

**DRAFT**

**INCOME COMPUTATION AND  
DISCLOSURE STANDARDS [ICDS]**



सत्यमेव जयते

**Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes  
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# **Income Computation and Disclosure Standard [ICDS]**

## **Accounting Policies**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with significant accounting policies.

### **Fundamental Accounting Assumptions**

2. The following are fundamental accounting assumptions:—

#### **(a) Going Concern**

“Going concern” refers to the assumption that the person has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the business, profession or vocation and intends to continue his business, profession or vocation for the foreseeable future.

**(b) Consistency**

“Consistency” refers to the assumption that accounting policies are consistent from one period to another;

**(c) Accrual**

“Accrual” refers to the assumption that revenues and costs are accrued, that is, recognised as they are earned or incurred (and not as money is received or paid) and recorded in the previous year to which they relate.

## **Accounting Policies**

3. The accounting policies refer to the specific accounting principles and the methods of applying those principles adopted by a person.

## **Considerations in the Selection and Change of Accounting Policies**

4. Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation. For this purpose,

(i) the treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form; and

(ii) marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

5. An accounting policy shall not be changed without reasonable cause.

## **Disclosure of Accounting Policies**

6. All significant accounting policies adopted by a person shall be disclosed.
7. Any change in an accounting policy which has a material effect shall be disclosed. The amount by which any item is affected by such change shall also be disclosed to the extent ascertainable. Where such amount is not ascertainable, wholly or in part, the fact shall be indicated. 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.
8. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.
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.

## **Transitional Provisions**

10. All contract or transaction existing on the 1<sup>st</sup> day of April, 2015 or entered into on or after the 1<sup>st</sup> day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income, expense or loss, if any, recognised in respect of the said contract or transaction for the previous year ending on or before the 31<sup>st</sup> March, 2015.

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# **Income Computation and Disclosure [ICDS]**

## **Valuation of Inventories**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of Business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of Income Tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard shall be applied for valuation of inventories, except :

- (a) Work-in-progress arising under ‘construction contract’ including directly related service contract which is dealt with by the Income Computation and Disclosure Standard on construction contracts;
- (b) Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;
- (c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;

- (d) Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realizable value;
- (e) Machinery spares, which can be used only in connection with a tangible fixed asset and their use is expected to be irregular, shall be dealt with in accordance with the Income Computation and Disclosure Standard on tangible fixed assets.

## **Definitions**

2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“Inventories”** are assets:
  - (i) held for sale in the ordinary course of business;
  - (ii) in the process of production for such sale;
  - (iii) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
- (b) **“Net realizable value”** is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Income Tax Act shall have the meanings assigned to them in that Act.

## **Measurement**

3. Inventories shall be valued at cost, or net realizable value, whichever is lower.

## **Cost of Inventories**

4. Cost of inventories shall comprise of all costs of purchase, costs of services, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

## **Costs of Purchase**

5. The costs of purchase shall consist of purchase price including duties and taxes, freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates and other similar items shall be deducted in determining the costs of purchase.

## **Costs of Services**

6. The costs of services in the case of a service provider shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel and attributable overheads.

## **Costs of Conversion**

7. 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. Fixed production overheads shall be those indirect costs of production that remain relatively constant regardless of the volume of production. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.

8. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion shall be based on the normal capacity of the production facilities. Normal capacity shall be the production expected to be achieved on an average over a number of periods or seasons under normal circumstances, taking into account the loss of capacity resulting from planned maintenance. The actual level of production shall be used when it approximates to normal capacity. The amount of fixed production overheads allocated to each unit of production shall not be increased as a consequence of low production or idle plant. Unallocated overheads shall be recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed production overheads allocated to each unit of production is decreased so that inventories are not measured above the cost. Variable production overheads shall be assigned to each unit of production on the basis of the actual use of the production facilities.

9. 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. Where by-products, scrap or waste material are immaterial, they shall be measured at net realizable value and this value shall be deducted from the cost of the main product.

### **Other Costs**

10. Other costs shall be included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

11. Interest and other borrowing costs shall not be included in the costs of inventories, unless they meet the criteria for recognition of interest as a component of the cost as specified in the Income Computation and Disclosure Standard on borrowing costs.



## **Exclusions from the Cost of Inventories**

12. In determining the cost of inventories in accordance with paragraphs 4 to paragraphs 11, the following costs shall be excluded and recognized as expenses of the period in which they are incurred.

- (a) Abnormal amounts of wasted materials, labour, or other production costs:
- (b) Storage costs, unless those costs are necessary in the production process prior to a further production stage:
- (c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition ;
- (d) Selling costs.

## **Cost Formulae**

13. The Cost of inventories of items

- (i) that are not ordinarily interchangeable; and
  - (ii) goods or services produced and segregated for specific projects,
- shall be assigned by specific identification of their individual costs.

14. 'Specific identification of cost' means specific costs are attributed to identified items of inventory.

15. Where there are a large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.

## **First –in First-out and Weighted Average Cost Formula**

16. Cost of inventories, other than the inventory dealt with in paragraph 13, shall be assigned by using the First-in First-out (FIFO), or weighted average cost formula. The

formula used shall reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

17. The FIFO formula assumes that the items of inventory which were purchased or produced first are consumed or sold first, and consequently the items remaining in inventory at the end of the period are those most recently purchased or produced. Under the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items at the beginning of a period and the cost of similar items purchased or produced during the period. The average shall be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances.

### **Retail Method**

18. Where it is impracticable to use the costing methods referred to in paragraph 16, the retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins. The cost of the inventory is determined by reducing from the sales value of the inventory, the appropriate percentage gross margin. The percentage used takes into consideration inventory, which has been marked down to below its original selling price.

### **Net Realisable Value**

19. Inventories shall be written down to net realisable value on an item-by-item basis. Where 'items of inventory' relating to the same product line having similar purposes or end uses and are produced and marketed in the same geographical area and cannot be practicably evaluated separately from other items in that product line, such inventories shall be grouped together and written down to net realizable value on an aggregate basis.

20. Net realizable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realizable value shall also take into consideration the purpose for which the inventory is held. The estimates shall take into consideration

fluctuations of price or cost directly relating to events occurring after the end of previous year to the extent that such events confirm the conditions existing on the last day of the previous year.

21. Materials and other supplies held for use in the production of inventories shall not be written down below the cost, where the finished products in which they shall be incorporated are expected to be sold at or above the cost. Where there has been a decline in the price of materials and it is estimated that the cost of finished products will exceed the net realizable value, the value of materials shall be written down to net realizable value which shall be the replacement cost of such materials.

### **Value of Opening Inventory**

22. The value of the inventory as on the beginning of the previous year shall be

- (i) the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and
- (ii) the value of the inventory as on the close of the immediately preceding previous year, in any other case.

### **Change of Method of Valuation of Inventory**

23. The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.

### **Dissolution of Partnership Firm**

24. 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.

## **Transitional Provisions**

25. Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1<sup>st</sup> day of April, 2015, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginning on or after 1<sup>st</sup> day of April, 2015 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1<sup>st</sup> day of April, 2015.

## **Disclosure**

26. The following aspects shall be disclosed

- (a) the accounting policies adopted in measuring inventories including the cost of formulae used.
- (b) The total carrying amount of inventories and its classification appropriate to a person.

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# **Income Computation and Disclosure Standard [ICDS]**

## **Construction Contracts**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961(“the Act”) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard should be applied in determination of income for a construction contract of a contractor.

### **Definitions**

- 2 (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
  - (a) A “**construction contract**” is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use and includes :

- (i) contract for the rendering of services which are directly related to the construction of the asset, for example, those for the services of project managers and architects;
    - (ii) contract for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.
  - (b) A “**fixed price contract**” is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which may be subject to cost escalation clauses.
  - (c) A “**cost plus contract**” is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs, plus a mark up on these costs or a fixed fee.
  - (d) “**Retentions**” are amounts of progress billings which are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified.
  - (e) “**Progress billings**” are amounts billed for work performed on a contract whether or not they have been paid by the customer.
  - (f) “**Advances**” are amounts received by the contractor before the related work is performed.
- 2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.
3. A construction contract may be negotiated for the construction of a single asset. A construction contract may also deal with the construction of a number of assets

which are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

4. Construction contracts are formulated in a number of ways which, for the purposes of this Income Computation and Disclosure Standard, are classified as fixed price contracts and cost plus contracts. Some construction contracts may contain characteristics of both a fixed price contract and a cost plus contract, for example, in the case of a cost plus contract with an agreed maximum price.

### **Combining and Segmenting Construction Contracts**

5. The requirements of this Income Computation and Disclosure Standard shall be applied separately to each construction contract except as provided for in paragraphs 6, 7 and 8 herein. For reflecting the substance of a contract or a group of contracts, where it is necessary, the Income Computation and Disclosure Standard should be applied to the separately identifiable components of a single contract or to a group of contracts together.
6. Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:
  - (a) separate proposals have been submitted for each asset;
  - (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
  - (c) the costs and revenues of each asset can be identified.
7. A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:
  - (a) the group of contracts is negotiated as a single package;

- (b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and
  - (c) the contracts are performed concurrently or in a continuous sequence.
8. Where a contract provides for the construction of an additional asset at the option of the customer or is amended to include the construction of an additional asset, the construction of the additional asset should be treated as a separate construction contract when:
- (a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or
  - (b) the price of the asset is negotiated without having regard to the original contract price.

## **Contract Revenue**

9. Contract revenue shall be recognised when there is reasonable certainty of its ultimate collection.
10. Contract revenue shall comprise of:
- (a) the initial amount of revenue agreed in the contract, including retentions; and
  - (b) variations in contract work, claims and incentive payments:
    - (i) to the extent that it is probable that they will result in revenue; and
    - (ii) they are capable of being reliably measured.
11. Where contract revenue already recognised as income is subsequently written off in the books of accounts as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.



## Contract Costs

12. Contract costs shall comprise of :

- (a) costs that relate directly to the specific contract;
- (b) costs that are attributable to contract activity in general and can be allocated to the contract;
- (c) such other costs as are specifically chargeable to the customer under the terms of the contract; and
- (d) allocated borrowing costs in accordance with the Income Computation and Disclosure Standard on Borrowing Costs.

These costs shall be reduced by any incidental income, not being in the nature of interest, dividends or capital gains, that is not included in contract revenue.

13. Costs that cannot be attributed to any contract activity or cannot be allocated to a contract shall be excluded from the costs of a construction contract.

14. Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that are incurred in securing the contract are also included as part of the contract costs, provided

- (a) they can be separately identified; and
- (b) it is probable that the contract shall be obtained.

When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

15. Contract costs that relate to future activity on the contract are recognised as an asset. Such costs represent an amount due from the customer and are classified as contract work in progress.

## **Recognition of Contract Revenue and Expenses**

16. Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.
17. The recognition of revenue and expenses by reference to the stage of completion of a contract is referred to as the percentage of completion method. Under this method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.
18. The stage of completion of a contract shall be determined with reference to:
  - (a) the proportion that contract costs incurred for work performed up to the reporting date bear to the estimated total contract costs; or
  - (b) surveys of work performed; or
  - (c) completion of a physical proportion of the contract work.

Progress payments and advances received from customers are not determinative of the stage of completion of a contract.

19. When the stage of completion is determined by reference to the contract costs incurred up to the reporting date, only those contract costs that reflect work performed are included in costs incurred up to the reporting date. Contract costs which are excluded are:

- (a) contract costs that relate to future activity on the contract; and
  - (b) payments made to subcontractors in advance of work performed under the subcontract.
20. During the early stages of a contract, where the outcome of the contract cannot be estimated reliably contract revenue is recognised only to the extent of costs incurred. The early stage of a contract shall not extend beyond 25 % of the stage of completion.

### **Changes in Estimates**

21. The percentage of completion method is applied on a cumulative basis in each accounting period to the current estimates of contract revenue and contract costs. Where there is change in estimates, the changed estimates shall be used in determination of the amount of revenue and expenses in the period in which the change is made and in subsequent periods.

### **Transitional provisions**

22. Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31<sup>st</sup> day of March, 2015 but not completed by the said date, shall be recognised as revenue and costs respectively in accordance with the provisions of this standard. The amount of contract revenue, contract costs or expected loss, if any, recognised for the said contract for any previous year commencing on or before the 1<sup>st</sup> day of April, 2014 shall be taken into account for recognizing revenue and costs of the said contract for the previous year commencing on the 1<sup>st</sup> day of April, 2015 and subsequent previous years.

## Disclosure

23. A person shall disclose:
- (a) the amount of contract revenue recognised as revenue in the period; and
  - (b) the methods used to determine the stage of completion of contracts in progress.
24. A person shall disclose the following for contracts in progress at the reporting date:
- (a) Amount of costs incurred and recognized profits (less recognized losses) upto the reporting date;
  - (b) the amount of advances received; and
  - (c) the amount of retentions.

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# **Income Computation and Disclosure Standard [ICDS]**

## **Revenue Recognition**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1(1) This Income Computation and Disclosure Standard deals with the bases for recognition of revenue arising in the course of the ordinary activities of a person from

- (i) the sale of goods;
- (ii) the rendering of services;
- (iii) the use by others of the person’s resources yielding interest, royalties or dividends.

1(2) This Income Computation and Disclosure Standard does not deal with the aspects of revenue recognition which are dealt with by other Income Computation and Disclosure Standards.

## **Definitions**

2(1) The following term is used in this Income Computation and Disclosure Standard with the meanings specified:

(a) **“Revenue”** is the gross inflow of cash, receivables or other consideration arising in the course of the ordinary activities of a person from the sale of goods, from the rendering of services, or from the use by others of the person’s resources yielding interest, royalties or dividends.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

## **Sale of Goods**

3. In a transaction involving the sale of goods, the revenue shall be recognised when the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership.

4. Revenue shall be recognised when there is reasonable certainty of its ultimate collection.

5. Where the ability to assess the ultimate collection with reasonable certainty is lacking at the time of raising any claim for escalation of price and export incentives, revenue recognition in respect of such claim shall be postponed to the extent of uncertainty involved.

## **Rendering of services**

6. Revenue from service transactions shall be recognised by the percentage completion method. Under this method, revenue from service transactions is matched with the service transactions costs incurred in reaching the stage of completion, resulting in the determination of revenue, expenses and profit which can be attributed to the proportion of work completed. Income Computation and Disclosure Standard on construction contract also requires the recognition of revenue on this basis. The requirements of that Standard shall *mutatis mutandis* apply to the recognition of revenue and the associated expenses for a service transaction.

## **The Use of Resources by Others Yielding Interest, Royalties or Dividends**

7. Interest shall accrue on the time basis determined by the amount outstanding and the rate applicable. Discount or premium on debt securities held is treated as though it were accruing over the period to maturity.

8. Royalties shall accrue in accordance with the terms of the relevant agreement and shall be recognised on that basis unless, having regard to the substance of the transaction, it is more appropriate to recognise revenue on some other systematic and rational basis.

9. Dividends are recognised in accordance with the provisions of the Act.

## **Transitional provisions**

10. The transitional provisions of Income Computation and Disclosure Standard on construction contract shall *mutatis mutandis* apply to the recognition of revenue and the associated costs for a service transaction undertaken on or before the 31<sup>st</sup> day of March, 2015 but not completed by the said date.

11. Revenue for a transaction undertaken on or before the 31<sup>st</sup> day of March, 2015 but not completed by the said date shall be recognised in accordance with the provisions of this standard for the previous year commencing on the 1<sup>st</sup> day of April, 2015 and subsequent previous year. The amount of revenue, if any, recognised for the said transaction for any previous year commencing on or before the 1<sup>st</sup> day of April, 2014 shall be taken into account for recognizing revenue for the said transaction for the previous year commencing on the 1<sup>st</sup> day of April, 2015 and subsequent previous years.

## **Disclosure**

12. Following disclosures shall be made in respect of revenue recognition:

- (a) In a transaction involving sale of good, total amount of claim raised for escalation of price and export incentives but not recognised as revenue during the previous year along with nature of uncertainty about such claims.
- (b) the amount of revenue from service transactions recognised as revenue during the previous year ; and
- (c) the methods used to determine the stage of completion of service transactions in progress.
- (d) for service transactions in progress at the end of previous year:
  - (i) amount of costs incurred and recognized profits (less recognized losses) upto end of previous year;
  - (ii) the amount of advances received; and
  - (iii) the amount of retentions.

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# **Income Computation and Disclosure Standard [ICDS]**

## **Tangible Fixed Assets**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with the treatment of tangible fixed assets.

### **Definitions**

- 2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
  - (a) **“Tangible fixed asset”** is an asset being land, building, machinery, plant or furniture held with the intention of being used for the purpose of producing or providing goods or services and is not held for sale in the normal course of business.

(b) “**Fair value**” of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm’s length transaction.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

### **Identification of Tangible Fixed Assets**

3. The definition in paragraph 2 (1) (a) provides criteria for determining whether an item is to be classified as a tangible fixed asset.
4. 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.

### **Components of Actual Cost**

5. The actual cost of an acquired tangible fixed asset shall comprise its purchase price, import duties and other taxes (excluding those subsequently recoverable), and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.
6. The cost of a tangible fixed asset may undergo changes subsequent to its acquisition or construction on account of
  - (i) price adjustment, changes in duties or similar factors; or
  - (ii) exchange fluctuation as specified in Income Computation and Disclosure Standard on the effects of changes in foreign exchange rates.
7. Administration and other general overhead expenses are to be excluded from the cost of tangible fixed assets if they do not relate to a specific tangible fixed asset. Expenses

which are specifically attributable to construction of a project or to the acquisition of a tangible fixed asset or bringing it to its working condition, shall be included as a part of the cost of the project or as a part of the cost of the tangible fixed asset.

8. The expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production, shall be capitalised. The expenditure incurred after the plant has begun commercial production, i.e., production intended for sale or captive consumption, shall be treated as revenue expenditure.

### **Self- constructed Tangible Fixed Assets**

9. In arriving at the actual cost of self-constructed tangible fixed assets, the same principles shall apply as those described in paragraphs 5 to 8. Cost of construction that relate directly to the specific tangible fixed asset and costs that are attributable to the construction activity in general and can be allocated to the specific tangible fixed asset shall be included in actual cost. Any internal profits shall be eliminated in arriving at such costs.

### **Non- monetary Consideration**

10. When a tangible fixed asset is acquired in exchange for another asset, the value of the tangible fixed asset so acquired shall be its actual cost.
11. When a tangible fixed asset is acquired in exchange for shares or other securities, the value of the tangible fixed asset so acquired shall be its actual cost.

### **Improvements and Repairs**

12. An Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.

13. The cost of an addition or extension to an existing tangible fixed asset which is of a capital nature and which becomes an integral part of the existing tangible fixed asset is to be added to its actual cost. Any addition or extension, which has a separate identity and is capable of being used after the existing tangible fixed asset is disposed of, shall be treated as separate asset.

### **Valuation of Tangible Fixed Assets in Special Cases**

14. Where a person owns tangible fixed assets jointly with others, the proportion in the actual cost, accumulated depreciation and written down value is grouped together with similar fully owned tangible fixed assets. Details of such jointly owned tangible fixed assets shall be indicated separately in the tangible fixed assets register.
15. Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

### **Transitional provisions**

16. The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31<sup>st</sup> day of March, 2015 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1<sup>st</sup> day of April, 2014 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1<sup>st</sup> day of April, 2015 and subsequent previous years.

## **Depreciation**

17. Depreciation on a tangible fixed asset shall be computed in accordance with the provisions of the Act.

## **Transfers**

18. Income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of the Act.

## **Tangible Fixed Assets Register**

19. The record of tangible fixed assets shall be maintained in the tangible fixed asset register containing the following details:
  - (a) Description of asset
  - (b) Location and identification of asset
  - (c) Actual cost including adjustments on account of :
    - (i) Central Value Added Tax credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1<sup>st</sup> March, 1994,
    - (ii) change in rate of exchange of currency, and
    - (iii) subsidy or grant or reimbursement, by whatever name called.
  - (d) Date on which the asset is first put to use

## Disclosures

20. Following disclosure shall be made in respect of tangible fixed assets:
- (a) Description of asset/block of assets.
  - (b) Rate of depreciation.
  - (c) Actual cost or written down value, as the case may be.
  - (d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of-
    - (i) Central Value Added Tax credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1<sup>st</sup> March, 1994,
    - (ii) change in rate of exchange of currency, and
    - (iii) subsidy or grant or reimbursement, by whatever name called.
  - (e) Depreciation Allowable.
  - (f) Written down value at the end of year.

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# **Income Computation and Disclosure Standard [TAS]**

## **The Effects of Changes in Foreign Exchange Rates**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with:
  - (a) treatment of transactions in foreign currencies;
  - (b) translating the financial statements of foreign operations;
  - (c) treatment of foreign currency transactions in the nature of forward exchange contracts.

### **Definitions**

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) **“closing rate”** is the exchange rate at the last day of the previous year.
- (b) **“exchange difference”** is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency of a person at different exchange rates.
- (c) **“exchange rate”** is the ratio for exchange of two currencies.
- (d) **“fair value”** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.
- (e) **“foreign currency”** is a currency other than the reporting currency of a person.
- (f) **“foreign operations of a person”** is a branch, by whatever name called, of that person, the activities of which are based or conducted in a country other than India.
- (g) **“foreign currency transaction”** is a transaction which is denominated in or requires settlement in a foreign currency, including transactions arising when a person:
  - (i) buys or sells goods or services whose price is denominated in a foreign currency; or
  - (ii) borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
  - (iii) becomes a party to an unperformed forward exchange contract; or
  - (iv) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.



- (h) **“forward exchange contract”** means an agreement to exchange different currencies at a forward rate, and includes a foreign currency option contract or another financial instrument of a similar nature;
  - (i) **“forward rate”** is the specified exchange rate for exchange of two Currencies at a specified future date;
  - (j) **“Indian currency”** shall have the meaning as assigned to it in section 2 of the Foreign Exchange Management Act, 1999 (42 of 1999);
  - (k) **“integral foreign operation”** is a foreign operation, the activities of which are an integral part of the operation of the person;
  - (l) **“monetary items”** are money held and assets to be received or liabilities to be paid in fixed or determinable amounts of money. Cash, receivables, and payables are examples of monetary items;
  - (m) **“non-integral foreign operation”** is a foreign operation that is not an integral foreign operation;
  - (n) **“non-monetary items”** are assets and liabilities other than monetary items. Fixed assets, inventories, and investments in equity shares are examples of non-monetary items;
  - (o) **“reporting currency”** means Indian currency except for foreign operations where it shall mean currency of the country where the operations are carried out.
- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

## **Foreign Currency Transactions**

### **Initial Recognition**

- 3(1) A foreign currency transaction shall be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.
- (2) An average rate for a week or a month that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.

### **Conversion at Last Date of Previous Year**

4. At last day of each previous year:
- (a) Foreign currency monetary items shall be converted into reporting currency by applying the closing rate.
  - (b) Where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year.
  - (c) non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.

## **Recognition of Exchange Differences**

5. (i) In respect of monetary items, exchange differences arising on the settlement thereof or on conversion thereof at last day of the previous year shall be recognised as income or as expense in that previous year.

(ii) In respect of non-monetary items, exchange differences arising on conversion thereof at the last day of the previous year shall not be recognized as income or as expense in that previous year.

## **Exceptions to paragraph 3, 4 and 5**

6. Notwithstanding anything contained in paragraph 3, 4 and 5; initial recognition, conversion and recognition of exchange difference shall be subject to provisions of section 43A of the Act or Rule 115 of Income-tax Rules, 1962, as the case may be.

## **Financial Statements of Foreign Operations**

### **Classification of Foreign Operations**

7. (1) The method used to translate the financial statements of a foreign operation depends on the way in which it is financed and operates in relation to a person. For this purpose, foreign operations are classified as either “integral foreign operations” or “non-integral foreign operations”.

(2) The following are indications that a foreign operation is a non-integral foreign operation rather than an integral foreign operation:

(a) while the person may control the foreign operation, the activities of the foreign operation are carried out with a significant degree of autonomy from the activities of the person;

- (b) transactions with the person are not a high proportion of the foreign operation's activities;
- (c) the activities of the foreign operation are financed mainly from its own operations or local borrowings;
- (d) costs of labour, material and other components of the foreign operation's products or services are primarily paid or settled in the local currency;
- (e) the foreign operation's sales are mainly in currencies other than Indian currency;
- (f) cash flows of the person are insulated from the day-to-day activities of the foreign operation;
- (g) sales prices for the foreign operation's products or services are not primarily responsive on a short-term basis to changes in exchange rates but are determined more by local competition or local government regulation;
- (h) there is an active local sales market for the foreign operation's products or services, although there also might be significant amounts of exports.

### **Integral Foreign Operations**

8. The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.

## **Non-integral Foreign Operations**

9. (1) In translating the financial statements of a non-integral foreign operation for a previous year, the person shall apply the following:
  - (a) the assets and liabilities, both monetary and non-monetary, of the non-integral foreign operation shall be translated at the closing rate;
  - (b) income and expense items of the non-integral foreign operation shall be translated at exchange rates at the dates of the transactions; and
  - (c) all resulting exchange differences shall be recognised as income or as expenses in that previous year.
- (2) Notwithstanding anything stated in sub-paragraph 1, translation and recognition of exchange difference in cases referred to in section 43A of the Act or Rule 115 of Income-tax Rules, 1962 shall be carried out in accordance with the provisions contained in that section or that Rule, as the case may be.

## **Change in the Classification of a Foreign Operation**

- 10(1) When there is a change in the classification of a foreign operation, the translation procedures applicable to the revised classification should be applied from the date of the change in the classification.
- (2) The consistency principle requires that foreign operation once classified as integral or non-integral is continued to be so classified. However, a change in the way in which a foreign operation is financed and operates in relation to the person may lead to a change in the classification of that foreign operation

## Forward Exchange Contracts

11. (1) Any premium or discount arising at the inception of a forward exchange contract shall be amortised as expense or income over the life of the contract. Exchange differences on such a contract shall be recognised as income or as expense in the previous year in which the exchange rates change. Any profit or loss arising on cancellation or renewal shall be recognized as income or as expense for the previous year.
- (2) The provisions of sub-para (1) shall apply provided that the contract:
  - (a) is not intended for trading or speculation purposes; and
  - (b) is entered into to establish the amount of the reporting currency required or available at the settlement date of the transaction.
- (3) The provisions of sub-para (1) shall not apply to the contract that is entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction. For this purpose, firm commitment, shall not include assets and liabilities existing at the end of the previous year.
- (4) The premium or discount that arises on the contract is measured by the difference between the exchange rate at the date of the inception of the contract and the forward rate specified in the contract. Exchange difference on the contract is the difference between:
  - (a) the foreign currency amount of the contract translated at the exchange rate at the last day of the previous year, or the settlement date where the transaction is settled during the previous year, and

- (b) the same foreign currency amount translated at the date of inception of the contract or the last day of the immediately preceding previous year, whichever is later.
- (5) Premium, discount or exchange difference on contracts that are intended for trading or speculation purposes, or that are entered into to hedge the foreign currency risk of a firm commitment or a highly probable forecast transaction shall be recognised at the time of settlement.

### **Transitional provisions**

12. (1) All foreign currency transactions undertaken on or after 1<sup>st</sup> day of April, 2015 shall be recognised in accordance with the provisions of this standard.

(2) Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1<sup>st</sup> day of April, 2015 or on conversion thereof at the last day of the previous year commencing on the 1<sup>st</sup> day of April, 2015, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31<sup>st</sup> March, 2015 for an item, if any, which is carried forward from said previous year.

(3) The financial statements of foreign operations for the previous year commencing on the 1<sup>st</sup> day of April, 2015 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31<sup>st</sup> March, 2015 for an item, if any, which is carried forward from said previous year.

(4) All forward exchange contracts existing on the 1<sup>st</sup> day of April, 2015 or entered on or after 1<sup>st</sup> day of April, 2015 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31<sup>st</sup> March, 2015.

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# **Income Computation and Disclosure Standard [ICDS]**

## **Government Grants**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account.

In case of conflict between the provisions of the Income Tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with the treatment of Government grants. The Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, waiver, concessions, reimbursements, etc.
2. This Income Computation and Disclosure Standard does not deal with:
  - (a) Government assistance other than in the form of Government grants;
  - (b) Government participation in the ownership of the enterprise.

### **Definitions**

- 3(1) The following terms are used in the Income Computation and Disclosure Standard with the meanings specified:



- (a) **“Government”** refers to the Central Government, State Governments, agencies and similar bodies, whether local, national or international.
  - (b) **“Government grants”** are assistance by Government in cash or kind to a person for past or future compliance with certain conditions. They exclude those forms of Government assistance which cannot have a value placed upon them and the transactions with Government which cannot be distinguished from the normal trading transactions of the person.
- 3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

### **Recognition of Government grants**

- 4(1) Government grants should not be recognized until there is reasonable assurance that (i) the person shall comply with the conditions attached to them, and (ii) the grants shall be received.
- 4(2) Recognition of Government grant shall not be postponed beyond the date of actual receipt.

### **Treatment of Government grants**

5. Where the Government grant relates to a depreciable fixed asset or assets of a person, the grant shall be deducted from the actual cost of the asset or assets concerned or from the written down value of block of assets to which concerned asset or assets belonged to.
6. Where the Government grant relates to a non-depreciable asset or assets of a person requiring fulfillment of certain obligations, the grant shall be recognized as income over the same period over which the cost of meeting such obligations is charged to income.

7. Where the Government grant is of such a nature that it cannot be directly relatable to the asset acquired, so much of the amount which bears to the total Government grant, the same proportion as such asset bears to all the assets in respect of or with reference to which the Government grant is so received, shall be deducted from the actual cost of the asset or shall be reduced from the written down value of block of assets to which the asset or assets belonged to.
8. The Government grant that is receivable as compensation for expenses or losses incurred in a previous financial year or for the purpose of giving immediate financial support to the person with no further related costs, shall be recognized as income of the period in which it is receivable.
9. The Government grants other than covered by paragraph 5, 6, 7, and 8 shall be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate.
10. The Government grants in the form of non-monetary assets, given at a concessional rate, shall be accounted for on the basis of their acquisition cost.

### **Refund of Government Grants**

11. The amount refundable in respect of a Government grant referred to in paragraphs 6, 8 and 9 shall be applied first against any unamortized deferred credit remaining in respect of the Government grant. To the extent that the amount refundable exceeds any such deferred credit, or where no deferred credit exists, the amount shall be charged to profit and loss statement.
12. The amount refundable in respect of a Government grant related to a fixed asset or assets shall be recorded by increasing the actual cost or written down value of block of assets by the amount refundable. Where the actual cost of the asset is increased, depreciation on the revised actual cost or written down value shall be provided prospectively at the prescribed rate.

## **Transitional Provisions**

13. All the Government grants which meet the recognition criteria of para 4 on or after 1<sup>st</sup> day of April, 2015 shall be recognised for the previous year commencing on or after 1<sup>st</sup> day of April, 2015 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31<sup>st</sup> day of March, 2015.

## **Disclosures**

14. Following disclosure shall be made in respect of Government grants:
  - (a) Nature and extent of Government grants recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets during the previous year.
  - (b) Nature and extent of Government grants recognised during the previous year as income.
  - (c) Nature and extent of Government grants not recognised during the previous year by way of deduction from the actual cost of the asset or assets or from the written down value of block of assets and reasons thereof.
  - (d) Nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

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# **Income Computation and Disclosure Standard (TAS)**

## **Securities**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with securities held as stock-in-trade.
2. This Income Computation and Disclosure Standard does not deal with:
  - (a) the bases for recognition of interest and dividends on securities which are covered by the Income Computation and Disclosure Standard on revenue recognition;
  - (b) securities held by a person engaged in the business of insurance;
  - (c) securities held by mutual funds, venture capital funds, banks and public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956.

## **Definitions**

3(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) **“Fair value”** is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction.

(b) **“Securities”** shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956, other than Derivatives referred to in sub-clause (1a) of that clause.

3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

## **Recognition and initial measurement of securities**

4. A security on acquisition shall be recognised at actual cost.

5. The actual cost of a security shall comprise of its purchase price and include acquisition charges such as brokerage, fees, tax, duty or cess.

6. Where a security is acquired in exchange for other securities, the security acquired shall be recognised at its fair value or the fair value of the securities issued, whichever is lower.

7. Where a security is acquired in exchange for another asset, the value of the security so acquired shall be its actual cost

8. Where unpaid interest has accrued before the acquisition of an interest-bearing security and is included in the price paid for the security, the subsequent receipt of interest is

allocated between pre-acquisition and post-acquisition periods; the pre-acquisition portion of the interest is deducted from the actual cost.

### **Subsequent measurement of securities**

9. At the end of any previous year, securities held as stock-in-trade shall be valued at actual cost initially recognised or net realisable value at the end of that previous year, whichever is lower.

10. For the purpose of para 9, the comparison of actual cost initially recognised and net realisable value shall be done categorywise and not for each individual security. For this purpose, securities shall be classified into the following categories:

- (a) Shares;
- (b) Debt securities;
- (c) Convertible securities; and
- (d) Any other securities not covered above.

11. The value of securities held as stock-in-trade of a business as at the beginning of the previous year shall be:

- (a) Nil, if the business is commenced during the previous year; and
- (b) The value of the securities of the business as on the close of the immediately preceding previous year, in any other case.

12. Notwithstanding anything contained in para 9, 10 and 11, at the end of any previous year, securities not listed on a recognised stock exchange; or listed but not quoted on a

recognised stock exchange with regularity from time to time, shall be valued at actual cost initially recognised.

13. For the purpose of para 9, 10 and 11 where the actual cost initially recognised cannot be ascertained by reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method.

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# **Income Computation and Disclosure Standard [TAS]**

## **Borrowing Costs**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. (1) This Income Computation and Disclosure Standard deals with treatment of borrowing costs.
- (2) This Income Computation and Disclosure Standard does not deal with the actual or imputed cost of owners’ equity and preference share capital.

### **Definitions**

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
  - (a) **“borrowing costs”** are interest and other costs incurred by a person in connection with the borrowing of funds and include:



- (i) commitment charges on borrowings;
  - (ii) amortised amount of discounts or premiums relating to borrowings;
  - (iii) amortised amount of ancillary costs incurred in connection with the arrangement of borrowings;
  - (iv) finance charges in respect of assets acquired under finance leases or under other similar arrangements.
- (b) **“qualifying asset”** means:
- (i) land, building, machinery, plant or furniture, being tangible assets;
  - (ii) know-how, patents, copyrights, trade marks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets;
  - (iii) inventories that require a period of twelve months or more to bring them to a saleable condition.
- (2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

## **Recognition**

3. 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. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Income Computation and Disclosure Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.

4. For the purpose of this Income Computation and Disclosure Standard, “capitalisation” in the context of inventory referred to in paragraph 2(1)(b)(iii) means addition of borrowing cost to the cost of inventory.

### **Borrowing costs Eligible for Capitalisation**

5. To the extent the funds are borrowed specifically for the purposes of acquisition of a qualifying asset, the amount of borrowing costs to be capitalised on that asset shall be the actual borrowing costs incurred during the period on the funds so borrowed.
6. To the extent the funds are borrowed generally and utilised for the purposes of acquisition of a qualifying asset, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

$$A \times \frac{B}{C}$$

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 or both on the first day and the last day of previous year, half of the cost of qualifying asset;  
(iii) in case the qualifying asset does not appear in the balance sheet of a person on the last day of previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of

completion,  
other than those qualifying assets which are directly funded out of specific borrowings; 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 those assets which are directly funded out of specific borrowings;

## **Commencement of Capitalisation**

7. The capitalisation of borrowing costs shall commence:
  - (a) in a case referred to in paragraph 5, from the date on which funds were borrowed;
  - (b) in a case referred to in paragraph 6, from the date on which funds were utilised.

## **Cessation of Capitalisation**

8. Capitalisation of borrowing costs shall cease:
  - (a) in case of a qualifying asset referred to in paragraph 2(1)(b)(i) and (ii), when such asset is first put to use;
  - (b) in case of inventory referred to in paragraph 2(1)(b)(iii), when substantially all the activities necessary to prepare such inventory for its intended sale are complete.
9. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalisation of borrowing costs in relation to a part shall cease:

- (a) in case of part of a qualifying asset referred to in paragraph 2(1)(b)(i) and (ii), when such part of a qualifying asset is first put to use;
- (b) in case of part of inventory referred to in paragraph 2(1)(b)(iii), when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

### **Transitional Provisions**

- 10. All the borrowing costs incurred on or after 1<sup>st</sup> day of April, 2015 shall be capitalised for the previous year commencing on or after 1<sup>st</sup> day of April, 2015 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31<sup>st</sup> day of March, 2015.

### **Disclosure**

- 11. The following disclosure shall be made in respect of borrowing costs:
  - (a) the accounting policy adopted for borrowing costs;
  - (b) the amount of borrowing costs capitalised during the previous year.

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# **Income Computation and Disclosure Standard [TAS]**

## **Leases**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of account.

In the case of conflict between the provisions of the Income-tax Act, 1961(‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard shall be applied for leases other than:
  - (a) lease agreements to explore for or use of natural resources, such as oil, gas, timber, metals and other mineral rights;
  - (b) licensing agreements such as agreement of motion picture film, video recording, play, manuscript, patent and copyright;
  - (c) lease agreements to use lands.
2. This Income Computation and Disclosure Standard shall apply to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This

Income Computation and Disclosure Standard shall not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

## Definitions

- 3 (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
- (a) A **“lease”** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time and includes a hire purchase agreement.
  - (b) A **“finance lease”** is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.
  - (c) An **“operating lease”** is a lease other than a finance lease.
  - (d) A **“non-cancellable lease”** is a lease that is cancellable only:
    - (i) upon the occurrence of a remote contingency;
    - (ii) with the permission of the lessor;
    - (iii) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor; or
    - (iv) upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain.
  - (e) The **“inception of the lease”** is the earlier of the date of the lease agreement and the date of a commitment by the parties to the principal provisions of the lease.
  - (f) The **“lease term”** is the non-cancellable period for which the lessee has agreed to take the asset on lease together with any further periods for which the lessee has the option to continue the lease of the asset, with or without further

payment, which option at the inception of the lease it is reasonably certain that the lessee will exercise.

- (g) **“Minimum lease payments”** are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with any residual value guaranteed by or on behalf of the lessee. Where the lessee has an option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable and that option, at the inception of the lease, is reasonably certain to be exercised, the minimum lease payments shall comprise of minimum payments payable over the lease term and the payment required to exercise the purchase option.
  
- (h) **“Fair value”** is the amount for which an asset could be exchanged or a liability could be settled between knowledgeable and willing parties in an arm’s length transaction.
  
- (i) **“Economic life”** is either:
  - (i) the period over which an asset is expected to be economically usable by one or more users; or
  
  - (b) the number of units expected to be obtained from the asset by one or more users.
  
- (j) **“Useful life”** of a leased asset is either:
  - (i) the period over which the leased asset is expected to be used by the lessee; or
  
  - (ii) the number of units expected to be obtained from the use of the asset by the lessee.
  
- (k) **“Residual value”** of a leased asset is the estimated fair value of the asset at the

end of the lease term as estimated at the inception of the lease.

- (l) **“Guaranteed residual value”** is that part of the residual value which is the maximum amount guaranteed by the lessee or by a party on behalf of the lessee
  
- (m) **“Unguaranteed residual value”** of a leased asset is the amount by which the residual value of the asset exceeds its guaranteed residual value.
  
- (n) The **“interest rate implicit in the lease”** is the discount rate that, at the inception of the lease, which equals the fair value of the leased asset to the aggregate present value of
  - (a) the minimum lease payments under a finance lease; and
  - (b) any unguaranteed residual value.
  
- (o) The **“lessee’s incremental borrowing rate of interest”** is the rate of interest the lessee would have to pay on a similar lease or, if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, and with a similar security, the funds necessary to purchase the asset.
  
- (p) **“Contingent rent”** is that portion of the lease payments that is not fixed in amount but is based on a factor other than the passage of time.

3(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

## **Classification of Leases**



- 4(1) Classification of a lease as a finance lease or an operating lease shall depend on the substance of the transaction rather than its form.
- 4(2) A lease shall be deemed to be a finance lease, where:
- (a) the lease transfers the ownership of the asset to the lessee by the end of the lease term;
  - (b) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised;
  - (c) the lease term is for the major part of the economic life of the asset although the title is not transferred;
  - (d) at the inception of the lease the present value of the minimum lease payments constitutes at least substantially the fair value of the leased asset; or
  - (e) the leased asset is of a specialized nature such that only the lessee can use it without major modifications being made.
- 5(1) Lease classification shall be made at the inception of the lease and shall not be changed except as provided in Para 5 (2).
- 5(2) If at any time the lessee and the lessor agree to change the provisions of the lease agreement, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease, had the changed terms been in effect at the inception of the lease, the revised agreement is considered as a new agreement over its revised term and shall be classified accordingly.

6. Classification of a lease agreement shall be same for the lessor and the lessee and they shall execute a joint confirmation regarding such classification.

## **Tax Treatment of Leases in case of Lessees**

### **Finance Leases**

7. At the inception of a finance lease, the lessee shall recognise the asset acquired under lease as his own asset with corresponding liability. The cost of acquisition of such asset shall be the present value of the minimum lease payments or fair value of such asset, whichever is lower. In calculating the present value of the minimum lease payments, the discount rates shall be the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used.
8. The costs identified as directly attributable to activities performed by the lessee for a finance lease are included as part of the cost of acquisition of the asset.
9. Borrowing cost shall be the amount by which the minimum lease payments exceed the outstanding liability at the inception of the lease. The borrowing cost shall be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.
10. Subject to execution of the joint confirmation referred to in Para 6, lessee shall be entitled to depreciation on the asset acquired under finance lease in accordance with the provisions of the Act.

### **Operating Leases**

11. Lease payments under an operating lease shall be recognised as an expense on straight line basis over the lease term.

## **Tax Treatment of Leases in case of Lessors**

### **Finance Leases**

12. The lessor, other than manufacturer or dealer, shall recognise the asset given under a finance lease as sale and recognize the corresponding receivable at a sum equal to
  - (i) the cost of acquisition of such asset, where the asset is acquired and given on lease immediately; or
  - (ii) the fair value of such asset in any other case;
13. The manufacturer or dealer lessor shall recognize the asset given under a finance lease as sale and recognize the corresponding receivable at a sum equal to the fair value of the leased asset. Where artificially low or high rate of interest is quoted, then the present value of the minimum lease payments and unguaranteed residual value accruing to the lessor computed at a commercial rate of interest shall be recorded as sales revenue and corresponding receivable.
14. Finance Income shall be amount by which the aggregate of lease receipts and residual value exceeds the receivable at the inception of the lease. The finance income, net of costs identified as directly attributable to the activities performed by the lessor for a finance lease, shall be allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the receivable for each period.
15. The balance of the receivable at the end of the lease term shall be treated as the cost of acquisition or actual cost of the asset given under finance lease at the time of end of the lease term.

16. The Lessor shall not be entitled to depreciation on asset given on a finance lease in accordance with the provisions of the Act.

## **Operating Leases**

17. Lease income under an operating lease shall be recognised as an income on a straight line basis over the lease term.
18. Initial direct costs incurred specifically to earn revenues from an operating lease are deferred and allocated on a straight line basis over the lease term.
19. Subject to execution of the joint confirmation referred to in Para 6, lessor shall be entitled to depreciation on the asset given under operating lease in accordance with the provisions of the Act.

## **Sale and Leaseback Transactions**

20. A sale and leaseback transaction shall be dealt with in accordance with the provisions of the Act.

## **Transitional Provisions**

21. The provisions of this standard shall apply to all lease transactions undertaken on or after 1<sup>st</sup> day of April, 2015. The lease transactions undertaken on or before 31<sup>st</sup> day of March, 2015 shall continue to be governed by the provisions of the Act applicable to the previous year ending on or before 31<sup>st</sup> day of March, 2015.

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# **Income Computation and Disclosure Standard [ICDS]**

## **Intangible Assets**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with the treatment of intangible assets. This Income Computation and Disclosure Standard does not deal with:

- (a) intangible assets that are covered by another Income Computation and Disclosure Standard;
- (b) financial assets;
- (c) mineral rights and expenditure on the exploration for, or development and extraction of, minerals, oil, natural gas and similar non-regenerative resources;
- (d) intangible assets arising from contracts with policyholders;
- (e) expenditure in respect of termination benefits;
- (f) intangible assets held for sale in the ordinary course of business;

- (g) deferred tax assets;
- (h) leases; and
- (i) Goodwill.

## **Definitions**

2(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

(a) An “**intangible asset**” is an identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.

(b) An “**asset**” is a resource:

- (i) controlled by a person as a result of past events; and
- (ii) from which future economic benefits are expected to flow to the person.

(c) “**Monetary assets**” are money held and assets to be received in fixed or determinable amounts of money.

(d) “**Non-monetary assets**” are assets other than monetary assets.

(e) “**Research**” is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

(f) “**Development**” is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use.

(g) **“Depreciation”** is the systematic allocation of the depreciable amount of an intangible asset.

(h) **“Depreciable amount”** is the actual cost of an asset.

(i) **“Fair value”** of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

(j) **“Written down value”** is the depreciable amount of an asset, net of any accumulated depreciation.

(k) A **“financial asset”** is any asset that is either cash; a contractual right to receive cash or another financial asset; a contractual right to exchange financial instruments under conditions that are potentially favourable; or an ownership interest.

2(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

## **Identification of Intangible Assets**

3. The definition in paragraph 2 (1) (a) provides the criteria for determining whether an item is to be classified as an intangible asset. Where the expenditure on an intangible item does not meet the definition of an intangible asset, such expenditure shall be recognised as an expense when it is incurred.

4. Intangible assets contained in or on a physical substance shall be classified as intangible assets even though they are contained in or on a physical substance. Where an asset incorporates both intangible and tangible elements that are, in practice, inseparable; the asset shall be classified based on the predominant element.

5. The definition of an intangible asset requires that an intangible asset shall be identifiable. To be identifiable, it is necessary that the intangible asset is clearly distinguished from goodwill. An intangible asset can be clearly distinguished from goodwill if the asset is separable. An asset is separable if a person could rent, sell, exchange or distribute the specific future economic benefits attributable to the asset without disposing of future economic benefits that flow from other assets used in the same revenue earning activity. Separability is not a necessary condition for identifying an intangible asset where the asset can be otherwise identified. Where an intangible asset is represented by legal rights, such rights would enable identification of the intangible asset.

6. Control of an intangible asset shall stem from legal rights that are enforceable in a court of law.

7. The future economic benefits flowing from an intangible asset include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset.

### **Recognition and Initial Measurement of an Intangible Asset**

8. An intangible asset shall be measured initially at actual cost.

9. The actual cost of an acquired intangible asset shall comprise its purchase price, import duties and other taxes (excluding those subsequently recoverable), and any directly attributable expenditure on making the asset ready for its intended use. Any trade discounts and rebates shall be deducted in arriving at the actual cost.

10. When an intangible asset is acquired in exchange for shares or other securities, the value of the intangible asset so acquired shall be its actual cost.

11. Where an intangible asset is acquired as a part of a group of assets for a consolidated price, the consideration shall be apportioned to the intangible asset based on its fair value.



12. Where an intangible asset is acquired by way of a government grant, it shall be recognised in accordance with the Income Computation and Disclosure Standard on government grants.

13. When an intangible asset is acquired in exchange for another asset, the value of the intangible asset so acquired shall be its actual cost.

14. The cost of an intangible asset may undergo changes subsequent to its acquisition on account of

- (i) price adjustment, changes in duties or similar factors; or
- (ii) exchange fluctuation as specified in Income Computation and Disclosure Standard on the effects of changes in foreign exchange rates.

### **Internally Generated Intangible Assets**

15. To assess whether an internally generated intangible asset meets the criteria for recognition, the generation of the asset is classified into:

- (a) research; and
- (b) development.

16. Expenditure on research shall be recognised as an expense when it is incurred.

17. Examples of research activities are:

- (a) activities aimed at obtaining new knowledge;
- (b) the search for, evaluation and final selection of, applications of research findings or other knowledge;
- (c) the search for alternatives for materials, devices, products, processes, systems or services; and

(d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

18. An intangible asset arising from development shall be recognised as an intangible asset if all of the following conditions are satisfied:

(a) the technical feasibility of completing the intangible asset is achieved; and

(b) the person has the intention and ability to complete the development of the intangible asset and use or sell it.

19. Examples of development activities are:

(a) the design, construction and testing of pre-production or pre-use prototypes and models;

(b) the design of tools, jigs, moulds and dies involving new technology;

(c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and

(d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

20. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets.

### **Actual Cost of an Internally Generated Intangible Asset**

21. The actual cost of an internally generated intangible asset is the sum of expenditure incurred from the time when the intangible asset first meets the recognition criteria.

22. The actual cost of an internally generated intangible asset shall comprise all expenditure that can be directly attributed, or allocated on a reasonable and consistent basis,

to creating, producing and making the asset ready for its intended use. The cost shall include:

- (a) expenditure on materials and services used or consumed in generating the intangible asset;
- (b) the salaries, wages and other employment related costs of personnel directly engaged in generating the asset;
- (c) any expenditure that is directly attributable to generating the asset; and
- (d) overheads that are necessary to generate the asset and that can be allocated on a reasonable and consistent basis to the asset. Allocations of overheads should be made on bases similar to those used in allocating overheads to inventories as per the Income Computation and Disclosure Standard on inventories. The Income Computation and Disclosure Standard on borrowing costs establishes criteria for the recognition of interest as a component of the actual cost of a qualifying asset. These criteria shall also be applied for the recognition of interest as a component of the actual cost of an internally generated intangible asset.

### **Subsequent Expenditure**

23. Subsequent expenditure on an intangible asset after it is ready for its intended use shall be recognised as an expense when it is incurred unless:

- (a) the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and
- (b) the expenditure can be measured and attributed to the asset reliably.

Where these conditions are met, the subsequent expenditure shall be added to the actual cost of the intangible asset.

## **Depreciation**

24. Depreciation on an intangible asset shall be determined in accordance with the Act.

## **Transfers**

25. Income arising on transfer of an intangible asset shall be determined in accordance with the Act.

## **Transitional provisions**

26. The identification, recognition and measurement of an intangible asset for previous year commencing on or after the 1st day of April, 2015 shall be made in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the said asset for the previous year ending on or before 31st day of March, 2015.

## **Disclosures**

27. Following disclosure shall be made in respect of intangible assets:

(a) Description of asset/block of assets

(b) Rate of depreciation

(c) Actual cost or written down value, as the case maybe

(d) Additions/deductions during the year with dates; incase of any addition of an asset, date put to use including adjustments on account of :

(i) Central value added tax credit claimed and allowed under the central exercise rules, 1944, in respect of assets acquired on or after 1 March 1994

(ii) Change in rate of exchange of currency, and

(iii) Subsidy or grant or reimbursement by whatever name called

(e) Depreciation allowable

(f) Written down value at the end of year

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# **Income Computation and Disclosure Standard [ICDS]**

## **Provisions, Contingent Liabilities and Contingent Assets**

### **Preamble**

This Income Computation and Disclosure Standard is applicable for computation of income chargeable under the head “Profits and gains of business or profession” or “Income from other sources” and not for the purpose of maintenance of books of accounts.

In the case of conflict between the provisions of the Income-tax Act, 1961 (‘the Act’) and this Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

### **Scope**

1. This Income Computation and Disclosure Standard deals with provisions, contingent liabilities and contingent assets, except those:

- (a) resulting from financial instruments;
- (b) resulting from executory contracts;
- (c) arising in insurance business from contracts with policyholders; and
- (d) covered by another Income Computation and Disclosure Standard.

2. This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure Standard - Revenue Recognition.

3. The term 'provision' is also used in the context of items such as depreciation, impairment of assets and doubtful debts which are adjustments to the carrying amounts of assets and are not addressed in this Income Computation and Disclosure Standard.

## Definitions

4(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:

- (a) A “**provision**” is a liability which can be measured only by using a substantial degree of estimation.
- (b) A “**liability**” is a present obligation of the person arising from past events, the settlement of which is expected to result in an outflow from the person of resources embodying economic benefits.
- (c) An “**obligating event**” is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.
- (d) A “**contingent liability**” is:
  - (i) a possible obligation that arises from past events and the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person; or
  - (ii) a present obligation that arises from past events but is not recognised because:
    - (A) it is not reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; or

- (B) a reliable estimate of the amount of the obligation cannot be made.
- (e) A “**contingent asset**” is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the person.
- (f) “**Executory contracts**” are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.
- (g) A “**present obligation**” is a present obligation if, based on the evidence available, its existence at the end of the previous year is considered reasonably certain.

4(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

## **Recognition**

### **Provisions**

5. A provision shall be recognised when:
  - (a) a person has a present obligation as a result of a past event;
  - (b) it is reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation; and



(c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

6. No provision shall be recognised for costs that need to be incurred to operate in the future.

7. It is only those obligations arising from past events existing independently of a person's future actions (i.e. the future conduct of its business) that are recognised as provisions

8. Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is enacted.

### **Contingent Liabilities**

9. A person shall not recognise a contingent liability.

### **Contingent Assets**

10. A person shall not recognise a contingent asset.

11. Contingent assets are assessed continually and when it becomes reasonably certain that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.

## **Measurement**

### **Best Estimate**

12. The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the previous year. The amount of a provision shall not be discounted to its present value.

13. The amount recognised as asset and related income shall be the best estimate of the value of economic benefit arising at the end of the previous year. The amount and related income shall not be discounted to its present value.

### **Reimbursements**

14. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when it is reasonably certain that reimbursement will be received if the person settles the obligation. The amount recognised for the reimbursement shall not exceed the amount of the provision.

15. Where a person is not liable for payment of costs in case the third party fails to pay, no provision shall be made for those costs.

16. An obligation, for which a person is jointly and severally liable, is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

### **Review**

17. Provisions shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision should be reversed.

18. An asset and related income recognised as provided in para 11 shall be reviewed at the end of each previous year and adjusted to reflect the current best estimate. If it is no longer reasonably certain that an inflow of economic benefits will arise, the asset and related income shall be reversed.

### **Use of Provisions**

19. A provision shall be used only for expenditures for which the provision was originally recognised.

### **Transitional Provisions**

20. All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1<sup>st</sup> day of April, 2015 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31<sup>st</sup> day of March, 2015.

### **Disclosure**

21(1) Following disclosure shall be made in respect of each class of provision:

- (a) a brief description of the nature of the obligation;
- (b) the carrying amount at the beginning and end of the previous year;
- (c) additional provisions made during the previous year, including increases to existing provisions;
- (d) amounts used (i.e. incurred and charged against the provision) during the previous year;

- (e) unused amounts reversed during the previous year; and
- (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

21(2) Following disclosure shall be made in respect of each class of asset and related income recognised as provided in para 11:

- (a) a brief description of the nature of the asset and related income;
- (b) the carrying amount of asset at the beginning and end of the previous year;
- (c) additional amount of asset and related income recognised during the year, including increases to assets and related income already recognised; and
- (d) amount of asset and related income reversed during the previous year.

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