Pune Branch of ICAI &
Sarasbag CPE Study Circle

Tax Audit u/s 44AB and ICAI

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LEGISLATION ON TAR

- S.44AB
  - Business – exceeds 1Crore
  - Profession – exceeds 25 Lacs
  - Business u/s 44AD; deemed profit < 8% and TI >ANCT
  - Business u/s 44AE / 44BB / 44BBB; income is < deemed profits
- Rule 6G
  - Prescribing the Forms for Report u/s 44AB

Form 3CA
- Report in case of a person who is required to get his A/cs audited under any law

Form 3CB
- Report in any other case

Form 3CD
- Particulars as required u/F 3CA or 3CB

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ICAI

- **Guidance Note on Tax Audit under Section 44AB of the Income-tax Act, 1961**
- **Implementation Guide on Revised Tax Audit Report in Form 3CD as per CBDT Notification No. 33/2018**
- **Issues on Tax Audit**

Clarification regarding authority attached to the documents Issued by the Institute

"Guidance Notes' are primarily designed to provide guidance to members on matters which may arise in the course of their professional work and on which they may desire assistance in resolving issues which may pose difficulty. Guidance Notes are recommendatory in nature. A member should ordinarily follow recommendations in a guidance note relating to an auditing matter except where he is satisfied that in the circumstances of the case, it may not be necessary to do so.

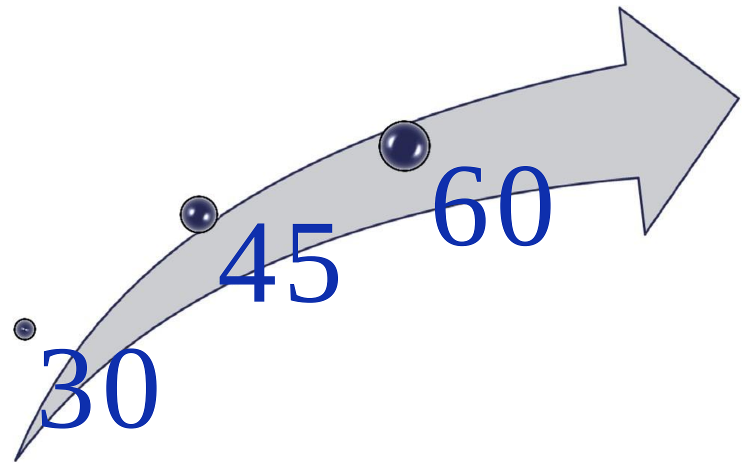
Clarification regarding authority attached to the documents Issued by the Institute

Similarly, while discharging his attest function, a member should examine whether the recommendations in a guidance note relating to an accounting matter have been followed or not. If the same have not been followed, the member should consider whether keeping in view the circumstances of the case, a disclosure in his report is necessary".

(Volume I.A of the Compendium of Engagement and Quality Control Standards (9th Edition, 2012), page 3, Para 5)

TAR CEILING

TAR CEILING



- ICAI clarified in 2011 that audit prescribed under any statute (like DVAT, 2004), not covered
- 44AD / 44AE audit not covered

No of Tax Audits

In the Council General Guidelines, 2008, the Council Guidelines No.1-CA(7)/02/2008, dated 8th August, 2008, in Chapter VI "*Tax Audit assignments under Section 44AB of the Income-tax Act, 1961*", in *Explanation* given in Para 6.1, in sub-para(a) and sub-para(b), the figure "45" be substituted with the figure "60".

No of Tax Audits

The extracts of Para 6 of Chapter VI "Tax Audit assignments under section 44AB of the Income-tax Act, 1961" of the Council General Guidelines No.1-CA(7)/025/2008 dated 8th August, 2008 have been reproduced below:

"Provided also that the audits conducted under section 44AD, 44AE and 44AF of the Income-tax Act, 1961 <u>shall NOT be taken</u> into account for the purpose of reckoning the "specified number of tax audit assignments".

No of Tax Audits

FAQ ON TAX AUDIT ASSIGNMENTS

Chapter VI of Council General Guidelines, 2008 provides that a firm of Chartered Accountants in practice, specified number of tax audit assignments means 45 tax audit assignments per partner of the firm, in a financial year.

Therefore, if there are 10 partners in a firm of Chartered Accountants in practice, then all the partners of the firm can collectively sign 450 tax audit reports. This maximum limit of 450 tax audit assignments may be distributed between the partners in any manner whatsoever. For instance, 1 partner can individually sign 450 tax audit reports in case remaining 9 partners are not signing any tax audit report.

Code of Ethics

Code of Ethics

- **The Chartered Accountants Act, 1949**
- **- Part I of Second Schedule :**
- A chartered accountant in practice shall be deemed to be guilty of professional misconduct, if he −

- Clause (4) : *expresses his opinion on financial statements of any business or enterprise in which he, his firm or a partner in his firm has a substantial interest;*

Code of Ethics

- *Explanation : An auditor will be guilty of professional misconduct if he audits an assesse where -*
- *1.* Where the member, his firm or his partner or his relative has substantial interest in the business or enterprise.
- *2.* Where the member or his partner or relative is a director or in the employment of an officer or an employee of the Company.

Code of Ethics

- The meaning of the words "relative" and "substantial interest" shall be the same as are contained in the Resolution passed by the Council in pursuance to Regulation, 190A of Chartered Accountants Regulations,1988.
- (I) the expression "relative", in relation to a member means the husband, wife, brother or sister or any lineal ascendant or descendant of that member; and

Code of Ethics

(II) a member shall be deemed to have a "substantial interest" in a concern -

(i) in a case where the concern is a Company, if its shares (not being shares entitled to a fixed rate of dividend whether with or without a further right to participate in profits) carrying not less than twenty per cent of voting power at any time, during the relevant years are owned beneficially by such member or by any one or more of the following persons or partly by such member and partly by one or more of the following persons:

Code of Ethics

(a) One or more relatives of the member;

(b) Any concerns in which any of the persons referred to above has a substantial interest;

(ii) in the case of any other concern, if such member is entitled or the other persons referred to above or such member and one or more of the other persons referred to above are entitled in the aggregate, at any time during the relevant years to not less than twenty percent of the profits of such concern.

Code of Ethics

INTERNAL AUDITOR

- Earlier – Not, if he was an employee of the assessee. If he was working in a professional capacity (not being an employee of assessee) - could have conducted tax audit
- Now - Internal auditor of the assessee cannot conduct tax audit if he is internal auditor whether he is an employee of the assessee or not
- Effective from 12-12-2008

Code of Ethics

Q. Whether communication by the Incoming auditor is mandatory with the previous auditor in respect of various audit assignments, like the concurrent audit, revenue audit, tax audit and special audits etc.?

A. Yes, the requirement for communicating with the previous auditor would apply to all types of audits viz., statutory audit, tax audit, internal audit, concurrent audit or any other kind of audit. The Council has laid down detailed guidelines in this regard and the same are appearing at pages 166-168 of Code of Ethics, 2009 .

Mode of Communication:
Registered Post

Code of Ethics

Outstanding fees

New Auditor should ensure payment of undisputed Audit Fees

UDIN

UDIN

ICAI's 379th Council Meeting dt. 17th and 18th December, 2018 made UDIN mandatory for all **Tax Audit Reports** issued under IT Act, 1961 and **GST Audit Reports** issued under CGST Act, 2017 with effect from **1st April, 2019**

UDIN

When to generate UDIN?

UDIN is to be generated at the time of signing the Certificate. However, the same can be generated within 15 days of the signing of the same (i.e. within 15 days from the date mentioned at Certificates and not beyond that)

7. For generating UDIN, is any document is required to be uploaded on UDIN Portal?

No document is required to be uploaded for generating UDIN

UDIN

While conducting Bank Audit, whether separate UDIN has to be taken for all Certificates as there are bulk of certificates to be signed?

UDIN has to be generated per Assignment per Signatory.

In Bank Branch Audit, One Branch is one assignment, hence, one UDIN for all certificates will suffice.

However, care should be taken that a list of all certificates bearing same UDIN should be compiled and handed over to management under a covering letter so that the UDIN generated cannot be misused by affixing on any other certificate which has not been signed by you.

UDIN

- **Whether same UDIN which was generated for Certificates in Bank Branch Audit can be used for Tax Audit of the same Bank Branch?**
- Tax Audit is the separate assignment. Hence separate UDINs have to be taken while conducting Bank Branch Audit for each Branch.
- Therefore, 2 separate UDINs are to be generated – one for Certificates and other for **Tax Audit Report**.
- However, if certificates are signed by more than one partner then more UDINs on certificates have to be generated.

UDIN

- **Whether UDIN is mandatory for Tax Audit Reports that are filed online using Digital Signature?**
- UDIN will be applicable both for manually as well as digitally signed Reports / uploaded online. In case of digitally signed / online reports, UDIN has to be generated and retained for providing the same on being asked by any third party/ authority.

UDIN

Under Section 44AB, the following 5 key fields are mandatory:

1. Total Turnover as per Form 3CD
2. Net Profit/ Turnover as per Form 3CD
3. WDV of Fixed Assets as per Form 3CD
4. Assessment Year
5. Firm Registration Number (FRN)

UDIN

What will happen if I forgot to generate UDIN which are made mandatory by ICAI?

UDIN can be generated till 15 days of signing the document. Further, it may be noted that UDIN generation is being made mandatory as per the Council Decision hence not generating UDIN will amount to non-adherence of the Council Decision and may attract disciplinary proceedings as per clause (1) of Part II of Second Schedule of The Chartered Accountants Act, 1949.

TAQRB

Taxation Audits Quality Review Board

To review any report under the Income-tax Act, 1961 and any report under the GST which are certified by a Chartered Accountant (tax auditor) with a view to determine, to the extent possible, compliance with the reporting requirements prescribed under the law; compliance with the reporting requirements prescribed thereunder and compliance with the respective pronouncements, guidance notes of ICAI.

The Board may interact with CBDT and CBICto seek the reports and /or other information of the enterprises from the CBDT as well as CBIC /State Commercial Tax Department.

Empanelment as a Technical Reviewer

Technical Reviewer with TAQRB, a member needs to satisfy the following conditions:-

- Possess at least 10 years' Post Qualification experience in the practice of taxation (Direct and/or Indirect); and
- Be currently active in the practice of taxation.

Technical Reviewer entitled to honorarium of Rs. 10,000/- per report reviewed.

http://eforms.icai.org/icaionlineform/frmtaxaudit.aspx

Standards on Auditing … Guides the Auditor

Standards issued by ICAI

The 'Accounting Standards' and 'Statements on Standard Auditing Practices' issued by the Accounting Standards Board and the Auditing Practices Committee, respectively, establish standards which have to be complied with to ensure that financial statements are prepared in accordance with generally accepted accounting standards and that auditors carry out their audits in accordance with the generally accepted auditing practices. They become mandatory on the dates specified either in the respective document or by notification issued by the Council

How many Standards of Auditing are issued by ICAI?

- Standards on Quality Control (SQCs) – SQC 1
- SA 100- SA 199 Introductory Matters
- SA 200-SA 299 General Principles and Responsibilities
- SA 300- SA 499 Risk Assessment and Response to Assessed Risks
- SA 500-SA 599 Audit Evidence
- SA 600- SA 699 Using Work of Others
- **SA 700-SA 799 Audit Conclusions and Reporting**
- SA 800- SA 899 Specialized Areas

How many Standards of Auditing are issued by ICAI?

- SREs 2000-SREs 2699 Standards on Review Engagements (SREs)
- SAEs 3000- SAEs 3699 Standards on Assurance Engagements (SAEs)
- SAEs 3000-SAEs 3399 Applicable to All Assurance Engagements
- SAEs 3400- SAEs 3699 Subject Specific Standards
- SRSs 4000-SRSs 4699 Standards on Related Services (SRSs)

S.A. 700-799 "Audit Conclusions and Reporting"

700 (R)	Forming an Opinion and Reporting on Financial Statements
701	Communicating Key Audit Matters in the Independent Auditors Report.
705 (R)	Modifications to the Opinion in the Independent Auditor's Report
706 (R)	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
710	Comparative Information—Corresponding Figures and Comparative Financial Statements
720 (R)	The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements

Revised SAs effective for audits of FS for periods beginning on or after 1st April 2018. *(ICAI has issued Implementation Guide for 700, 701, 705, 706)*

Presentation of Auditor's Report

SA 700 Revised (w.e.f. 1-4-2018)

- ✓ Title
- ✓ Addressee
- ✓ Auditor's Opinion
- ✓ Basis for Opinion
- ✓ Going Concern
- ✓ Key Audit Matters
- ✓ Management's Responsibility
- ✓ Auditor's Responsibility
- ✓ Other Reporting Responsibilities
- ✓ Date, Place of Signature

SA 700 (existing)

- ✓ Title
- ✓ Addressee
- ✓ Introductory Paragraph
- ✓ Management's Responsibility
- ✓ Auditor's Responsibility
- ✓ Auditor's Opinion-
- ✓ Other Reporting Responsibilities
- ✓ Date, Place of Signature

Auditor's Report …

<u>Responsibilities of Management for the Financial Statements</u>

•This section of the auditor's report shall describe management's responsibility for:

a)Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

b)Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern.

Auditor's Report ...

Auditors' Responsibilities

- Shall state that the objectives of the auditor are to :

  (a) obtain reasonable assurance about whether the financial statement as a whole are free from material misstatement, whether due to fraud or error.

  (b) Issue an auditor's report that includes the auditor's opinion.

- State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement if it exists

Auditor's Report …

<u>Auditors' Responsibilities</u>

- State that misstatements can arise from fraud or error, and either
  - describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users or
  - provide a definition or description of materiality in accordance with the applicable financial reporting framework.

- When SA 600 applies, further describe the auditor's responsibilities in a group audit engagement

SA – 230 Documentation

The form and content of audit documentation should be designed to meet the circumstances of the particular audit. It should satisfy the requirements of the governing standards and substantiate the conclusions arrived at by the auditor. Form and content of documentation depends on various factors such as: (i) Risk assessment (ii) Materiality (iii) Sampling methods, etc

SA – 230 Documentation

Typical documentation spans the following:

- Understanding the entity
- Time and cost budgets • Audit programme
- Risk assessment
- Team discussion
- Working papers pertaining to every significant area
- Conclusions
- Communication with those charged with governance
- Completion
- Manager/Partner review points
- Quality/Engagement quality control review

SA – 230 Documentation

In general, working paper should contain following:

- Risk and controls relevant to the area
- Assertions to be tested and satisfied
- Substantive and analytical procedures performed
- Persons performing/reviewing the work
- Dates on which the work was performed/reviewed
- Extent of review
- Documents prepared by client

SA – 230 Documentation

Audit documentation may be in the form of physical papers or in electronic form, more commonly referred to as hard copy and soft copy respectively

SA 580 Written Representations

The auditor shall request written representations from management with appropriate responsibilities for the financial statements and knowledge of the matters concerned.

Written Representations about Management's Responsibilities Preparation of the Financial Statements

The auditor shall request management to provide a written representation that it has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework.

SA 580 Written Representations

The auditor shall request management to provide a written representation that:

(a) It has provided the auditor with all relevant information and access as agreed in the terms of the audit engagement,

(b) All transactions have been recorded and are reflected in the financial statements

If, in addition to such required representations, the auditor determines that it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements, the auditor shall request such other written representations

SA 505* External Confirmations

When using external confirmation procedures, the auditor shall maintain control over external confirmation requests, including:

(a) Determining the information to be confirmed or requested;

(b) Selecting the appropriate confirming party;

(c) Designing the confirmation requests, including determining that requests are properly addressed and contain return information for responses to be sent directly to the auditor; and

(d) Sending the requests, including follow-up requests when applicable, to the confirming party.

AS

AS by ICAI

- Non corporate Audits
- AS 10 Property, Plant and Equipment
- AS 15 Employee Benefits
- AS 22 Accounting for Taxes on Income

- Definition of ‘Asset’

TYPICAL QUALIFICATIONS

QUALIFICATIONS IN REPORT -1

- Proper books of account, to enable reporting in form 3CD, have been maintained by the assessee.
- All the information and explanations which to the best of my/our knowledge and belief were necessary for the purpose of my/our audit has been provided by the assessee.
- Documents necessary to verify the reportable transaction were not made available.
- Proper stock records are not maintained by the assessee.

Qualifications in Report – 2

- Valuation of closing stock is not possible.
- Yield/percentage of wastage is not ascertainable.
- Records necessary to verify personal nature of expenses not maintained by the assessee
- TDS returns could not be verified by with the books of account.
- Records produced for verification of payments through account payee cheque were not sufficient
- Amount of expense related to exempted income u/s 14A of Income tax Act, 1961 could not be ascertained

QUALIFICATIONS IN REPORT – 3

Not Ascertainable

- Creditors under Micro, Small and Medium Enterprises Dev. Act, 2006
- Prior period expenses
- Fair market value of shares u/s 56(2) (viia) / (viib)
- Reports of audits carried by Indirect tax Department were not made available
- GP ratio from the financial statements

QUALIFICATIONS IN REPORT - 4

- Information regarding demand raised or refund issued during the previous year under any tax laws other than Income-tax act, 1961
- Balance confirmation certificates from some parties under debtors, creditors, loans and advances are not received.

icds

Auditor's Responsibility

- Section 44 AB
- Rule 6G

Section 44 AB

- Every person,—

  ……….

  get his accounts of such previous year audited by an accountant before the specified date and furnish by that date the report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars as may be prescribed :

Rule 6 G

Report of audit of accounts to be furnished under section 44AB.

- **6G.** (1) The report of audit of the accounts of a person required to be furnished under section 44AB shall,— ……….. 3CA / 3CB

(2) The particulars which are required to be furnished under section 44AB shall be in Form No. 3CD.

Auditor’s Responsibility

- *Books of Account v. Income Computation*
- *Disclosure – who’s responsibility?*
- *Representation Letter*
- *Representation v. Return of Income*

ICDS I – Accounting Policies

Basis	ICDS -I	AS-1
Concept of Prudence	**Marked to market (MTM) loss or an expected loss shall not be recognised** unless permitted by any other ICDS.	Provision is made for all known liabilities and losses on best estimate basis. Anticipated profits are not recognized.
Materiality omitted	Concept of **Materiality is not recognized** in ICDS	Materiality should be considered while selecting and applying accounting policy
Consideration in selection of accounting Policies	To represent a true and fair view of the state of affairs and income of the business, profession or vocation, the treatment and presentation of transactions and events shall be **governed by their substance and not merely by the legal form**.	The major considerations governing the selection and application of accounting policies are:- a.Prudence b.Substance over Form c.Materiality

ICDS I – Accounting Policies

Basis	ICDS -I	AS-1
Change in accounting policy	I. Accounting policies shall not be changed without a "**reasonable cause**". II. If impact is not material in current period but material in later periods, the fact of such change should be disclosed in period of change and **also required in first year in which change has material effect**	I. Change in accounting policy permitted if a. required by statute; b. required for compliance of AS; c. change results in more appropriate presentation of financial statements II. If impact is not material in current period but material in later periods, the fact of such change should be disclosed in period of change.

ICDS II – Valuation of Inventories

Basis	ICDS -II	AS-2
Cost of inventories	Cost of inventories shall comprise of all costs of purchase, **costs of services**, costs of conversion….The cost of services comprises of labour and personnel cost directly engaged in providing services.	No specific mention of cost of services
Costs of purchase	Purchase price **including duties and taxes**…	Purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities)…

ICDS II – Valuation of Inventories

Basis	ICDS -II	AS-2
Valuation of Inventories in case of certain Dissolution	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 realisable value**.	No such reference

ICDS III – Construction Contracts

Basis	ICDS -III	AS-7
Definition of construction contracts	Includes contract for **services that are directly related to construction of an asset** like project managers and architects. **Also included are contracts for destruction or restoration of assets** like demolition of buildings, ship breaking, etc.	No specific inclusion in definition.
Contract Revenue	Contract revenue shall be recognised when there is **reasonable certainty of its ultimate collection**.	Contract revenue should be recognised if the outcome of a contract can be estimated reliably.
Retention money	**Included in initial amount of contract revenue.** It shall be recognised as revenue subject to reasonable certainty of its ultimate collection.	No specific mention.

ICDS III – Construction Contracts

Basis	ICDS -III	AS-7
Recognition of Contract Revenue and Expenses	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.**	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 that are expected to be recovered.
Recognition of Estimated Loss	When it is probable that total contract costs will exceed total contract revenue, **the loss would be allowable in proportion of work completed.**	When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense immediately.

ICDS IV – Revenue Recognition

Basis	**ICDS -IV**	**AS-9**
Revenue from short term service contracts	Revenue from service contracts **with duration of not more than ninety days** may be recognised when the rendering of services under that contract is completed or substantially completed.	No such distinction within service contracts.
Method of revenue recognition for service contracts	It is mandatory to recognize revenue based on Percentage completion method. **Completed service method to recognise revenue is not permitted.**	Revenue from service transactions is usually recognised as the services are performed either by the proportionate completion method or by the completed service contract method.

ICDS IV – Revenue Recognition

Basis	ICDS -IV	AS-9
Dividends	Dividends are recognised **in accordance with the provisions of the Act.**	When dividends on equity shares are declared from pre-acquisition profits, the same is deducted from cost, only if they clearly represent a recovery of a part of the cost.
Interest	Interest on refund of any tax, duty or cess shall be **income of the year in which it is received.**	Interest accrues, in most circumstances, on the time basis determined by the amount outstanding and the rate applicable.

ICDS V – Tangible Fixed Assets

Basis	ICDS -V	AS-10
Dismantling Cost	There is **no reference of dismantling cost**.	Initial estimate of the said costs are to be included in the cost of the respective item of the plant and equipment.
Criteria for initial recognition	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.**	In addition to defining fixed assets, AS 10 lays down the following criteria for recognition of items of PPE: (i)It is probable that future economic benefits associated with the item will flow to the entity, and (ii)The cost of the item can be measured reliably.

ICDS V – Tangible Fixed Assets

Basis	ICDS -V	AS-10
Criteria for recognition of subsequent expenses	Subsequent expenditures are capitalised only if they increase the future benefits from the existing assets **beyond its previously assessed standard of performance**	Same as criteria for initial recognition as mentioned above
Major spare parts capitalisation	Only those spares are required to be capitalised which **can be used in connection with fixed assets and whose use is expected to be irregular.**	Major spare parts qualify as property,plant and equipment when an entity expects to use them during more than one period and when they can be used only in connection with an item of property, plant and equipment.
S. 43(1)	Payment exceeding Rs. 10,000 in a day otherwise than prescribed mode	No such provision

ICDS V – Tangible Fixed Assets

Basis	ICDS -V	AS-10
Cost of Major inspections	Does not deal with this aspect and **hence, should be expensed off.**	Cost of major inspections should be capitalised with consequent derecognition of any remaining carrying amount of the cost of the previous inspection.
Non-monetary consideration - Option to measure at carrying value of asset given up under AS	When a tangible fixed asset is acquired in exchange for another asset, **the fair value of the tangible fixed asset so acquired shall be its actual cost.** When a tangible fixed asset is acquired in exchange for shares or other securities, **the fair value of the tangible fixed asset so acquired shall be its actual cost.**	The cost of an item of property, plant and equipment is measured at fair value unless (a)the exchange transaction lacks commercial substance or (b)the fair value of neither the asset(s) received nor the asset(s) given up is reliably measurable. The acquired item(s) is/are measured in this manner even if an enterprise cannot immediately derecognise the asset given up. If the acquired item(s) is/are not measured at fair value, its/their cost is measured at the carrying amount of the asset(s) given up.

ICDS V – Tangible Fixed Assets

Basis	ICDS -V	AS-10
Revaluation	Not covered by ICDS. However, under the Act, **gains are recognised only on actual realisation.**	If an entity adopts the revaluation model, revaluations are required to be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.
Depreciation	Depreciation on a tangible fixed asset shall be computed **in accordance with the provisions of section 32 of the IT Act, 1961.**	• Various methods prescribed for computing depreciation to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. • Changes in depreciation method are considered as change in accounting estimate and applied prospectively. • Estimates of residual value need to be reviewed at least at each year end. • Requires annual reassessment of useful life and depreciation method.

ICDS VI – The effects of changes in Foreign Exchange Rates

Basis	ICDS -VI	AS-11
Scope exception	**There is no scope exception** for exchange differences arising from foreign currency borrowings which may be regarded as an adjustment to interest costs.	There is exception for exchange differences arising from foreign currency borrowings to the extent considered as an adjustment to interest costs.
Scope of the term “Foreign operation”	The term covers only “**a branch**, by whatever name called, the activities of which are based or conducted in a foreign country”.	The term covers subsidiary, associate, joint venture or branch of reporting enterprise, the activities of which are based or conducted in a foreign country.

ICDS VI – The effects of changes in Foreign Exchange Rates

Basis	ICDS -VI	AS-11
Translation of financial statements (FS) of Foreign operations (FO)	FS of a foreign operation of a person (whether integral or non-integral foreign operation) are to be translated as if the transactions of the foreign operation had been those of the person himself. **There is no concept of Integral and Non-integral foreign operations in ICDS.** **Exchange difference relating to monetary items are treated as income/expenses of previous year.**	Depends on whether foreign operation is integral foreign operation or non-integral foreign operation. (a)FS of an integral foreign operation are to be translated as if the transaction of the foreign operations had been of the person himself. (b)In case of non-integral foreign operations, assets and liabilities are to be translated at the closing rate and income and expenses are translated at actual rates or at an average rate if it approximates the actual rate and the resulting exchange differences are accumulated in foreign currency translation reserve.

ICDS VI – The effects of changes in Foreign Exchange Rates

Basis	ICDS -VI	AS-11
Forward exchange or similar contracts entered into for trading or speculation purposes	All gains or losses (premium, exchange differences/ discount) on such contracts to be recognised on settlement. **Unrealised gains/losses on MTM are disallowed.**	Contracts to be marked to market at balance sheet date and resultant exchange differences to be recognised in the profit and loss.

ICDS VII – Government Grants

Basis of difference	ICDS -VII	AS-12
Recognition of Government Grants	Same as AS 12 However, recognition of Government grant **shall not be postponed beyond the date of actual receipt.**	Government grants should not be recognised until there is reasonable assurance that (i)the person shall comply with the conditions attached to them, and; (ii)the grants shall be received.
Treatment of Government grant related to fixed assets	**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. **No option to recognize as deferred income over the useful life.**	The same may be deducted from the assets concerned or treated as deferred income over the useful life on a systematic and rational basis.
Treatment of Government Grants / Promoter's contribution	Where the Government grant cannot be directly relatable to the asset acquired, **the grant shall be proportionately reduced from the cost of assets**, in the ratio of assets for which grant is received to all the assets. The remaining amount shall be considered as income.	To be credited to share holder's funds /capital reserve

ICDS VII – Government Grants

Basis of difference	ICDS -VII	AS-12
Non-monetary government grants	**There is no guidance included for non-monetary grants free of cost.**	Non-monetary assets given free of cost are recorded at a nominal value.
Refund of grant – relating to fixed assets	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.**	The amount refundable in respect of a government grant related to a specific fixed asset is recorded by increasing the book value of the asset or by reducing the capital reserve or the deferred income balance, as appropriate, by the amount refundable. In the first alternative, i.e., where the book value of the asset is increased, depreciation on the revised book value is provided prospectively over the residual useful life of the asset.
Refund of grant – other than those relating to fixed assets	**There is no such reference of promoters' contribution in ICDS.**	Where a grant which is in the nature of promoters' contribution becomes refundable, in part or in full, to the government on non-fulfilment of some specified conditions, the relevant amount recoverable by the government is reduced from the capital reserve.

Basis of difference	ICDS -VIII	AS-13
Scope	This ICDS deals only with **securities held as stock in trade.**	Securities held as stock-in-trade are outside the scope of AS 13. However, provisions of AS 13 relating to current investments are applicable to securities held as stock- in- trade with suitable modifications.
Applicability	Part B of ICDS VIII, deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so declared under the Companies Act. As per ICDS, **securities shall be classified, recognised and measured in accordance with the extant guidelines of RBI.** Provisions of ICDS VI relating to foreign exchange contracts shall not apply to that effect.	AS-13 does not deal with mutual funds and venture capital funds and/or the related asset management companies, banks and public financial institutions formed under a Central or State Government Act or so declared under the Companies Act, 2013.

ICDS VIII – Securities

Basis of difference	ICDS –VIII	AS-13
Initial Measurement	When a security is acquired in exchange of other securities, or another asset, **the fair value of the security so acquired shall be its actual cost.**	If an investment is acquired by issue of shares or other securities, the acquisition cost is the fair value of securities issued. And if an investment is acquired by exchange of any other asset, the fair value of asset given up is the acquisition cost of an investment.
Subsequent Measurement	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.** The comparison of actual cost initially recognised and net realisable value **shall be done category wise** and not for each individual security. Securities, not listed, shall be valued at actual cost initially recognised.	Current investments are carried at lower of cost and fair value. Valuation of current investments may be computed category wise, however, the more prudent and appropriate method is to carry investments individually at the lower of cost and fair value.

ICDS IX – Borrowing Costs

Basis of difference	ICDS –IX	AS-16
Exchange differences arising from foreign currency borrowings	**Does not include exchange differences arising from foreign currency borrowings**, to the extent that they are regarded as an adjustment to interest costs, in the definition of Borrowing Costs.	AS-16 includes exchange difference arising from foreign currency borrowings, to the extent they are regarded as an adjustment to interest costs, in the definition of Borrowing costs.
Definition of Qualifying Asset (QA)	**Qualifying asset means:** (a)Land, Building, Plant or Furniture being tangible assets. (b)know-how, patents, copyrights trademarks, licences, franchises or any other business or commercial rights of similar nature, being intangible assets (c)inventories that require a period of twelve months or more to bring them to a saleable condition.	A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Following are not Qualifying assets: (a)Assets that are ready for their intended use or sale when acquired and (b)inventories that are routinely manufactured or produced in larger quantities on repetitive basis over a short period of time.

ICDS IX – Borrowing Costs

Basis of difference	ICDS –IX	AS-16
Consideration of Temporary Income	Any income earned on temporary investment of specific borrowings **is not allowed to be deducted from the cost** of borrowing incurred.	In case of specific borrowings, income on temporary investments on those borrowings are to be deducted from the borrowings costs capitalised.
Substantial period	**For the purpose of general borrowing**, qualifying asset shall be such asset that **necessarily require a period of twelve months or more** for its acquisition, construction or production.	Substantial period is not defined as such. A period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case.
Impairment provisions	**There is no provision for such impairment in tax laws.**	When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or net realisable value, the carrying amount is written down or written off in accordance with the requirements of other Accounting Standards.

ICDS IX – Borrowing Costs

Basis of difference	ICDS –IX	AS-16
Formula for capitalisation of borrowing cost on **general borrowings**	A x B / C A= Borrowing costs incurred during the period B= after excluding QA funded from specific borrowings: (i)Average of costs of QA as per balance sheet on the first day and the last day of previous year. (ii)If QA does not appear in balance sheet on first day of the previous year - half of the cost of QA. (iii)If QA does not appear in balance sheet on the last day of the previous year, the average of the costs of QA as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion. C = Average of the amount of Total Assets as appearing in the balance sheet on the first and last day of the previous year other than those directly funded out of specific borrowings. *For this calculation, a QA shall be such asset that necessarily require a period of twelve*	The amount of borrowing costs to be capitalised shall be determined by applying a capitalisation rate to expenditure on that asset. Capitalisation rate should be weighted average of borrowing costs applicable to the borrowings of enterprise that are outstanding during the period other than borrowings specifically made for purpose of obtaining a Qualifying asset. Borrowing cost capitalised shall not exceed borrowing costs incurred.

ICDS IX – Borrowing Costs

Basis of difference	ICDS –IX	AS-16
Commencement of Borrowing Costs	**Capitalisation of borrowing cost shall commence:** (i)In case of specific borrowings, from the date on which funds are borrowed. (ii)In case of general borrowings, from the date on which funds are utilised.	Capitalisation of borrowing cost shall commence when: (i)expenditure for the acquisition, construction or production of a qualifying asset is being incurred; (ii)borrowing costs are being incurred; and (iii)activities that are necessary to prepare the asset for its intended use or sale are in progress.
Suspension of Borrowing Costs	**No such condition**	Capitalisation of borrowing costs should be suspended during extended periods in which active development is interrupted.

ICDS IX – Borrowing Costs

Basis of difference	ICDS –IX	AS-16
Cessation of capitalisation	Capitalisation of borrowing costs shall cease: (a)in case of a qualifying asset i.e. tangible or intangible fixed asset, **when such asset is first put to use;** (b)in case of inventory, **when substantially all the activities necessary** to prepare such inventory for its intended sale **are complete.** The same provision is applicable if the construction of qualifying assets is completed in parts.	Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

ICDS X – Provisions, Contingent Liabilities and Contingent Assets

Basis of difference	ICDS –X	AS-29
Onerous Contracts	Onerous executory contracts **excluded from the scope** of ICDS	Includes onerous executory contracts within its scope and its upfront recognition of liabilities required under onerous contracts.
Recognition of Provisions	A provision shall be recognised when all of the following conditions are met: (a)there is 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. The term 'reasonably certain' has not been defined in the ICDSs, the Act or the Rules.	A provision shall be recognised when all of the following conditions are met: (a)an enterprise has a present obligation as a result of a past event; (b)it is **probable** 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.

ICDS X – Provisions, Contingent Liabilities and Contingent Assets

Basis of difference	ICDS –X	AS-29
Recognition of Contingent Assets	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.	Contingent assets are assessed continually and when it becomes **virtually certain** that inflow of economic benefit will arise, the asset and related income are recognised in the previous year in which the change occurs.
Provisions - discounting	**Discounting of liabilities is not permitted** and provisions are carried at their full values.	When the effect of time value of money is material, the amount of provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects the current market assessment of the time value of money and risks specific to the liability.

ICDS X – Provisions, Contingent Liabilities and Contingent Assets

Basis of difference	ICDS –X	AS-29
Measurement- Contingent Asset	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.	No such measurement for assets in AS-29
Review of Contingent Assets	An asset and related income recognised 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.	No such measurement for assets in AS-29

- Thank you