasonable level of development i.e. 25 % of the construction and development costs
 - At least 25% of the saleable project area is secured by contracts or agreements with buyers.
 - At least 10% of the contract consideration are realised at the reporting date and it is reasonable to expect that the parties to such contracts will comply with the payment terms as defined in the contracts.



Treatment of incidental income under ICDS

- ▶ Judicial Pronouncements -
 - ▶ When the income is inextricably linked to acquisition of asset, the income shall reduce the cost of asset. Such income is capital in nature and cannot be taxed. (CIT v. Bokaro Steel Ltd. 236 ITR 315 (SC))
 - ▶ In following HC decisions, interest income inextricably linked to a project has been held to be capital in nature:
 - ▶ CIT vs. Jaypee DSC Ventures Ltd. (17 taxmann.com) (Del)
 - ▶ Karnal Co-operative Sugar Mills Ltd. vs CIT (233 ITR 531) (P & H)
 - ▶ Phoenix Lamps India Ltd. vs. CIT (50 taxmann.com 320)(All)
 - ▶ Koshika Telecom Ltd. vs. CIT (287 ITR 479) (Del)
 - ▶ Indian Oil Panipat Power Consortium Ltd. v. ITO [2009] 315 ITR 255 (Del.)
 - ▶ NTPC Sail Power Company (P.) Ltd. v. CIT [2012](25 taxmann.com)(Del)
 - ▶ PCIT v. Facor Power Ltd. [2016] 66 taxmann.com 178 (Delhi).

Treatment of Incidental Income under ICDS



AS/Ind AS -

Allows reduction of any incidental income from the contract costs.



Committee Report -

It is judicially settled that pre-construction income is not reduced from cost of construction.



ICDS -

Allows reduction of incidental income other than interest, dividend or capital gains.

Transitional provisions of ICDS III



Contract revenue and contract costs associated with uncompleted construction contract as on March 31, 2016 shall be recognized based on the method regularly followed by the person prior to the previous year beginning on the 1st day of April, 2016.

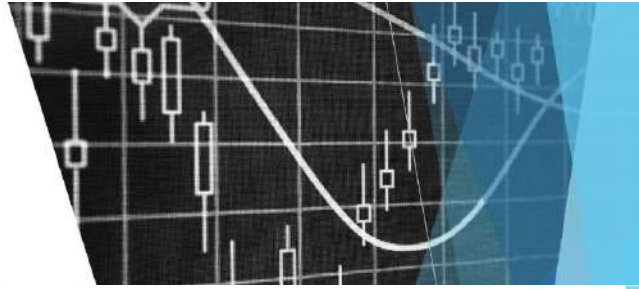


Hence, ICDS would not effect the tax treatment of contracts which are already in progress as on March 31, 2016.



Applicable even to transition provisions of ICDS IV relating to service contracts.

ICDS IV - REVENUE RECOGNITION



Recognition of revenue from Sale of Goods



No change in criteria for recognition of revenue from sale of goods in AS - 9 and ICDS.



The key criteria is that the significant risks and rewards in the goods are transferred.



The recognition criteria under Ind AS 18 is also similar (though more detailed). However, under Ind AS, the revenue is required to be measured at 'fair value'.



E.g. In case of deferred consideration, Ind AS requires the sales consideration to be recognised at the discounted value of the consideration and the difference between the fair value and the nominal value is to be recognised as interest income.

Implication of following CPM method in Books

► Possibility of MAT liability:

- Say, service contract will take 3 years for execution and expected profit is Rs. 300.

Year	Income Tax	Books of Accounts	Tax @ 30%	MAT @ 18.5%
I	100	-	30	0
II	100	-	30	0
III	100	300	30	55.5

► TDS Mismatch:

- ICDS does not require raising of a bill - if the transaction is covered by TDS then complication will increase, as the tax would be deducted in the year in which the bill is raised

Recognition of Interest Income

► AS 9 -

- Interest income may be recognized on time basis. Usually, discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

► Ind AS 18 -

- Interest shall be recognised using the effective interest method as set out in Ind AS 109.

► ICDS -

- Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable, except in case of Interest on refund of any tax, duty or cess, which will be taxed on receipt basis.



Applicability to presumptive taxation

▶ Possible View:

- ▶ Section 145 applies only to assessee following a system of accounting. U/s. 44AA, assessee opting for presumptive taxation is not required to maintain books
- ▶ ICDS are applicable for computation of 'income' not 'gross turnover/receipts' referred in section 44AD, etc..
- ▶ The presumptive provisions being non-obstante provisions, would override section 145, including the ICDS.
- ▶ ICDS is applicable to specified persons having income chargeable under the head BI or IOS. Therefore, the relevant provisions of ICDS shall also apply to the persons computing income under the relevant presumptive taxation scheme. For example, for computing presumptive income for a partnership firm under section 44AD of the Act, the provisions of ICDS on Construction Contract or Revenue recognition shall apply for determining the receipts or turnover, as the case may be. (Q 3)



Applicability to presumptive taxation

▶ Possible view (cont.)

- ▶ ICDS itself provides in case of conflict, provisions of Act would override.
- ▶ Preamble to revised ICDS provides for specific exclusion to individuals/HUFs not liable for tax audit u/s. 44AB. Assessee opting for presumptive taxation are neither required to maintain books nor get it audited. Hence, ICDS clearly not applicable for individuals and HUFs opting for presumptive taxation.
- ▶ In case of other assessee too, if they determine the gross receipt on cash basis and not mercantile basis, ICDS would not apply since it applies to assessee following mercantile system of accounting.



FAQ of CBDT-

The provisions of ICDS shall apply for computation of income which are liable to tax on gross basis like interest, royalty and fees for technical services for non-residents u/s. 115A of the Act for arriving at the amount chargeable to tax. (Q 14)



Section 115A provides for rate of taxation for non-resident assessee. TDS is deducted on this income under the Act at the time of credit or payment, whichever is earlier.



Generally therefore, the point of taxation of these types of income is at the time the income is credited or paid by the Indian resident.

Applicability of Income under Section 115A-Gross basis

Applicability to income taxable on gross basis/EIR adjustments/Export incentive

- ▶ In case of a service provider receiving income as FTS, who raises the invoice on completion of the contract (on which TDS is deducted), due to foregoing clarification would now be required to offer income on PCM basis. This is unintended consequence, which would also create practical difficulty.
- ▶ Ind AS - EIR adjustments, notional interest income - not considered
- Revenue from escalation & export incentives claim - Section 145B from Finance Act 2018 - claim for escalation of price in a contract or export incentives shall be deemed to be the income of the previous year in which reasonable certainty of its realization is achieved.

Applicability of ICDS to Real Estate Developers/Leases

- ▶ Committee Report -
"the Committee recommends that TAS covering the following areas may also be considered for notification under the Act:
 . . .
 (iii) Revenue recognition by real estate developers"
- ▶ FAQ Issued by CBDT:
"At present there is no specific ICDS notified for real estate developers, BOT projects and leases. Therefore, relevant provisions of the Act and ICDS shall apply to these transactions as may be applicable."(Q 12)



ICDS V TANGIBLE FIXED ASSETS

CA Subodh V. Shah

31

ICDS V: Tangible Fixed Assets



Stand-by equipment and servicing equipment are to be capitalised.



Machinery spares shall be charged to the revenue as and when consumed.



When such spares can be used only in connection with an item of tangible fixed asset and their use is expected to be irregular, they shall be capitalised.



AS-10 allows us to allocate such total cost on a systematic basis over a period not exceeding useful life of the asset

ICDS V: COMPONENTS OF ACTUAL COST



Thus expenses after the project is ready to commence commercial production but before it actually commences commercial production will also have to be capitalised.



In AS 10 we have to write off such expenditure as revenue

ICDS V: NON MONETARY CONSIDERATION/REVALUATION



The fair value of a tangible fixed asset acquired in exchange for shares or other securities or another asset shall be its actual cost.



In AS-10 the fair value of the asset acquired or the asset given up whichever is more evident is to be taken

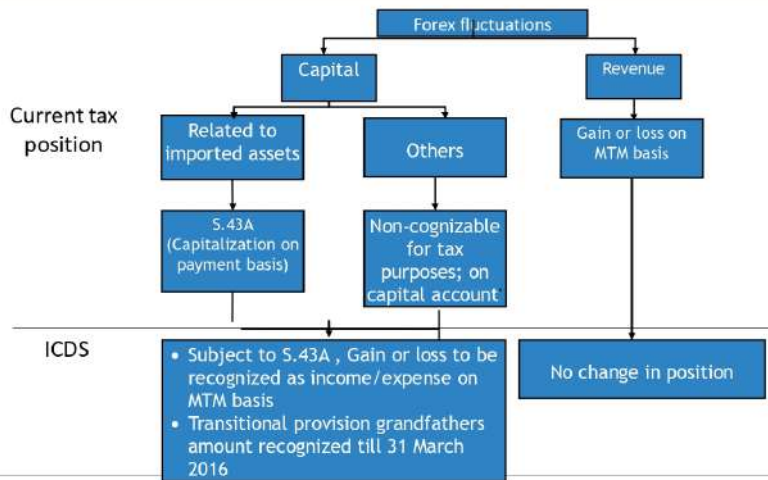


Revaluation is not permitted by the ICDS.

ICDS VI - Foreign exchange fluctuations

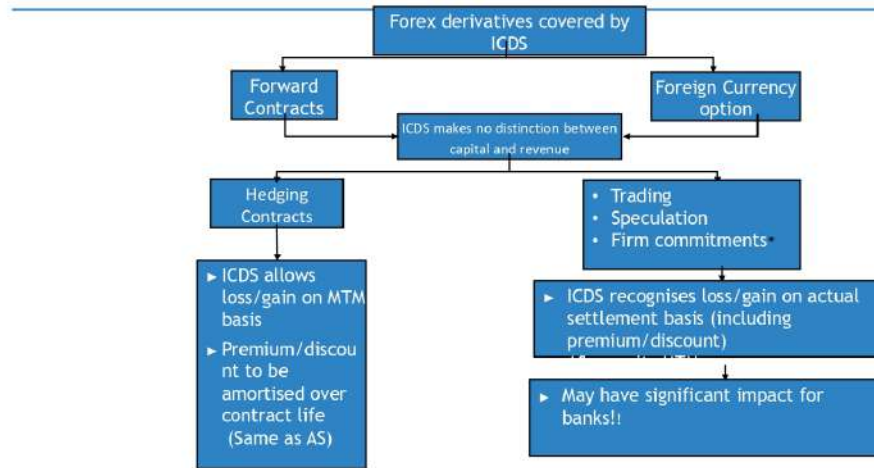


Foreign exchange fluctuations



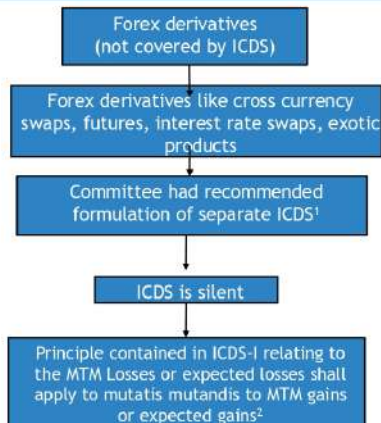
Slide 36 *ICDS treatment is in conflict with SC decisions, however for the tax year 2016-17 and onwards provisions of ICDS shall be applicable even if inconsistent with judicial precedents

Foreign exchange fluctuations



Slide 37 *ICAI AS-11 excludes these contracts. ICDS explains firm commitment to mean assets/liabilities which exists by end of previous year

Forex derivatives : Overview from ICDS perspective



¹ ICAI recommends recognition of MTM loss and ignoring of MTM gain

² CBDT circular no 10/2017 dated 23 March 2017

Case Study

ABC Limited has bought L&T futures on 25 March 2016 (which is to be settled in June 2016).

On 31 March 2016, it recorded the unrealised gain of Rs 50,000 in its books. Which of the following statement is true.

- ▶ A: ABC Limited is required to offer to tax Rs 50,000 while computing income for the year ended 31 March 2016.
- ▶ B: ABC Limited is not required to offer to tax Rs 50,000 while computing income for the year ended 31 March 2016.
- ▶ C: Had it been an unrealised loss of Rs 50,000, ABC Limited could have claimed a deduction for the same, following the concept of prudence.
- ▶ D: None of the above

Case Study

Mr S has bought futures of A Limited for hedging its risk on equity portfolio. Which of the following statement is true:

- A: Unrealised loss on futures contract can be claimed as a tax deduction as the contract is for hedging purpose.
- B: Unrealised loss on futures contract cannot be claimed as a tax deduction.
- C: Unrealised loss on futures contract could have been claimed if the contract was entered for trading purposes.
- D: None of the above

ICDS VII - Government Grants

Government grants-Depreciable assets

As per ICDS

- ▶ Shall be deducted from the cost of assets/ WDV of the block of assets (No option to recognize as deferred revenue)

As per AS/IND AS

Either deducted from gross value of the asset or treated as deferred income and recognised in P&L on a systematic basis over the useful life of assets



Judicial Precedents Overruled

- ▶ Sahney steel & press works Ltd/ Ponni Sugars & Chemicals Ltd
Subsidy granted for setting up new unit/expansion of existing business is a capital receipt.
- ▶ Chaphalkar Brothers (351 ITR 309) (Bom)
Subsidy for construction of multiplex theatre complexes - Capital receipt
- ▶ Reliance Industries Ltd. (339 ITR 632) (Bom)
Subsidy to setup a new unit in a backward area - Capital receipt.
- ▶ Kisan Sahkari Chini Mills Ltd. (2 taxmann.com 274) (Allahabad)
Incentive by way of additional quota for free sale of sugar for setting up a new sugar factory/expansion - Capital receipt
- ▶ India Telephone (215 Taxman 82) (Karnataka)
Grant given for research in the field of telecommunications, which in turn would benefit the Nation and public at large, has been held as capital receipt.



ICDS – Securities - Part A

Deals with securities held as stock-in-trade

- Currently, ICAI AS-13 principles on “current investments” apply to securities held as stock-in-trade


‘Securities’ defined to have meaning assigned in S.2(h) of SCRA except derivatives referred in S.2(h)(1a) and shall include share of a company in which public are not substantially interested


ICDS does not apply to securities held by


- Insurance Companies; Mutual Funds; Venture Capital Funds; Banks; Public Financial Institutions
- FIIs/FPIs, since securities are deemed to be capital assets in their hands u/s 2(14) of Income Tax Act

Coverage of ICDS will illustratively affect


Bucket Approach/ Preacquisition interest

 In contrast with ICAI AS, ICDS mandates ‘bucket’ approach for valuation of security at lower of cost or NRV

 The cost of such security shall be determined on the basis of FIFO method or weighted average formula

 Securities to be classified into following buckets

 Shares; Debt Securities; Convertible Securities; Any Other Securities

 Unlisted securities and thinly traded securities to be valued at cost only regardless of NRV

ICDS recognizes prevalent practice and provides for reduction of pre-acquisition interest from cost of security

Bucket approach for lower of cost or NRV

Illustrative impact

Sr.	Cost	Movement of share price	Year end NRV	Year end conventional valuation
1.	100	(-80)	20	20
2.	100	(-80)	20	20
3.	100	(-80)	20	20
4.	100	(-80)	20	20
Subtotal (A)	400	320	80	80
5. (B)	100	+300	400	100
Total (A+B)	500	(-20)	480	180

Impact analysis

- ▶ Bucket approach virtually results in accelerated taxation with reference to the security (at item (5) above) which appreciates in value
- ▶ May also create mismatch with MAT

Stock value on Bucket valuation

Itemised valuation

ICDS - Securities Part B



Inserted by the CBDT through its Notification no. 86/2016 rescinded the ICDS issued vide notification no 32/2015 on 29 September 2016



Part -B deals with the "Securities held by scheduled bank or public financial institutions"



Securities shall be classified, recognized and measured in accordance with the existing guidelines issued by the Reserve Bank of India in this regard and any claim for deduction in excess of the guidelines shall not be taken into account



To this extent, the provisions of ICDS VI (Effect of changes in foreign exchange rates) relating to forward exchange contracts shall not apply



Clause 3 of ICDS VIII - Part B clearly indicates that banks and PFIs would not be governed by ICDS VI in relation to effect of changes in forward exchange rates on forward contracts and option contracts (and would be allowed to undertake valuation as per RBI guidelines).

Case Study

Mr A has bought convertible debentures of B Limited for trading purposes. Under which of the following bucket, such shares are to be valued under ICDS VIII:

- A: Shares
- B: Debt securities
- C: Any other securities
- D: None of the above





Case Study

Revenant Limited has bought equity shares of L&T Limited in the month of March 2016 at a price of Rs 1,500 with the intention to sell in the year 2018. On 31 March 2016, the listed price of the said shares is Rs 1,600. Which of the following statement is true.

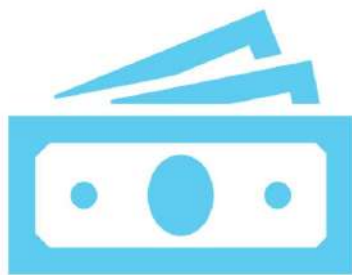
- A: Revenant Limited has to offer the unrealised gain of 100 to tax during the year ended 31 March 2016.
- B: Revenant Limited is not required to offer the unrealised gain of 100 to tax during the year ended 31 March 2016.
- C: For tax purposes, Revenant Limited can offer the unrealised gain of Rs 100 over a period of 3 years in equal installments.
- D: None of the above

Case Study



XYZ has bought equity shares of ABC Limited at a price of Rs 100 per share on 25 March 2016 with the intention of selling them in the month of June 2016.

- On 31 March 2016, the net realizable value was Rs 80. Which of the following statement is true.
- A: XYZ can claim the unrealised loss of Rs 20 for tax purposes.
- B: XYZ cannot claim the unrealised loss of Rs 20 for tax purposes
- C: None of the above



ICDS IX : BORROWING COST

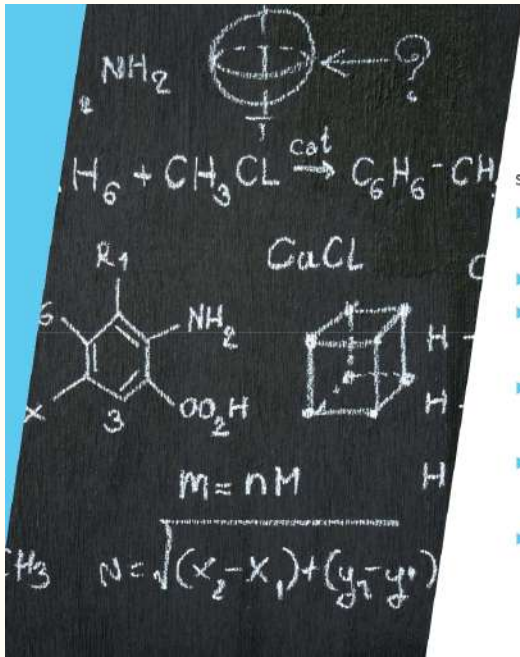
ICDS IX: RECOGNITION

Borrowing costs that are **directly attributable** to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.

Other borrowing costs shall be recognised in accordance with the provisions of the Act.

To the extent the funds are borrowed generally and **utilised for the purposes of acquisition,**

construction or production of a qualifying asset, the amount of borrowing costs to be capitalised



ICDS IX: RECOGNITION General borrowing

shall be computed with the following formula:

- ▶ $\frac{A \times B}{C}$
- ▶ Where
- ▶ A = borrowing costs incurred during the previous year except on borrowings directly **relatable to specific purposes**;
- ▶ B = (i) the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year;
- ▶ (ii) in case the qualifying asset does not appear in the balance sheet of a person on the first day, half of the cost of qualifying asset; or
- ▶ C = the average of the amount of total assets as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than assets to the extent they are directly funded out of specific borrowings

ICDS IX: RECOGNITION General borrowings



For the purpose of this paragraph, a qualifying asset shall be such asset that necessarily require a period of twelve months or more for its acquisition, construction or production



The revised formula for general borrowing seeks for capitalisation of interest cost, irrespective whether such borrowing has been utilized for acquisition of asset.



For the purpose of computing the borrowing cost eligible for capitalisation in relation to general borrowing, only the amount of qualifying asset, to the extent, it is funded out of specific borrowing is to be reduced,.

ICDS IX: Borrowing Costs

Commencement of capitalisation from the date of borrowing irrespective of commencement of construction

- ▶ Borrowing cost may have to be capitalised from the date of borrowing irrespective of its use for acquisition, etc. of QA.
- ▶ Common issue before Courts to determine the difference between setting up of business and commencement of business and consequential determination of deductibility of expense as revenue expenditure under the Act
- ▶ Sec 43(1) - Interest paid shall be added in the actual cost of the asset till the asset is first put to use for claiming depreciation.

Suspension of capitalization of borrowing costs

- ▶ AS 16 permits suspension of capitalization of borrowing costs during extended periods in which active development is interrupted. ICDS IX does not permit suspension of capitalization of borrowing costs in such cases.
- ▶ In connection with the borrowing costs eligible for capitalisation, it has now been provided that such cost shall only be capitalised till the date when the asset is first put to use and in case of inventory, when substantially all the activities necessary to prepare such inventory for its intended sale are complete
- ▶ This deviation between AS 16 and ICDS IX would result in inflation in the cost of the QA.

Treatment of income earned from temporary investment of borrowed funds

- ▶ AS 16 permits such income to be reduced from the borrowing costs incurred
- ▶ ICDS will treat this as income.

ICDS IX: Borrowing Costs Circular 10/2017



Question 20: There are specific provisions in the Act read with Rules under which a portion of borrowing cost may get disallowed under sections like 14A, 43B, 40(a)(i), 40(a)(ia), 40A(2)(b), etc. of the Act. Whether borrowing costs to be capitalized under ICDS-IX should exclude portion of borrowing costs which gets disallowed under such specific provisions



Since specific provisions of the Act override the provisions of ICDS, it is clarified that borrowing costs to be considered for capitalization under ICDS IX shall exclude those borrowing costs which are disallowed under specific provisions of the Act. Capitalization of borrowing cost shall apply for that portion of the borrowing cost which is otherwise allowable as deduction under the Act.

ICDS IX: Borrowing Costs Circular 10/2017



Whether bill discounting charges and other similar charges would fall under the definition of borrowing cost?



Answer: The definition of borrowing cost is an inclusive definition. Bill discounting charges and other similar charges are covered as borrowing cost



How to allocate borrowing costs relating to general borrowing as computed in accordance with formula provided under Para 6 of ICDS-IX to different qualifying assets?



Answer: The capitalization of general borrowing cost under ICDS-IX shall be done on asset by-asset basis.



ICDS X -
PROVISIONS,
CONTINGENT
LIABILITIES AND
CONTINGENT ASSETS

ICDS X - Major Changes

S.No	AS 29 - Provisions, Contingent Liabilities and Contingent Assets	ICDS X- Provisions, Contingent Liabilities and Contingent Assets
1	<u>Recognition of provision</u> A provision should be recognised when it is <u>probable</u> that an outflow of resources embodying economic benefits will be required to settle the obligation;	A provision should be recognised when it is <u>reasonably certain</u> that an outflow of resources embodying economic benefits will be required to settle the obligation
2	<u>Recognition of contingent asset</u> Contingent Asset is recognised when inflow of resources is ' <u>virtually certain</u> '	Contingent Asset is recognised when it is ' <u>reasonably certain</u> ' that inflow of economic benefit will arise.
3	<u>Reversal of provision</u> Provision to be reversed when it is no longer <u>probable</u> that outflow of resources would be required.	Provision to be reversed if it is no longer <u>reasonably certain</u> that an outflow of resources embodying economic benefits will be required to settle the obligation

ICDS X - Major Changes

S.No	Accounting Standard 29 - Provisions, Contingent Liabilities and Contingent Assets	ICDS X- Provisions, Contingent Liabilities and Contingent Assets
4	<u>Reimbursement</u> Reimbursement to be recognized when it is virtually certain that reimbursement would be received	<u>Reimbursement</u> Substitutes the words ' <u>virtually certain</u> ' with the words ' <u>reasonably certain</u> '
5	<u>Enactment of Law</u> When a new law is to be enacted, an obligation in that regard arises only when it is <u>virtually certain</u> that the law would be enacted	<u>Enactment of Law</u> Obligation arises on enactment of the legislation

Impact on Provision on Warranty



Accounting Standard -

Provision of warranty can be recognised.



Committee Report -

To remove differential treatment between recognition of income and expense.



Judicial Pronouncement -

Supreme Court has upheld the allowance of provision for warranty in case of Rotork Controls v CIT 314 ITR 62 (SC)

Impact on Provision on Warranty



ICDS -

requires recognition of provision when it is reasonably certain that an outflow of resources embodying economic benefits would be required to settle the obligation.



The view taken by Supreme Court still holds good.

Provision for costs that need to be incurred to operate in future not to be recognized

- - Warranty expense - debatable [Rotork Controls]
- Warranty Provision-Disallowance under 21(g) or under ICDS X ?
- Adhoc provisions disallowance? Processing u/s 43B vs through ICDS X or both?

Impact on current treatment of Contingent Asset



Accounting Standard -

Requires recognition when there is virtual certainty of inflow of economic benefits.



Committee Report -

To remove differential treatment between recognition of income and expense.



Judicial Pronouncements -

Basic concept of accrual & real income theory applicable for taxation of income

Impact on current treatment of Contingent Asset

ICDS -

- Requires recognition of contingent asset if it becomes '**reasonably certain**' that inflow of economic benefit will arise.

possible view -

- ICDS being a computational provision cannot override the concept of accrual u/s 5, as explained by the courts.

Clarifications issued by CBDT

Impact of transitional provisions of ICDS X:

Para 20 requires that the provision/assets for FY 2016-17 shall be recognised after taking into account the amount, if any recognised in earlier years in respect of the same item;
It is clarified that the intent behind the said para is to avoid any 'double taxation' or 'double deduction' of same income/expense, due to applicability of ICDS.

Post-retirement expenditure dealt with in AS-15 not covered by ICDS X:

There is no specific exclusion for employee benefits such as provident fund, gratuity, etc.. in ICDS X;
Hence, there was an ambiguity whether ICDS X can apply to such benefits and whether provision for such liabilities (without discounting for present value) will be allowable under ICDS X.
It is clarified that ICDS X would not apply to such benefits.

Consequence of non-compliance with ICDS



Section 145(3)-

AO has the power to make best judgement assessment u/s. 144 if he is not satisfied about the :-

- correctness or completeness of the accounts of the assessee ; or
- method of accounting is not regularly followed ;or
- Income not computed as per ICDS.



Hence, on not complying with ICDS, the AO can ignore the books of the assessee and do a best judgement assessment.



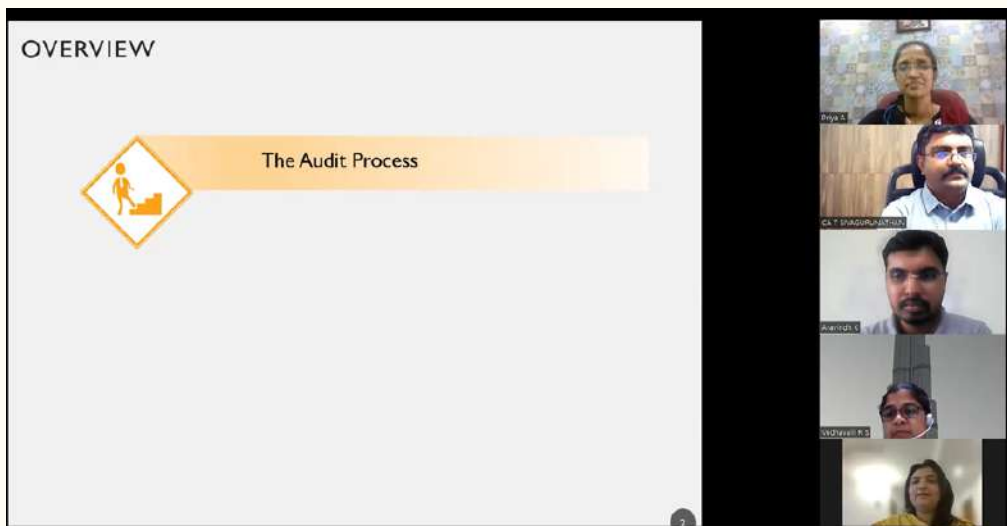
Therefore, in case of any deviation from the ICDS, there should be a proper disclosure giving the reasoning for such deviation in the computation.

Gallery for the Month of *September 2023*

Topic : “Comprehensive Overview of Statutory Audit 2023”

Speaker : CA Sripriya Kumar

Date : 13th September 2023, Wednesday.



Topic : "Discussion on filing Returns under GST Law"
Date : 14th September 2023, Thursday



Teachers Day



MSME Awareness Program @ MEPZ Manufacturer's Association



CAFY & Mega Career Counselling Programme

CAFY & Mega Career Counselling Programme on 8th Sep'23
Sivananda Gurukulam (Sivananda Saraswathi Sevashram), Kattankulathur
Career Counselling by CA. M.Ravikumar



CAFY & Mega Career Counselling Programme on 8th Sep'23
Sri. S. Badalchand Sugankavur Chordia Vivekananda Vidyalaya Hr. Sec.School, Mudichur
Career Counselling by CA. Pavithra & CA. Santhosh



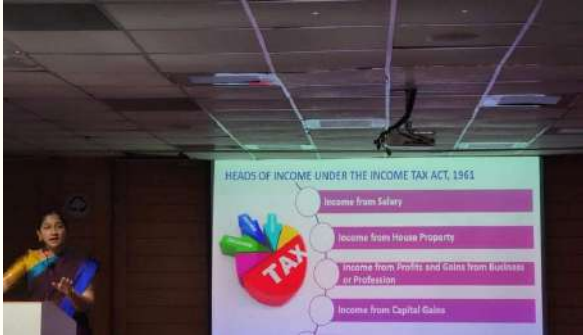
CAFY & Mega Career Counselling Programme on 8th Sep'23
S.I.V.E.T. College, Gowriwakkam
Career Conselling By CA. Petchi Kannan & CA. Subramanian Subash



CAFY & Mega Career Counselling Programme on 8th Sep'23
SRM Institute of Science and Technology, Ramapuram Campus
Career Counselling by CA. Ramesh R & CA. Arumugaraj P



CAFY & Mega Career Counselling Programme on 8th Sep'23
SRM Institute of Science & Technology, Vadapalani
Career Counselling by CA. Sandhya



CAFY & Mega Career Counselling Programme on 8th Sep'23
S.I.V.E.T. College, Gowriwakkam
Career Counselling by CA. Saraswathy & CA. Sivagurunathan . T



CAFY & Mega Career Counselling Programme on 13th September 2023 SDNB VAISHNAV COLLEGE FOR WOMEN, Chrompet. by CA. Priya A



CAFY & Mega Career Counselling Programme on 8th Sep'23 Bharath Institute Of Higher Education And Research, Faculty Of Arts And Science by CA. Ravichandran & CA. Thangeswari D



CAFY & Mega Career Counselling Programme on 8th Sep'23
Government Boys Higher Secondary School, irumbuli\ Nkothimangalam,
Thirukalukundram by CA Marudhavan S



CAFY & Mega Career Counselling Programme on 8th Sep'23
Government Girls Higher Secondary School, No.9, Oragadam Road, Thirukalukundram
by CA Marudhavan S



CAFY & Mega Career Counselling Programme on 8th Sep'23

Swami Vivekananda Matriculation Higher Secondary School, Sevilimedu, Kanchipuram
by CA. Vaidyanathan S/ CA. Bhuvaneshwari R V



CAFY & Mega Career Counselling Programme on 8th Sep'23

Zion Matriculation. Hr. Sec. School, IAF Rd, Ranganatha Nagar, Natraj Nagar, Indira Nagar, Selaiyur, Chennai by CA. Bharathi P S & CA. Bhuvani



Upcoming Programs



The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)



Chengalpattu District Branch of SIRC of ICAI

Cordially invites you to us

Physical CPE Meetings of October 2023 @ Branch Premises

Topics : Transfer Pricing Audit - Methods & Documentation

Speaker : CA Muthu Palaniappan.C

Date : 07th October 2023, Saturday

Topics : Annual Return Filing under the Companies Act

Speaker : CS. Jaihari S

Date : 10th October 2023, Tuesday

Topics : Discussion on Filing of Form 10B & Form 10BB under Income Tax

Speaker : CA. Rajasekaran P

Date : 17th October 2023, Tuesday

Topics : ITC under GST - Saga of Reversal and Reclaim

Speaker : CA Manimaran Kathiresan

Date : 21th October 2023, Tuesday

Registration Link: <https://events.cglportal-icai.org/member>

Fees - 236/- (Nil for ARC Members of Chengalpattu District Branch)

CPE - 2 Hrs | Time - 06:00 to 08:00 PM

Welcome!

CA. Sivagurunathan T

Chairman

CA. Shivachandra Reddy K

Secretary

Flat No.402, Fourth Floor, No.1A, Periyalwar Street, Sundaram Colony,

East Tambaram, Chennai- 600059 Ph :044-22390098 | 8056244300

Mail id: Chengalpattu@icai.org | www.chengai-icai-org