Module 9 · Income Computation and Disclosure Standards P15 · topic 9.0

SM pp. 361–395 (exercise 396). **Q5(b) ICDS in J24, D25, J26** (9 marks in each of the last two papers) + an ICDS MCQ. Expected ~6 marks. Learn each ICDS as "the rule that differs from the AS".

Paper	What was asked	Marks
Jun'23	MCQ: ICDS VII refund of a grant on a capital asset	2
Jun'24	Q5(b) **ICDS V actual cost** of plant + **ICDS VIII** securities valuation	7
Dec'24	Q5(b)(ii) subsidy for pollution-control machinery (ICDS VII)	1.75
Dec'25	Q5(b) **ICDS V**: machine for shares, imported used machine, forex + depreciation · MCQ ICDS VIII category-wise	7 + 2
Jun'26	Q5(b) **four scenarios**: construction contract at 15%, forex on a payable, stock on dissolution, MTM provision · MCQ: materiality is not an assumption	7 + 2

HOW IT IS EXAMINED · DEC'26 PREDICTION

- **Q5(b) 7 marks, likely** (or interest 234B / 234C instead): "state with reasons" scenarios (ICDS I, II, III, VI, VII) or an ICDS V actual-cost / ICDS VIII valuation sum.
- Answer format: **ICDS + its rule → apply → correct / incorrect + right treatment**.
- MCQ (vii) / (viii): ICDS I assumptions, ICDS VIII category-wise, to whom ICDS apply.

THE TEN ICDS

ICDS	Subject	AS
I	Accounting policies	1
II	Valuation of inventories	2
III	Construction contracts	7
IV	Revenue recognition	9
V	Tangible fixed assets	10
VI	Foreign exchange rates	11
VII	Government grants	12
VIII	Securities	13
IX	Borrowing costs	16
X	Provisions, contingent liabilities / assets	29

[SM 362]

A Applicability · ICDS I–IV

- Notified u/s **145(2)** (Notification 87/2016): for every assessee following the **mercantile** system, except an individual / HUF not liable to tax audit u/s 44AB; only for **PGBP** and **other sources** (not for books of account); the Act prevails over ICDS. [SM 361]
- Also for presumptive schemes (44AD etc.) and for gross income u/s 115A; **not for MAT** (book profit), but yes for AMT; Rules (9A, 9B) prevail over ICDS (CBDT Circular 10/2017). [SM 389–391]
- **ICDS I**: true and fair; substance over form; **MTM loss / expected loss not recognised** unless another ICDS allows (same for MTM gains); assumptions = going concern, consistency, accrual — **materiality is not recognised** (J26 MCQ); change of policy only for **reasonable cause**. [SM 363–364, SM 390]
- **ICDS II**: lower of cost and NRV; costs of purchase, services, conversion; exclude abnormal waste, storage, admin, selling; FIFO / weighted average / specific identification; firm / AOP / BOI **dissolved** → stock at **NRV** whether or not the business continues (contrary to **Sakti Trading**). [SM 365–366]
- **ICDS III construction contracts**: revenue (incl. **retentions**, and variations / claims if probable and measurable) and costs by **percentage of completion**; contract costs reduced by incidental income other than interest, dividends, capital gains; changes in estimates prospectively. [SM 367–368]
- vs AS 7: no "reliable outcome" test; **expected losses not allowed**; early stage defined as **not exceeding 25%** — revenue to the extent of costs, no profit. [SM 369]
- **ICDS IV**: sale of goods — property / risks transferred, no effective control, reasonable certainty of collection; services — percentage completion (indeterminate acts: straight line; contracts of not more than **90 days**: on completion); interest on time basis; **interest on tax refund** taxed in the year **received**; royalty per agreement; dividends per the Act. [SM 370–371]
- s.43CB: construction / service contract profit on POCM (retention money included). [SM 395]

B ICDS V–X

- **ICDS V tangible fixed assets** (land, building, machinery, plant, furniture): actual cost = price + duties / taxes (not recoverable) + directly attributable costs − trade discounts; **start-up, test runs, experimental production capitalised** (till commercial production — CBDT Q15); stand-by / servicing equipment capitalised; spares expensed unless used only with one asset irregularly. [SM 372, SM 391]
- Acquired in exchange for **another asset or for shares / securities** → actual cost = **fair value of the asset acquired**; joint assets grouped proportionately; consolidated price apportioned fairly. [SM 372–373]
- **ICDS VI foreign exchange**: initial at the transaction-date rate (weekly / monthly average if stable); year end — **monetary items at the closing rate**, non-monetary at the transaction rate; forward contracts: premium / discount amortised, differences recognised as rates change (trading / speculation contracts on settlement); s.43AA: exchange gain / loss is income / loss — except s.43A cases. [SM 375–376, SM 394]
- **ICDS VII grants**: recognise on reasonable assurance; **not later than receipt**; grant for a **depreciable asset** → **reduce actual cost / WDV**; for non-depreciable assets with obligations → income over the obligation period; compensation for past losses → income when receivable; refund of an asset grant → **add to cost / WDV**, depreciation prospectively (J23 MCQ). [SM 378–379]
- **ICDS VIII securities held as stock**: actual cost incl. brokerage, fees, tax (exchange → fair value; pre-acquisition interest deducted); year end at **lower of cost and NRV, category-wise** (shares, debt, convertible, other) — not security by security; unlisted / unquoted at cost. Not for insurers, mutual funds, VC funds, banks, PFIs. [SM 381, SM 394]
- **ICDS IX borrowing costs**: capitalise on qualifying assets (tangible, intangible, inventories needing **12 months** or more); general borrowing formula A × B ÷ C; start from borrowing (specific) / use of funds (general); stop when first put to use; bill discounting = borrowing cost. [SM 383–384, SM 393]
- **ICDS X**: provision only if present obligation, **reasonably certain** outflow and reliable estimate; not discounted; contingent liabilities and assets **not recognised** (asset recognised when inflow is reasonably certain). [SM 386–387]
- s.36(1)(xviii): MTM / expected loss allowed only as computed under ICDS; ICDS disclosures go in Form **3CD**. [SM 393, SM 395]

PROBLEMS BOX · Q5(b) ICDS · 7 MARKS · MODEL ANSWERS (OURS, FROM THE SM RULES; NO ICMAI ANSWER YET)

J26 Q5(b) · FOUR SCENARIOS

1. **Contractor recognises no revenue at 15% completion** — incorrect. ICDS III: POCM; at an early stage (not exceeding 25%) revenue is recognised to the extent of costs incurred (no profit), not nil.
2. **Forex loss ₹3,00,000 on a USD 1,00,000 trade payable treated as notional** — incorrect. ICDS VI: monetary items at the closing rate (₹93 v ₹90); the loss is allowable u/s 43AA.
3. **Firm dissolved, business continued by L, stock at cost although NRV is 20% higher** — incorrect. ICDS II: on dissolution stock is valued at NRV whether or not the business continues.
4. **Provision for expected future losses on MTM basis** — not allowed. ICDS I: MTM / expected losses are not recognised unless another ICDS permits; ICDS III does not.

ICDS VIII · CATEGORY-WISE (CBDT CIRCULAR, SM 392) — RE-WORKED BY SCRIPT

Category	Cost	NRV	ICDS value
Shares A–D	560	535	535
Debt E–H	600	615	600
Total (security-wise lower would be 1090 — wrong)	**1160**	**1150**	**1135**

D25 Q5(b) · ICDS V ACTUAL COST (FOX LTD) — RE-WORKED BY SCRIPT

- **Machinery A** (got for 10,000 shares): actual cost = **fair value of the machine** ₹20,00,000 (not the shares' ₹15,00,000 / ₹24,00,000) + installation ₹5,00,000 = **₹25,00,000**; put to use 15.10.2024 (under 180 days) → 15% × ½ = **₹1,87,500**.
- **Machinery B** (imported, used): USD 40,000 at ₹82 = ₹32,80,000 + customs ₹4,00,000 + installation ₹1,50,000 = **₹38,30,000**; the ₹25,000 difference on the unpaid USD 5,000 (₹82 → ₹87) is not added until paid (s.43A overrides ICDS VI / s.43AA); depreciation 15% × ½ = **₹2,87,250**.
- ⚠ The 180-day half rate, s.43A (capitalise exchange differences on payment) and additional depreciation (new plant of a manufacturer; not for used / imported-used plant) are Inter-level rules not in the P15 SM.

PRACTISE THESE

J26 Q5(b) · D25 Q5(b) · J24 Q5(b) · D24 Q5(b)(ii) · J23 MCQ · D25 MCQ (viii) (Allan (P) Ltd securities) · PTP MCQ (vii) · postal Q4(b) (ICDS VI), MCQ (vi) · SM short essays 1–2 (SM 396) · MCQ bank Q31, Q32, Q50 · **ICMAI Practice Workbook: no problem on this module**.

TRAPS

- ICDS do not apply to MAT book profit.
- Grant for a depreciable asset reduces cost — it is never income.
- Dissolution stock at NRV even if the business continues.

Revision sheet · Module 9 (glance page)

ICDS	Key rule (differs from AS)	ICDS	Key rule
Applicability	mercantile system; PGBP and other sources; not individuals / HUF outside tax audit; not MAT	I Policies	no MTM / expected loss; assumptions: going concern, consistency, accrual (not materiality); change only for reasonable cause
II Inventories	lower of cost / NRV; dissolution of firm / AOP / BOI → NRV	III Construction	POCM; retention included; no expected loss; early stage ≤ 25%: revenue = cost
IV Revenue	services POCM; ≤ 90 days: on completion; tax-refund interest when received	V Fixed assets	fair value of asset got for shares / other asset; test runs capitalised
VI Forex	monetary at closing rate; non-monetary at historical; s.43AA (not 43A cases)	VII Grants	reduce cost / WDV of depreciable asset; not later than receipt; refund added to cost
VIII Securities	lower of cost / NRV category-wise; unlisted at cost	IX Borrowing cost	qualifying inventory ≥ 12 months; A × B ÷ C
X Provisions	reasonably certain; not discounted; contingents not recognised	Disclosure	Form 3CD (tax audit)

MEMORY HOOKS

- ICDS I–X = AS **1, 2, 7, 9, 10, 11, 12, 13, 16, 29**.
- ICDS's mood: **"no expected losses, no materiality, NRV on dissolution, grants cut cost, securities by category"**.

SM M9 EXERCISE MCQs

1. ICDS VIII deals with **securities**. [SM 396]
2. ICDS apply to income under **PGBP** (and other sources). [SM 396]

I · II

- no MTM loss · NRV on dissolution

III · IV

- POCM · 25% · 90 days

V

- fair value of asset · test runs

MODULE 9
~6 marks · Q5(b)

VI

- closing rate · 43AA

VII · VIII

- grant cuts cost · category-wise

IX · X

- 12 months · reasonably certain