

INCOME COMPUTATION AND DISCLOSURE STANDARDS

ILLUSTRATIVE DISCLOSURES IN TAX AUDIT REPORT

ICDS are applicable for all Assessee following Mercantile system of accounting for computing the Income from Business & Profession and Other Sources except those individual and HUF who are not liable for audit u/s 44AB. Since Form 3CD for tax audit and return forms have been amended to incorporate impact and disclosure stipulated in the ICDS, therefore illustrative disclosures required to be made in Tax Audit Report is provided here for the benefit of members as follows

If Significant accounting policies are mentioned in Notes to Accounts then no need to repeat General Disclosures and only specific disclosure is required in Tax Audit Report while giving reference to Significant Accounting policies in point 13(f)(i) of Tax Audit Report

Also reference should be made to the Technical Guide issued by ICAI on Income Computation and Disclosure Standards where any issue or doubt arises.

The disclosures illustrated in this file is only for those cases where there is normal business situations and it may differ where a peculiar situation arises. In normal situations these disclosures are wide enough for compliance requirement of Tax Audit Report in clause 13(f).

ICDS –I ACCOUNTING POLICIES

Disclosure Requirement in clause 13(f)(i) of Tax audit report

General Disclosures

- The Financial Statements have been prepared in accordance with the generally accepted accounting principles in India under the historical cost convention on accrual basis. The entity follows the mercantile system of accounting and recognises income and expenditure on an accrual basis except in case of significant uncertainties.
- Estimates and assumptions used in the preparation of the financial statements and disclosures are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements, which may differ from the actual results at a subsequent date.
- Tangible assets are carried at cost of acquisition or construction, less accumulated depreciation based on written down value method.
- All transactions in foreign currency are recorded at the rates of exchange prevailing on the dates when the relevant transactions take place. Monetary assets and liabilities (except derivatives) in foreign currency, outstanding at the close of the year, are converted into Indian currency at the appropriate rates of exchange prevailing on the date of the Balance Sheet. The resultant gain or loss, except to the extent it relates to long term monetary items, is charged to the Statement of Profit and Loss.
- Provision for current tax is made on the assessable income at the tax rate applicable to the relevant assessment year.

ICDS – II VALUATION OF INVENTORIES

Disclosure Requirement in clause 13(f)(ii) of Tax audit report

General Disclosure

- Raw materials, work-in-progress, finished goods, goods for trade and stores, spares, etc. are valued at cost or net realisable value, whichever is lower. Materials and supplies held for use in production of finished goods are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. Goods in transit are valued at cost to date. 'Cost' comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to the present location and condition. The cost formulae used is either 'first in first out', or 'specific identification', or the 'average cost', as applicable. In terms Section 145A the purchases, sales and inventory is valued inclusive of taxes the net impact of the same on profit and loss account is Nil.

Specific Disclosure

Carrying cost of inventory as on Balance Sheet date is as follows:

Finished goods....., Traded goods....., Work in progress....., Raw materials.....

ICDS – III CONSTRUCTION CONTRACTS

Disclosure Requirement in clause 13(f)(iii) of Tax audit report

General Disclosure

- Stage of completion has been determined by the Management based on Contract costs incurred as a percentage of total estimated contract costs estimated and also considering current technical data, forecasts and estimates of net expenditure to be incurred in future including for contingencies, etc.

Specific Disclosure

- Contract revenue amounting to Rs..... has been recognized during the year.
- Contract costs amounting to Rs..... have been incurred and contract profits of Rs..... thereon has been arised upto the date of balance sheet.
- In respect of existing contracts total advance aggregating to Rs..... has been received during the year.
- During the year Rs..... has been deducted from Revenue billings on account of retention money.

ICDS – IV REVENUE RECOGNITION

Disclosure Requirement in clause 13(f)(iv) of Tax audit report

General Disclosure for Entity in Manufacturing and trading of goods

- Revenue/Income and Cost/Expenditure are generally accounted for on accrual basis as they are earned or incurred, except in case of significant uncertainties. However, where the ultimate collection of the same lacks reasonable certainty revenue recognition is postponed to extent of uncertainty. Sale of goods is recognised on transfer of significant risks and rewards of ownership which is generally on the despatch of goods and are recognised net of discounts, rebates and sales tax.

General Disclosure for Service Providers

- Since the Assessee has followed percentage completion method therefore the component of service transactions in progress have already been included in the Revenue. Stage of service transactions has been determined by the Management based on their forecasts of time and efforts required in total transaction vis-à-vis time and efforts already deployed including contingencies, etc.
- In respect of service transactions it is not possible to individually ascertain transaction wise cost incurred and profits recognized however on overall basis the same is reflected in the Statement of Profit and loss.

Specific Disclosure

1. During the year the following transactions of sale of goods have not been recognized as revenue due to lack of reasonably certainty of its ultimate collection.

<u>Details of Transaction</u>	<u>Amount</u>	<u>Nature of Uncertainty</u>
-------------------------------	---------------	------------------------------

Note: In normal circumstances there would not be any case covered under this point

2. Details of Revenue recognized during the year
 - a. Sale of Goods... Sale of Services....., Advance received during the year....., Retention money deducted during the year

ICDS – V TANGIBLE FIXED ASSETS

Illustrative Disclosure in clause 13(f)(v) of Tax audit report

Please refer clause 18 of Form 3CD for the required disclosure

ICDS – VI EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

- No Disclosure requirement in ICDS or Tax Audit Report

ICDS – VII GOVERNMENT GRANTS

Disclosure requirement in clause 13(f)(vi) of Tax audit report

General Disclosure

- Government Grants if any, received against specific fixed assets are adjusted to the cost of the assets. Revenue grants are recognized in the Statement of Profit and Loss

Specific Disclosure

1. 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;
2. Nature and extent of Government grants recognised during the previous year as income;
3. 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;
4. Nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

ICDS – VIII SECURITIES

- No Disclosure requirement in ICDS or Tax Audit Report

ICDS – IX BORROWING COSTS

Disclosure requirement in clause 13(f)(vii) of Tax audit report

General Disclosure

- Interest and other borrowing costs attributable to qualifying assets, are added to the cost of the qualifying asset, until such time as the assets are substantially ready for their intended use. Qualifying assets for capital of general borrowing costs are those that necessarily take more than one year or substantial period of time to get ready for their intended use

Specific Disclosure

- During the year Rs..... has been capitalised as borrowing costs during the previous year.

ICDS – X PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Disclosure requirement in clause 13(f)(viii) of Tax audit report

General Disclosure

- Provisions involving a substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is reasonably certain that there will be an outflow of resources. A provision is not discounted to its present value and is determined based on the last estimate required to settle an obligation at the year end. These are reviewed every year end and adjusted to reflect the best current estimates. Contingent liabilities are not recognised. Contingent assets are neither recognised nor disclosed in the financial statements

Specific Disclosure

In respect of Provisions :

Nature of obligation	Opening	Made during the year	Utilized during the year	Reversed during the year	Closing	Expected reimbursement

In respect of Assets : (Normally this clause will not come in general Tax Audits)

Nature of asset related income	Opening Value	Recognised during the year	Recognized earlier	Realised during the year	Closing Value