



# Voices on Reporting

30 March 2017

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# Welcome



Series of knowledge sharing calls



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# Speakers for the call

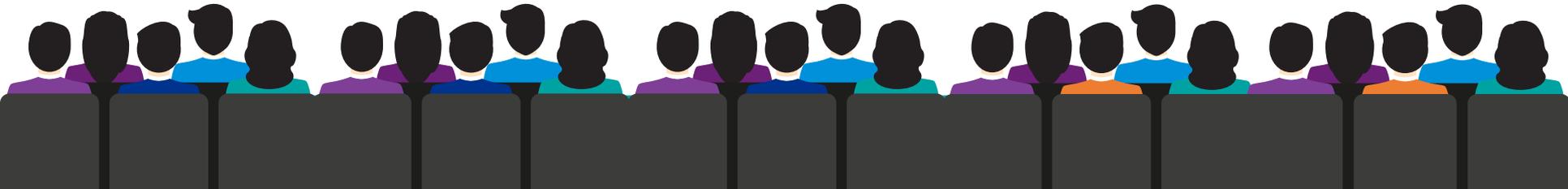
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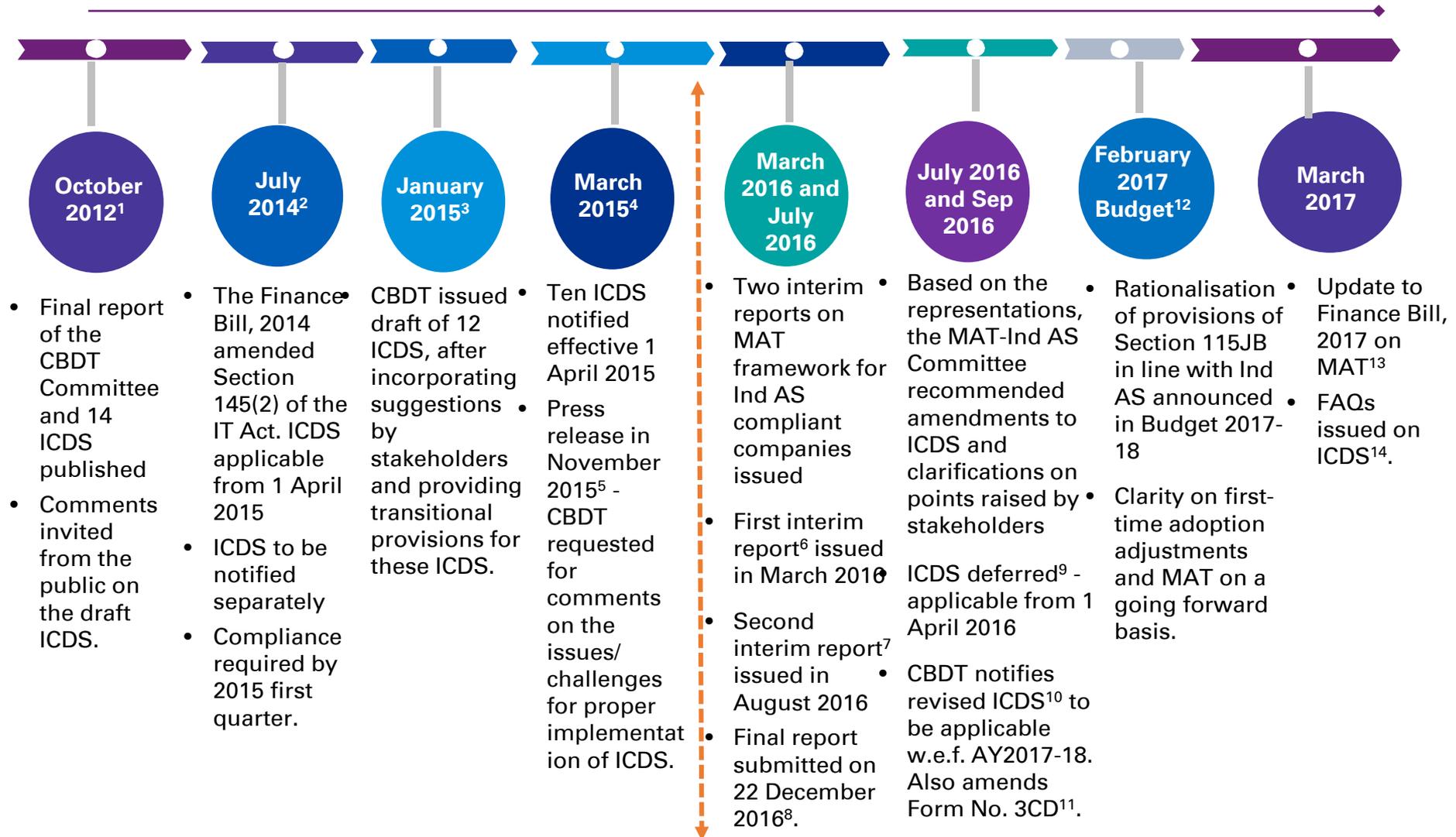


# Agenda



- **Background**
- Clarifications on Income Computation and Disclosure Standards (ICDS) in the form of Frequently Asked Questions (FAQs)
- Implementation matters for consideration

# ICDS/MAT implementation in India: Story so far



# Amendment to Finance Bill, 2017<sup>13</sup>



## Background

- On 1 February 2017, the Finance Minister presented the Finance Bill, 2017 (the Bill) which contained MAT proposals for Ind AS compliant companies<sup>12</sup>.
- On 20 March 2017, the amendments to the Bill were passed in the Lok Sabha; approval of the Rajya Sabha and the Presidential assent are pending<sup>13</sup>.

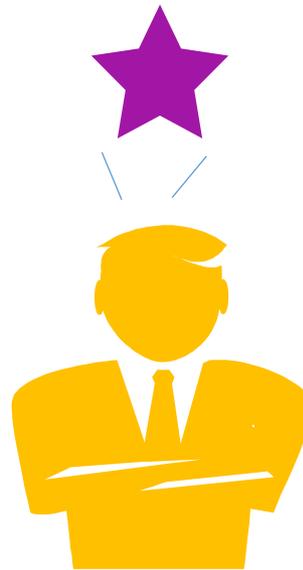
## Transition amount to include equity component of compound financial instruments

- On first-time adoption of Ind AS, certain adjustments would be required in the opening Ind AS balance sheet on 1 April 2015 or other transition date.
- The Bill introduced a new term '**transition amount**' which means the amount or the aggregate of the amount adjusted in the other equity (excluding *equity component of compound financial instruments*, capital reserve, and securities premium reserve) on the date of adoption of Ind AS subject to certain exclusions specified in the Bill.
- The amendments to the Bill has now revised the definition of the term 'transition amount' by omitting the words 'equity component of compound financial instruments'.
- Accordingly,
  - Transition amount will now include 'equity component of compound financial instruments' and
  - The book profits in the year of adoption of Ind AS i.e. 1 April 2016 for phase I companies and each of the subsequent four years may need to be adjusted with one-fifth of the transition amount.



# Highlights of ICDS

1	Accounting policy
2	Inventory
3	Construction contract
4	Revenue recognition
5	Tangible fixed assets
6	Foreign exchange
7	Government grants
8	Securities
9	Borrowing costs
10	Provisions



Effective from FY 2016-17



Based on ICAI's AS – *not Ind AS*



Accounting income delinked from tax



IT Act prevails – IT Rules – ICDS –  
Judicial pronouncements?



No separate books. Additional records for certain ICDS



Disclosure in TAR and Tax Return

25 FAQs on ICDS implementation issued by CBDT in March 2017



# Agenda

- Background
- **Clarifications on ICDS in the form of FAQs**
- Implementation matters for consideration



# General clarifications - Basic provisions of ICDS<sup>14</sup>



## Maintenance of books of accounts

- Additional books of accounts not required to be maintained using ICDS
- Maintain books of accounts and prepare financial statements as per the requirements of the 2013 Act
- Apply accounting policies mentioned in ICDS I for computing income under the heads PGBP or income from other sources.



## Hierarchy of IT Rules, judicial rulings and ICDS

- Provision of ICDS would prevail over the contrary judicial rulings, if any, prior to notification of ICDS
- In case of any conflict between specific IT Rule and ICDS, the provisions of IT Rules which deal with specific circumstances would prevail over ICDS.



## Changes in accounting policy

- Accounting policy should not be changed without '**reasonable cause**' (ICDS I)
- Reasonable cause is an existing concept under the IT Act which has evolved over a period of time conferring desired flexibility to the tax payer in deserving cases
- Assessee to judge if a change in accounting policy meets the criteria for reasonable cause.



## Place of disclosure

- Net effect on the income due to application of ICDS to be disclosed in the return of income
- Disclosures required in ICDS to be made in the tax audit report in Form No.3CD
- No separate disclosure requirements for persons not liable to tax audit.

# General clarifications - Applicability of ICDS<sup>14</sup>

## Ind AS compliant companies

ICDS to apply for computation of taxable income under the IT Act irrespective of the GAAP followed (AS or Ind AS) for preparation of financial statements.

## Banks, non-banking financial institutions, insurance companies, power sector, etc.

General provisions of ICDS apply to all specified persons, unless sector specific provisions contained in the ICDS or the IT Act.

## Income from presumptive heads

Certain assesseees might not be required to maintain detailed books of accounts as per the IT Act. However, their accounting policy, disclosures and taxes should be based on the ICDS to the extent applicable.

## Computation of MAT

ICDS will not apply for computation of book profit for MAT computation.

## Employee benefit provisions

- ICDS will not apply to the employee benefit provisions recognised under AS 15, *Employee Benefits*
- IT Act provides guidance on such provisions (Section 43B, 40A(7) of the IT Act).

## Computation of AMT

ICDS to apply for computation of AMT.

## Taxation of income computed on gross basis

Relevant ICDS to be applied for computation of interest, royalty and fees for technical services on gross basis for accruing at the amount chargeable to tax.

## ICDS for real estate developers/BOT operators/ leases

- No specific ICDS notified
- Real estate developers to apply principles of the IT Act and ICDS till a new ICDS is notified.

# Specific clarifications<sup>14</sup>



## Revenue recognition

### Retention money

#### **Guidance under ICDS III, *Construction contracts***

- Contract revenue should be recognised when there is reasonable certainty of its ultimate collection.

#### **Clarification**

- Retention money being part of overall contract to be recognised as revenue subject to the reasonable certainty of its ultimate collection.

### Interest/royalty/ dividend income

#### **Guidance under ICDS IV, *Revenue recognition***

- Notified ICDS on revenue included the condition of reasonable certainty of ultimate collection for recognition of revenue for sale of goods and rendering of services
- No condition has been laid for recognition of interest income, royalty income and dividend income.

#### **Clarifications**

- Interest income to be recognised even without certainty of ultimate collection
- Royalty to be accrued on the basis of contractual terms
- Subsequent non-recovery in either cases can be claimed as deduction
- Provision of the IT Act to prevail over ICDS
- Interest taxed on accrual basis to be appropriately adjusted and considered while computing income from sale of securities.

# Specific clarifications<sup>14</sup> (cont.)



## Financial instruments

### Recognition of MTM gains

- Similar to MTM losses, tax on MTM gains also to be deferred till settlement.

### Derivative instruments

- ICDS VI, *The effects of changes in foreign exchange rates* provides guidance on accounting for certain derivative contracts such as forward contracts and other similar contracts.
- **Clarification:** Derivatives not in the scope of ICDS VI to be governed by provisions of ICDS I, *Accounting Policies*.



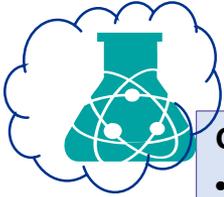
## Treatment of expenditure before commercial production

- As per ICDS V, *Tangible fixed assets*
  - Expenditure incurred on start-up and commissioning of the project, including the expenditure incurred on test runs and experimental production - *Capital expenditure*.
  - Expenditure incurred after the plant has begun commercial production - *Revenue expenditure*.

### Clarification

- All expenditure incurred before commencement of commercial production to be treated as *capital expenditure*.

# Specific clarifications<sup>14</sup> (cont.)



## Government grants

### Guidance under ICDS VII, *Government grants*

- Government grants should not be recognised until there is reasonable assurance that:
  - The person shall comply with the conditions attached to them, and
  - The grants shall be received.
- Recognition shall not be postponed beyond the date of actual receipt.

### Clarification

- *Government grants fulfilling above mentioned criteria on or after 1 April 2016:* Recognise as per ICDS VII.
- *Government grants received prior to 1 April 2016, pending satisfaction of above mentioned criteria:* Amount deemed to have been recognised on its receipt, continue to be recognised as per the law prevalent prior to 1 April 2016.



## Securities held as stock-in-trade

### Issue

- As per ICDS VIII, *Securities*, securities held as stock-in-trade should be subsequently measured at lower of the actual cost initially recognised or NRV at the end of that PY.

### Clarification

- Comparison of actual cost initially recognised and NRV should be done category-wise and not for each individual security.

# Specific clarifications<sup>14</sup> (cont.)



## Recognition of opening FCTR balance

### **Guidance under ICDS VI, *The effects of changes in foreign exchange rates***

- Revised ICDS removed the classification requirements of a foreign operation into integral and non-integral operations.
- Issue arose regarding taxability of opening balance as on 1 April 2016 of Foreign Currency Translation Reserve (FCTR) relating to non-integral foreign operation recognised as per AS 11, *The Effects of Changes in Foreign Exchange Rates*

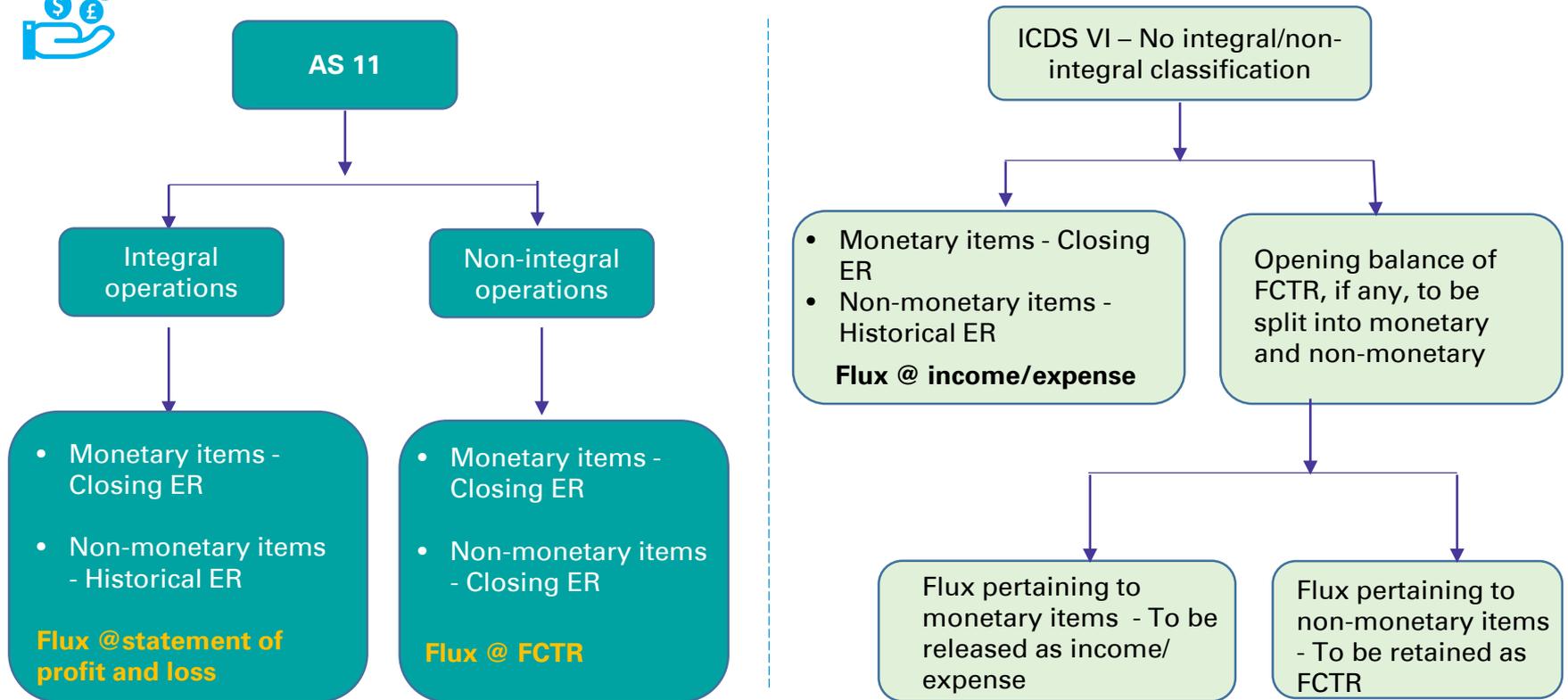
### **Clarification**

- FCTR to the extent of conversion of monetary items to be released for ICDS purposes.

# Specific clarifications<sup>14</sup> (cont.)



Flowchart highlighting accounting under AS and ICDS



(Source: KPMG in India’s analysis, 2017)

ER – Exchange Rate

# Specific clarifications<sup>14</sup> (cont.)

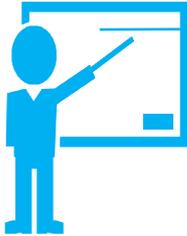
## ICDS VI - Transition provision illustration

Particulars	Amount (in INR)
FCTR on non-integral branch as on 31 March 2016	1,000
Out of the above:	
FCTR pertaining to monetary items - To be released as income/expense on 1 April 2016	300
FCTR pertaining to non-monetary items - To be retained as FCTR	700
Subsequent restatement gains/losses on monetary items - To be released as income/expense on 31 March 2017	200
Subsequent non-monetary items @ historical rates	NA

(Source: KPMG in India's analysis, 2017)

# Specific clarifications<sup>14</sup> (cont.)

## Borrowing costs



### Disallowed borrowing cost

Capitalisation of the borrowing cost should apply for that portion of the borrowing cost which is otherwise allowable as deduction under the IT Act.

### Definition of borrowing cost

Borrowing cost definition is an inclusive definition and would include bill discounting charges and other similar charges.

### Method of allocation of borrowing cost

General borrowing cost computed as per ICDS IX, *Borrowing costs* should be allocated on asset-by-asset basis and not on class of assets for the purpose of capitalisation.

## Transitional provisions



### Issue

- ICDS X, *Provisions, contingent liabilities and contingent assets*, explains the method to compute the amount of provisions as at 1 April 2016.
- Such computation could lead to taxation of the previously taxed items (hence double taxation).

### Clarification

- The intent of transitional provision is that there should be neither 'double taxation' of income due to application of ICDS nor there should be escape of any income due to application of ICDS from a particular date.



# Agenda



- Background
- Clarifications on ICDS in the form of FAQs
- **Implementation matters for consideration**

# Implementation matters for consideration

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Significant differences may require multiple record keeping – Reconciliations



Prudence and materiality



Judicial pronouncements vs ICDS



Incremental differences – Ind AS



System implications



Issues subject to litigation and diversity



Transitional provisions



Trainings



Q&A

# Sources

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1. Final report of the Committee constituted for formulating ASs for the purposes of notification under Section 145(2) of the IT Act issued in October 2012.
2. The Finance Bill, 2014 passed in July 2014.
3. Press release by Ministry of Finance dated 9 January 2015.
4. The CBDT notification no. 33/2015 dated 31 March 2015.
5. The CBDT press release dated 26 November 2015.
6. The report of the MAT-Ind AS committee dated 18 March 2016.
7. The report of the MAT-Ind AS committee dated 5 August 2016.
8. Memorandum to the Finance Bill, 2017 introduced on 1 February 2017.
9. The CBDT press release dated 6 July 2016.
10. CBDT notification no. 87/2016 dated 29 September 2016.
11. CBDT notification no. 88/2016 dated 29 September 2016.
12. The Finance Bill, 2017 introduced on 1 February 2017.
13. Amendments to the Finance Bill introduced on 20 March 2017.
14. FAQs issued by CBDT dated 23 March 2017.

# Glossary

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- 2013 Act - The Companies Act, 2013
- Ind AS - Indian Accounting Standards
- AS – Accounting Standard
- PY - Previous Year
- AY – Assessment Year
- IT Act – Income Tax Act, 1961
- MAT – Minimum Alternate Tax
- AMT – Alternate Minimum Tax
- ICDS – Income Computation and Disclosure Standards
- CBDT – Central Board of Direct Taxes
- IT Rules – Income Tax Rules, 1962
- BOT – Build, Operate and Transfer
- NRV – Net Realisable Value
- GAAP – Generally Accepted Accounting Principles
- POC- Percentage of Completion
- FCTR – Foreign Currency Translation Reserve
- ER – Exchange Rate

# Links to previous recordings of VOR

Month	Topics	Link
<b>July 2016</b>	<ul style="list-style-type: none"><li>• SEBI relaxes norms for Ind AS compliant quarterly results</li><li>• MoF defers ICDS by one year</li><li>• ITFG: Clarification Bulletin 3</li></ul>	Click <a href="#">here</a>
<b>August 2016</b>	<ul style="list-style-type: none"><li>• Revisions to the Framework proposed by the MAT - Ind AS Committee</li></ul>	Click <a href="#">here</a>
<b>September 2016</b>	<ul style="list-style-type: none"><li>• Updates on the 2013 Act</li><li>• Updates on Ind AS</li><li>• Updates on SEBI regulations</li><li>• Other regulatory updates</li></ul>	Click <a href="#">here</a>
<b>October 2016</b>	<ul style="list-style-type: none"><li>• Special session on revised Income Computation and Disclosure Standards (ICDS)</li></ul>	Click <a href="#">here</a>
<b>January 2017</b>	<ul style="list-style-type: none"><li>• MCA updates</li><li>• SEBI updates</li><li>• Ind AS updates</li><li>• RBI updates</li><li>• Other updates</li></ul>	Click <a href="#">here</a>
<b>February 2017 (special session)</b>	<ul style="list-style-type: none"><li>• Finance Bill, 2017 – Financial reporting perspective</li></ul>	Click <a href="#">here</a>

For other archives of VOR calls, visit [www.KPMG.com/in](http://www.KPMG.com/in)

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In addition to proprietary KPMG content, the website provides links to several other sources of information related to IFRS and its implementation. The site can be accessed by all interested parties at no cost. Additionally, the site provides the facility of registering as a member by providing certain minimal information.

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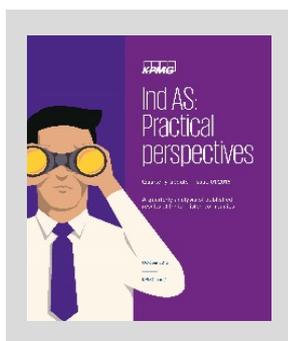
## Amendment to the Finance Bill, 2017: Proposal for MAT-Ind AS compliant companies

23 March 2017

The Finance Bill, 2017 (the Bill) dated 1 February 2017 included proposals on 'computation of book profit for Ind AS compliant companies for the purpose of levy of Minimum Alternate Tax (MAT) under Section 115JB of the Income Tax Act, 1961'.

The Bill defined a new term 'transition amount' which means the amount or aggregate of the amount adjusted in other equity (excluding equity component of compound financial instruments, capital reserve, and securities premium reserve) on the date of adoption of Ind AS but excluding certain exclusions specified.

The amendments to the Bill introduced in the Lok Sabha on 20 March 2017 have changed the definition of transition amount by omitting the term 'equity component of compound financial instruments'.



## Ind AS - Practical perspectives

**KPMG in India's Ind AS - Practical perspectives through aims to put a finger on the pulse of India Inc's adoption of Ind AS and capture emerging trends and practices.**

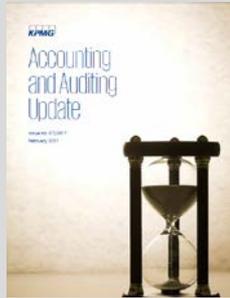
Our impact assessment is based on Nifty 50 companies which would be the first group of companies to report Ind AS results. The Nifty 50 companies have started reporting their financial results for the quarter ended 31 December 2016.

Out of the companies comprising Nifty 50 index, eight companies are banks, one is Non-Banking Financial Company (NBFC) and two companies follow a different date of transition to Ind AS. Therefore, our analysis would comprises the remaining 39 companies.

This can be accessed on KPMG in India website - ['Ind AS- Practical perspectives' webpage.](#)

# Topics discussed in AAU and First Notes

## Accounting and Auditing Update (AAU)



### Issue no. 7 – February 2017

- Insolvency and Bankruptcy Code, 2016
- Accounting for extinguishment of a financial liability with an equity instrument
- Consolidated financial statement – requirements of the Companies Act, 2013
- Oil and gas producing activities – Guidance under Ind AS
- Tax effects of intra-group transactions in consolidated financial statements
- Regulatory updates.

## First Notes



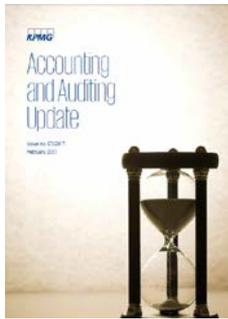
### CBDT issues FAQs on ICDS

28 March 2017

The CBDT received a number of queries on various aspects of ICDS. Therefore, on 23 March 2017, CBDT issued clarifications in the form of Frequently Asked Questions (FAQs) on issues relating to the application of ICDS.

This issue of First Notes provides an overview of the responses issued by the CBDT corresponding to the ICDS related issues raised.

## Missed an issue of Accounting and Auditing Update



## Missed an issue of First Notes



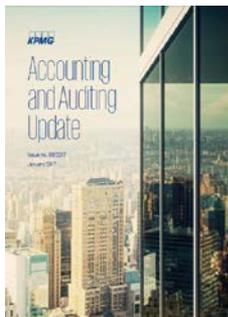
## Coming up next

### Issue 8 - March 2017

New issue of:

- Accounting and Auditing Update
- First Notes
- IFRS Notes

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# Thank you

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