ACCOUNTING STANDARDS COMMITTEE

सत्यमेव जयते

FINAL REPORT

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
CENTRAL BOARD OF DIRECT TAXES

AUGUST 2012

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C O N T E N T S

P R E F A C E

The Finance Act, 1995 empowered the Central Government to notify the Accounting Standards to be followed for computing the income under the head "Profits and gains of business or profession" or "Income from other sources". The intention in framing the Standards under the Income-tax Act is to compute the income precisely and objectively.

In 1996, two Accounting Standards relating to disclosure of accounting policies and disclosure of prior period and extraordinary items and changes in accounting policies were notified. The Government constituted a committee in July 2002 for formulation of Accounting Standards for the purposes of notification under the Income-tax Act. This Committee recommended for notification of the Accounting Standards issued by the ICAI without any modification along with consequential legislative amendments to the Act for preventing any revenue leakage.

Subsequently, the CBDT has constituted the present Committee to harmonise the Accounting Standards issued by the ICAI with the provisions of the Act for the purposes of notification under the Act and also to suggest amendments to the Act necessitated by transition to Ind-AS/IFRS. The Committee comprised of brilliant professionals and knowledgeable officers from the Department.

The Committee deliberated on whether Accounting Standards issued by the ICAI can be notified under the Act without modification. The Committee concluded that the Accounting Standards to be notified under the Act need harmonization with the provisions of the Act. The Committee also deliberated on whether after notification of the Accounting Standards under the Act, the taxpayer is required to maintain two sets of books of account i.e. one in accordance with the Accounting Standards issued by the ICAI; and another in accordance with the Accounting Standards notified under the Act. The Committee recommends that the Accounting Standards to be notified under the Act should be made applicable only to the computation of taxable income and a taxpayer need not maintain separate set of books of account on the basis of these notified Accounting Standards. The Committee also recommends that the Accounting Standards to be notified under the Act may be termed as "Tax Accounting Standards" (TAS), to distinguish the same from the Accounting Standards issued by the ICAI.

The Committee examined all the thirty one Accounting Standards issued by the ICAI and noted that some of the Accounting Standards issued by the ICAI relate to 'disclosure' requirement, whilst some other contain matter that are adequately dealt within the Act. In view of this, the Committee recommends that Tax Accounting Standards need not to be notified in respect of seventeen Accounting Standards issued by the ICAI. The Committee formulated the drafts of Tax Accounting Standards on the issues covered by the rest of the fourteen Accounting Standards issued by the ICAI. The committee while framing the Tax Accounting Standards, broadly, adhered to the principles of 'reduction of litigation', 'minimization of alternatives' and giving 'certainty to issues'. The Committee members during the deliberations were frank, fair and always kept the interest of the nation in mind. The Almighty has been kind in giving me an opportunity to coordinate the efforts of the members of the committee, who worked with 'dedication' and 'selflessness'.

The Committee places on record its sincere thanks to the Chief Commissioners of Income-tax, Mumbai, Bengaluru and Hyderabad for their support. The Committee sincerely conveys its thanks to the Director General of Income-tax (Investigation), Delhi and Mumbai for providing the infrastructural support.

(H. SRINIVASULU)
Commissioner of Income-tax-IV, Hyderabad ,
and Convener of the Committee.

Place: New Delhi
Date: 14th August, 2012

Chapter 1

Background

1.1 Section 145 of the Income-tax Act, 1961 ('the Act') stipulates that the method of accounting for computation of income under the heads "Profits and gains of business or profession" and "Income from other sources" can either be cash or mercantile system of accounting. The Finance Act, 1995 empowered the Central Government to notify the Accounting Standards for any class of assessees or for any class of income. Explaining the reason for introduction of this provision, it was stated that there is flexibility in the standards issued by the Institute of Chartered Accountants of India (ICAI) which makes it possible for an assessee to avoid the payment of correct taxes by following a particular system and, therefore, there is an urgent need to standardize one or more of the alternatives in various standards, so that income for tax purpose can be computed precisely and objectively.

1.2 Since the introduction of these provisions, only two Accounting Standards relating to disclosure of accounting policies and disclosure of prior period and extraordinary items and changes in accounting policies have been notified. In July 2002, the Central government had constituted a committee for formulation of Accounting Standards under the Income Tax Act ['the Committee (2002)'].

1.3 The Committee (2002) submitted its final report in November 2003 which contained the following main recommendations:

(i) It would be impractical for a tax payer to maintain two sets of books of account – one in accordance with the Accounting Standards issued by the ICAI and another set in accordance with the Accounting Standards to be notified under the Act. The Committee (2002), therefore, recommended that the Accounting Standards issued by the ICAI should be notified under the Act without any modifications.

(ii) Appropriate legislative amendments should be made to the Act to prevent any scope for leakage of revenue on account of notification of Accounting Standards issued by the ICAI.

1.4 There have been significant developments since the Committee (2002) submitted its report, notable among them are:

(i) The Government of India through the Ministry of Corporate Affairs (MCA) has notified twenty eight Accounting Standards issued by the ICAI, under the Companies Act, 1956.

(ii) The Government of India has decided to converge Indian Accounting Standards with the International Financial Reporting Standards (IFRS). The MCA, being the nodal agency for this convergence has placed 35 converged Accounting Standard (Ind-AS) on its website vide press release dated 25.02.2011.

(iii) In the absence of notification of Accounting Standards under the Act, uncertainty and litigation continues on various accounting related issues such as accounting for construction contracts, foreign exchange fluctuations and government grants.

Chapter 2

Present Accounting Standards Committee

2.1 The CBDT has constituted the present Accounting Standards Committee ('the Committee') comprising of departmental officers and professionals vide Order No.134/48/2010-SO (TPL) dated 20th December 2010 (copy enclosed as Annexure 'A'). The terms of reference of this Committee are as under:

i) to study the harmonization of Accounting Standards issued by the ICAI with the direct tax laws in India, and suggest Accounting Standards which need to be adopted under section 145(2) of the Act along with the relevant modifications;

ii) to suggest method for determination of tax base (book profit) for the purpose of MAT in case of companies migrating to IFRS in the initial year of adoption and thereafter; and

iii) to suggest appropriate amendments to the Act in view of transition to Ind-AS regime.

Chapter 3

Approach

3.1 The Committee during its meetings deliberated at length various issues which may arise in notifying Accounting Standards under the Act. The issues pertinent to notification of Accounting Standards under the Act and the recommendations of the Committee on the same are as under:

(1) <u>Two sets of books of account</u>

Issue: Accounting Standards are generally understood as standards to be followed for accounting in the books of account. Whether after notification of accounting standards under the Act, the taxpayer will be required to maintain two sets of books of account i.e. one in accordance with the Accounting Standards issued by the ICAI; and another in accordance with the Accounting Standards notified under the Act?

Recommendations:

(i) To avoid the requirement of maintaining two sets of books of account by the taxpayer, the Committee recommends that the accounting standards notified under the Act should be made applicable only to the computation of taxable income and a taxpayer should not be required to maintain books of account on the basis of accounting standards to be notified under the Act.

(ii) To distinguish accounting standards notified under the Act with the Accounting Standards issued by the ICAI the Committee recommends that the accounting standards notified under the Act should be termed as "Tax Accounting Standards" (TAS).

(iii) Each notified TAS should include the following in preamble:
"This Tax Accounting 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."

(iv) After deliberations, the Committee acknowledged that there could be an alternate view that the current provisions of Section 145(2) may not enable the issuance of the TAS as discussed above; as the TAS are not meant to be applicable for maintenance of books of account but only for computation of income. Accordingly, to set at rest any future controversy in this regard, appropriate amendments should be made to the Act.

(2) <u>Applicability of TAS</u>

Issue: Whether the TAS should be made applicable to all taxpayers or to a class of taxpayers having turnover / income above a certain threshold limit?

Recommendation:

As the TAS would be applicable only for computation of taxable income and taxpayers will not be required to maintain books of account on the basis of TAS, the Committee recommends that the TAS should be made applicable to all taxpayers for bringing certainty on the issues covered by the TAS.

(3) <u>Conflict between the provisions of the Act and the TAS</u>

Issue: In case of conflict between the express provisions of the Act and the TAS – which shall prevail?

Recommendation:

As the TAS are intended to be in harmony with the provisions of the Act, there should not be any conflict between the TAS and the provisions of the Act. However, for resolving conflict arising on account of amendment/interpretation between the Act and TAS, the Committee recommends that it should be expressly provided in the TAS that in case of conflict, the provisions of the Act shall prevail over the TAS. For this purpose, each TAS should include the following preamble:

"In the case of conflict between the provisions of the Income-tax Act, 1961 and this Tax Accounting Standard, the provisions of the Income-tax Act, 1961 shall prevail to that extent."

(4) <u>Transition to TAS</u>

Issue: The notification of TAS from a specific date may lead to a situation where income arising from a particular transaction may neither be taxable in the pre-TAS period nor in the post-TAS period or may be taxable in both the periods.

Recommendation:

The Committee recommends that transitional provisions, wherever required, should also be notified along with the TAS.

(5) Ensuring compliance with TAS by the taxpayer

Issue: How will the Government ensure that a taxpayer has computed taxable income in accordance with the provisions of TAS?

Recommendation:

For ensuring compliance with the provisions of TAS by the taxpayer, the Committee recommends appropriate modification in the return of income. For tax audit cases, the Form 3CD should also be modified so that a tax auditor is required to certify that the computation of taxable income is made in accordance with the provisions of TAS.

Chapter 4

Harmonisation of Accounting Standards

4.1 The Committee examined all the 31 Accounting Standards issued by the ICAI and found that some of the accounting standards are not relevant for the computation of taxable income under the Act. The Committee also noted that the Act already contains detailed provisions on the issues covered by a few of the accounting standards. In view of this, the Committee decided that the following seven accounting standards need not be examined by the Committee for the purpose of harmonisation with the provisions of the Act:

(i)	AS 6	- Depreciation Accounting
(ii)	AS 20	- Earning Per Share
(iii)	AS 21	- Consolidated Financial Statements
(iv)	AS 22	- Accounting for Taxes on Income
(v)	AS 23	- Accounting for Investments in Associates in Consolidated Financial Statements
(vi)	AS 25	- Interim Financial Reporting
(vii)	AS 28	- Impairment of Assets

4.2 The Committee deliberated whether the accounting standards issued by the ICAI could be notified under Section 145(2) of the Act without modifications. The Committee noted that the accounting standards to be notified under Section 145(2) of the Act would need to be harmonised with the provisions of the Act. Further, after deliberation, the Committee is of the view that the notified accounting standards should lay down the specific rules, which would enable computation of taxable income with certainty and clarity. To ensure horizontal equity and uniformity, the notified accounting standards should eliminate alternatives, to the extent possible. After deliberations, the Committee decided to draft separate accounting standards for the purpose of notification under Section 145(2) of the Act. As discussed earlier, the Committee decided to term such separate accounting standards as TAS.

4.3 The Committee deliberated on the following 24 accounting standards for the preparation of draft TAS:

AS-1	-	Disclosure of Accounting Policies
AS-2	-	Valuation of Inventories
AS-3	-	Cash Flow Statements
AS-4	-	Contingencies and Events Occurring After the Balance Sheet Date
AS-5	-	Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies
AS-7	-	Construction Contracts
AS-9	-	Revenue Recognition
AS-10	-	Accounting for Fixed Assets
AS-11	-	The Effects of Changes in Foreign Exchange Rates
AS-12	-	Accounting for Government Grants
AS-13	-	Accounting for Investments
AS-14	-	Accounting for Amalgamations
AS-15	-	Employee Benefits
AS-16	-	Borrowing Costs
AS-17	-	Segment Reporting
AS-18	-	Related Party Disclosures
AS-19	-	Leases
AS-24	-	Discontinuing Operations
AS-26	-	Intangible Assets
AS-27	-	Financial Reporting of Interests in Joint Ventures
AS-29	-	Provisions, Contingent Liabilities and Contingent Assets
AS-30	-	Financial Instruments: Recognition and Measurement
AS-31	-	Financial Instruments: Presentation
AS-32	-	Financial Instruments: Disclosures

4.4 During the deliberations, the Committee noted that some of the accounting standards which are selected for harmonisation with the provisions of the Act mainly relate to disclosure requirements in the financial statements, whilst some others contain matters that are dealt with in the Act. These accounting standards are discussed below:

AS-3 Cash Flow Statements

4.4.1 This standard deals with provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period from operating, investing and financing activities. Information about the cash flows of an enterprise is useful in providing users of financial statements with a basis to assess the ability of the enterprise to generate cash and cash equivalents and the needs of the enterprise to utilise those cash flows. Hence, AS – 3 is only a disclosure standard and does not have any impact on the computation of income under the Act.

4.4.1.1 The Committee, accordingly, recommends that no Tax Accounting Standard for Cash Flow Statements needs to be notified under the Act.

AS- 14 Accounting for Amalgamations

4.4.2 This standard deals with accounting for amalgamations with a primary focus on accounting for assets, liabilities, reserves and goodwill in the hands of the amalgamated company. AS-14 classifies amalgamations into:

i. Amalgamation in the nature of Merger, which are accounted for under the "Pooling of Interests Method"
ii. Amalgamation in the nature of Purchase, which are accounted for under the Purchase Method. .

4.4.2.1 The Act contains specific provisions relating to amalgamations some of which are discussed below:

a. Explanation 7 to Section 43 (1) deals with cost of acquisition of assets acquired by the amalgamated company;
b. Explanation 2 to Section 43 (6) deals with the written down value of an asset / block of asset acquired in an amalgamation;
c. Section 47 (vi), Section 47 (viaa) and Section 47 (vica)deal with capital gains arising to an amalgamating entity on amalgamation;
d. Section 72A, Section 72AA and Section 72AB deal with carry forward of losses and unabsorbed depreciation in the case of amalgamation.

4.4.2.2 Considering the specific provisions in the Act relating to amalgamations, the Committee recommends that no Tax Accounting Standard for Accounting for Amalgamations needs to be notified under the Act.

4.4.2.3 The Committee also recommends that suitable amendments be made to the Act to provide certainty on the issue of allowability of depreciation on goodwill arising on amalgamation.

AS- 15 Employee Benefits

4.4.3 This standard deals with employee benefits in the nature of:

i. short term benefits such as salaries, wages, bonus, profit sharing incentives, leave encashment;

ii. termination benefits such as gratuity, superannuation fund, provident fund, retrenchment compensation, VRS payments;

iii. post retirement benefits such as pension, post retirement medical benefits.

4.4.3.1 The Act contains specific provisions relating to employee benefits, some of which are discussed below:

a. Section 36 (1)(ib) deals with insurance premium paid to effect or keep in force insurance on health of the employees;

b. Section 36 (1)(ii) read with Section 43B(c) deals with payment of bonus and commission;
c. Section 36 (1)(iv) read with Section 43B(b) deals with contribution by employer towards recognised provident fund and approved superannuation fund;
d. Section 36 (1)(iva) deals with any amount paid by way of contribution to new pension scheme;
e. Section 36 (1)(v) read with Section 40A(7) and Section 43B(b) deals with gratuity;
f. Section 36 (1)(va) read 2 (24)(x) deals with employee contribution to provident fund, superannuation fund etc;
g. Section 40A(9) deals with contribution to any trust / fund set up for benefit of the employees;
h. Section 43B(f) deals with leave salary;
i. Section 35DDA deals with Voluntary Retirement Scheme.

4.4.3.2 Considering the specific provisions in the Act relating to employee benefits, the Committee recommends that no Tax Accounting Standard for Employee Benefits needs to be notified under the Act.

4.4.3.3 The Committee also recommends that suitable amendments be made to the Act to provide certainty on the issue of allowability of the provision made for the payment of pension on retirement or termination of an employee.

AS-17 Segment Reporting

4.4.4 The objective of this standard is to establish principles for reporting financial information about the different types of products and services an enterprise produces and the different geographical areas in which it operates. Hence, AS-17 is only a disclosure standard and does not have any impact on the computation of income under the Act.

4.4.4.1 The Committee, accordingly, recommends that no Tax Accounting Standard for Segment Reporting needs to be notified under the Act.

AS- 18 Related Party Disclosures

4.4.5 The objective of this standard is to make specific disclosures in respect of the transactions with the related parties. The Committee noted that the provisions of the Act such as Section 44AB and Section 92E already deal with disclosure of related party transactions.

4.4.5.1 The Committee, accordingly, recommends that no Tax Accounting Standard for Related Party Disclosures needs to be notified under the Act.

AS-24 Discontinuing Operations

4.4.6 This standard deals with disclosure of information with respect to an operation, which is being discontinued. This information is intended to enhance the ability of users of financial statements to make projections of an enterprise's cash flows, earnings-generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations. AS-24 specifically states that the standard does not deal with recognition or measurement. Hence, AS-24 is only a disclosure standard and does not have any impact on the computation of income under the Act.

4.4.6.1 The Committee accordingly recommends that no Tax Accounting Standard for Discontinuing Operations needs be notified under the Act.

AS -27 Financial Reporting of Interests in Joint Ventures

4.4.7 This standard deals with interests in joint ventures. AS-27 classifies joint ventures into three categories:

i) Jointly Controlled Entities

ii) Jointly Controlled Assets; or

iii) Jointly Controlled Operations

4.4.7.1 In case of Jointly Controlled Entities, the standard specifically provides that the income / expenditure of separate entities should be measured by applying the relevant accounting standards. The applicability of this standard in respect of Jointly Controlled Entities arises only in preparation of Consolidated Financial Statements [CFS]. Since CFS are not relevant under the Act, therefore provisions of this standard, in respect of Jointly Controlled Entities are not required for computation of income.

4.4.7.2 In case of Jointly Controlled Assets, the standard provides for recognition of assets and liabilities in the books of joint venturers. These provisions have been dealt with in the Tax Accounting Standard for Tangible Fixed Assets. The accrual of revenues or expenses relating to Jointly Controlled Assets are dealt with by other relevant accounting standards and are therefore not dealt with by this standard.

4.4.7.3 In case of Jointly Controlled Operations, the standard provides for recognition of assets, income and expense by the joint venturers. The accrual of revenues or expenses relating to Jointly Controlled Operations are dealt with by other relevant accounting standards and are therefore not dealt with by this standard.

4.4.7.4 The Committee, accordingly, recommends that no Tax Accounting Standard for Interests in Joint Ventures needs to be notified under the Act.

AS – 30, 31, 32 Financial Instruments (Recognition and Measurement, Presentation and Disclosure)

4.4.8 These standards deal with recognition, measurement, presentation and disclosures relating to financial instruments. These standards have currently not been made mandatory by the ICAI and have not been notified under the Companies Act, 1956. Further, there is no certainty on the future status of these standards. The ICAI has issued an Announcement encouraging voluntary adoption of these standards to the extent that the provisions of these standards are not in conflict with notified accounting standards. However, a substantial majority of companies currently do not follow the provisions of these standards in their financial statements as they are voluntary in nature with limited applicability due to the conflicts with the notified standards.

4.4.8.1 The Committee noted that companies which have voluntarily applied these standards have seen an impact generally in the area of derivatives and hedge accounting through mark-to-market adjustments. The issue of mark-to-market losses has been dealt with in the TAS on Accounting Policies, which provides that a mark-to-market loss or an expected loss (except those covered by other TAS) shall not be recognised.

4.4.8.2 In view of the above, the Committee recommends that no Tax Accounting Standard for Accounting for Financial Instruments needs to be currently notified under the Act. The Committee also recommends that the status of the Financial Instruments standards being made mandatory by the ICAI or their notification under the Companies Act, 1956 should be carefully monitored, and appropriate TAS should be notified under the Act based on any such developments in the future.

Chapter 5

Draft Tax Accounting Standards

5.1 The Committee, after due deliberations, formulated the drafts of the Tax Accounting Standards on the following issues based on the corresponding Accounting Standard issued by the ICAI after harmonising the same with the provisions of the Act:

1.	Disclosure of Accounting Policies #	(Corresponding to AS-1)
2.	Valuation of Inventories#	(Corresponding to AS- 2)
3.	Events Occurring After the Previous Year	(Corresponding to AS-4)
4.	Prior Period Expense	(Corresponding to AS- 5)
5.	Construction Contracts*	(Corresponding to AS- 7)
6.	Revenue Recognition#	(Corresponding to AS- 9)
7.	Accounting for Tangible Fixed Assets#	(Corresponding to AS- 10)
8.	The Effects of Changes in Foreign Exchange Rates	(Corresponding to AS-11)
9.	Government Grants*	(Corresponding to AS-12)
10.	Securities	(Corresponding to AS-13)
11.	Borrowing Costs #	(Corresponding to AS-16)
12.	Leases	(Corresponding to AS-19)
13.	Intangible Assets*	(Corresponding to AS- 26)

14. Provisions, Contingent Liabilities and Contingent Assets# (Corresponding to AS- 29)

* submitted along with First Interim Report
\# submitted along with Second Interim Report

5.2 While formulating the Tax Accounting Standards, the Committee made certain changes in the Accounting Standard issued by the ICAI for the purposes of harmonising the same with the provisions of the Act. The significant changes made in each of the draft Tax Accounting Standard vis-à-vis the corresponding Accounting Standard issued by the ICAI are discussed below.

TAX ACCOUNTING STANDARD FOR ACCOUNTING POLICIES

5.2.1 The Tax Accounting Standard for Accounting Policies [TAS (AP)] is based on Accounting Standard-1 (AS-1) for Disclosure of Accounting Policies issued by the ICAI. While recommending the TAS, the Committee made the following changes in AS-1:

i. Based on the concept of prudence, AS-1 precludes recognition of anticipated profit and requires recognition of expected losses. Since this amounts to differential treatment for recognition of income and losses, the TAS (AP) provides that expected losses or mark-to-market losses shall not be recognised unless permitted by any other TAS.

ii. AS-1 recognises the concept of materiality for selection of accounting policies. Since the Act does not recognise the concept of materiality for the purpose of computation of taxable income, the same has not been incorporated in the TAS (AP).

iii. AS-1 read with AS-5 provides that accounting policies may be changed if it is considered that the change would result in a more appropriate presentation. To reduce litigation and to bring consistency, the TAS (AP) provides that accounting policies shall not be changed without a reasonable cause.

TAX ACCOUNTING STANDARD FOR VALUATION OF INVENTORIES

5.2.2 The Tax Accounting Standard for Valuation of Inventories [TAS (VI)] is based on the Accounting Standard-2 (AS-2) for Valuation of Inventories issued by the ICAI. While recommending the TAS (VI), the Committee made the following changes to AS-2:

i. AS-2 has not prescribed any method of valuation of inventories in the case of a service provider. In the Indian Economy, service sector plays a vital role and the Committee is of the view that to give certainty to the taxpayers in respect of computation of income, a method of valuation of inventories should be provided for. The Committee is of the view that the method of valuation of inventories of a service provider based on the international best practices be incorporated in the TAS (VI).

ii. AS-2 stipulates that techniques for the measurement of the cost of the inventories such as the standard cost method or the retail method may be used for convenience if the results approximate to the actual cost. To reduce the litigation and alternatives the standard cost method is not recommended by the Committee.

iii. The value of the inventory of a business as on the beginning of a previous year shall be the same as the value of inventory at the end of the immediately preceding previous year. This is a well established principle and to give certainty to the valuation of inventories and to reduce litigation, this principle has specifically been incorporated in the TAS (VI).

iv. AS-2 read with AS-5 provides that the method of valuation of inventories may be changed if it is considered that the change would result in a more appropriate presentation. To reduce litigation and to bring consistency, the TAS (VI) provides that the method of valuation of inventory once adopted by a person in any previous year shall not be changed without a reasonable cause.

v. A-2 is silent on the valuation of inventory at the time of dissolution of a partnership firm, association of persons and body of individuals. To give certainty to the tax treatment in this regard, the TAS (VI) provides that the inventory on the date of dissolution shall be valued at the net realisable value.

TAX ACCOUNTING STANDARD FOR EVENTS OCCURING AFTER THE END OF PREVIOUS YEAR

5.2.3 The Tax Accounting Standard for Events Occurring after the End of Previous Year [TAS (EA)] is based on the Accounting Standard-4 (AS-4) for Contingencies and Events Occurring After the Balance Sheet Date issued by the ICAI. While recommending the TAS (EA), the Committee made the following change to AS-4:

i. AS-4 provides for specific disclosures in respect of events occurring after the balance sheet date that do not require an adjustment. Since such disclosures do not directly impact the computation of income, these provisions have been removed in the TAS.

TAX ACCOUNTING STANDARD FOR PRIOR PERIOD EXPENSE

5.2.4 The Tax Accounting Standard for Prior Period Expense [TAS (PP)] is based on the Accounting Standard-5 (AS-5) for Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies issued by the ICAI. While recommending the TAS (PP), the Committee made the following changes in AS-5:

i. AS-5 provides for guidance on extraordinary items and changes in accounting policies. Since the Act does not distinguish extraordinary items from ordinary items, these provisions are removed in the TAS (PP). The provisions in AS-5 relating to changes in accounting policies are covered in the TAS on Accounting Policies.
ii. AS-5 merely provides for separate disclosure of prior period items. In order to provide certainty and reduce litigation, the TAS (PP) provides specific conditions for allowability of prior period expenses.

TAX ACCOUNTING STANDARD FOR CONSTRUCTION CONTRACTS

5.2.5 The Tax Accounting Standard for Construction Contracts [TAS (CC)] is based on the Accounting Standard-7 (AS-7) for Construction Contracts issued by the ICAI. While recommending the TAS (CC), the Committee made the following changes to AS-7:

i. AS-7 is silent about treatment of accrual of income in respect of the retention money. There are some judicial pronouncements holding that the retention money is not deemed to have accrued for tax purposes. To overcome this unintended meaning, the TAS (CC) specifically provides that the retention money shall accrue to the person for computing revenue based on the percentage of completion method.

ii. AS-7 provides for reversal of revenue on account of uncertainty arising on realisibilty of contract revenue which was already recognized as income. The TAS (CC) provides that before reversal of revenue, the sum shall be written off in the books of account in line with the provisions of Section 36 (1)(vii) of the Act relating to the bad debts.

iii. Currently there is an uncertainty about treatment of borrowing costs relatable to the construction contracts. The TAS on the Borrowing Costs provides for treatment of borrowing costs relating to the construction contracts. A reference to this is made in the TAS (CC) for ensuring the uniformity.

iv. It is judicially settled that the pre-construction income in the nature of interest, dividend and capital gains shall not reduce the cost of construction. Accordingly, it has been provided in the TAS (CC) that such income shall not be reduced from the contract costs but shall be treated and taxed as income in accordance with the applicable provisions of the Act.

v. For attributing contract costs to a construction contract, one of the conditions provided in the AS-7 is that such expenses should be capable of being measured reliably. This may lead to litigation. To avoid litigation this condition is removed.

vi. AS-7 requires that contract costs which relate to future activity shall be recognized as an asset when it is probable that such costs are recoverable. The TAS (CC) provides for recognizing such costs as an asset. If such costs are not realisable then the same may be allowed under provisions of the Act.

vii. As per AS-7, contract revenues are recognized if it is possible to reliably measure the outcome of a contract. This issue being subjective in nature has resulted in litigation and postponement of tax liability. Therefore, this condition is removed.

viii. AS-7 provides that the losses including the probable / expected losses shall be recognized fully and not in proportion to the percentage of completion. This amounts to differential treatment of recognition of income and losses. This differential treatment is accordingly removed, and therefore, the losses incurred shall also be allowed only in proportion to the stage of completion. Future or anticipated losses shall not be allowed unless such losses are actually incurred.

ix. AS-7 provides that revenue shall not be recognized during early stages of contract. As early stage of a contract is an uncertain and undefined concept, it leads to ambiguity and litigation. For providing certainty in this respect, TAS (CC) provides that once a contract crosses 25 % of stage of completion, the revenue in respect of such contact shall be recognized.

TAX ACCOUNTING STANDARD FOR REVENUE RECOGNITION

5.2.6 The Tax Accounting Standard for Revenue Recognition [TAS (RR)] is based on Accounting Standard-9 (AS-9) for Revenue Recognition issued by the ICAI. While recommending the TAS (RR), the Committee made the following changes to AS-9:

i. AS-9 recognises both the "proportionate completion method" or "completed service contract method" for recognition of revenue from service transactions. In order to reduce litigation and alternatives, the TAS (RR) provides that revenue from service transactions shall only be recognised by following the "percentage completion method".

ii. Where the ability to assess the ultimate collection with reasonable certainty is lacking, AS-9 provides for postponement of recognition of revenue in relation to any claim. In view of the specific provisions in the Act for bad debts, the postponement of revenue due to uncertainty is restricted to claims for price escalation and export incentives.

iii. As the Act contains specific provisions relating to recognition of income in the nature of dividends, the provisions of AS-9 relating to recognition of dividend is not incorporated in the TAS (RR).

TAX ACCOUNTING STANDARD FOR TANGIBLE FIXED ASSETS

5.2.7 The Tax Accounting Standard for Tangible Fixed Assets [TAS (FA)] is based on the Accounting Standard-10 Accounting for Fixed Assets (AS-10) issued by the ICAI. While recommending the TAS (FA) , the Committee recommended following changes to AS-10:

i. AS-10 deals with accounting for all fixed assets subject to certain exceptions such as forest, wasting assets and livestock. The applicability of TAS (FA) is restricted to tangible fixed assets being land, building, machinery, plant or furniture to make the same consistent with the definition of 'block of assets' as provided in the Act.

ii. In the case of acquisition of an asset in exchange for another asset, shares or other securities, AS-10 provides that the fair value of the asset/securities given up or fair value of the asset acquired, whichever is more clearly evident, should be recorded as actual cost. To provide certainty and consistency, the TAS (FA) provides that lower of the fair value of the asset/securities given up, or the asset acquired shall be recorded as actual cost.

iii. As regards, capitalisation of expenditure incurred on improvement and repairs, AS-10 provides that only those expenses which increase the future benefits from the existing asset should be capitalised. In line with judicial precedents, the criteria for capitalisation of improvement and repairs is modified in the TAS (FA).

iv. AS-10 provides guidance for revaluation of assets. As the Act does not recognise the concept of revaluation of assets, the portion of AS-10 relating to revaluation of assets is omitted in the TAS (FA).

v. AS -10 provides guidance on retirement and disposal of assets. As the Act contains specific provisions relating to retirement and disposal of tangible fixed assets, the same are not incorporated in the TAS (FA).

TAX ACCOUNTING STANDARD FOR THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES

5.2.8 The Tax Accounting Standard for The Effects of Changes in Foreign Exchange Rates [TAS (FE)] is based on the Accounting Standard-11 (AS-11) for The Effects of Changes in Foreign Exchange Rates issued by the ICAI. While recommending the TAS (FE), the Committee made the following changes in AS-11:

i. AS-11 provides guidance on initial and subsequent recognition of foreign currency transactions and the resultant exchange differences. The TAS (FE) expressly provides that these provisions will be subject to Section 43A of the Act and Rule 115 of the Income-tax Rules, 1962.

ii. AS-11 provides that exchanges differences arising on translation of the financial statements of non-integral foreign operations should be accumulated in a foreign currency translation reserve in the balance sheet. Since the Act does not provide for a distinction between integral and non-integral foreign operations, the TAS (FE) provides that such exchange differences shall be recognised for the purpose of computation of income.

iii. AS-11 provides that forward exchange or similar contracts entered into for trading or speculation purposes should be mark-to-market at each balance sheet date and the resultant exchange differences should be recorded in profit or loss. Since such mark-to-market gains or losses are unrealised in nature, the TAS (FE) provides that all gains or losses on such contracts shall be recognised on settlement.

TAX ACCOUNTING STANDARD FOR GOVERNMENT GRANTS

5.2.9 The Tax Accounting Standard for Government Grants [TAS (GG)] is based on the Accounting Standard-12 (AS-12) for Government Grants issued by the ICAI. While recommending the TAS (GG), the Committee made the following changes to AS-12:

i. AS-12 has adopted two broad approaches for the accounting treatment of Government grants. The first approach is the ‘Capital Approach’ under which, a Government grant is treated as a part of share holders’ funds and the second approach is the ‘Income approach’ under which, a government grant is taken to income over one or more periods. The Committee extensively deliberated on the above approaches and also considered the judicial precedence on the issue. To reduce litigation and to give a certainty to TAS (GG) provides that the government grants should be treated either as revenue receipt or they should be reduced from the cost of fixed assets based on the purpose for which such grant or subsidy is given.

ii. AS-12 provides that mere receipt of a grant is not necessarily conclusive evidence that the conditions attached to the grant have been or will be fulfilled. To reduce litigation and to provide certainty, the TAS (GG) provides that recognition of Government grant shall not be postponed beyond the date of actual receipt.

TAX ACCOUNTING STANDARD FOR SECURITIES

5.2.10 The Tax Accounting Standard for Securities [TAS (SC)] is based on the Accounting Standard-13 (AS-13) Accounting for Investments issued by the ICAI. While recommending the TAS (SC), the Committee made the following change in AS-13:

i. AS-13 deals with accounting for current investments, long term investments and investment property but excludes shares, debentures or other securities held as stock-in-trade. Since the TAS (SC) deal with computation of income under the head "Profits and gains of business" or "profession or Income from other sources", the TAS (SC) only deals with securities held as stock-in-trade.

ii. AS-13 indicates that though it does not apply to stock-in-trade, the manner in which they are accounted for is quite similar to current investments. To seek alignment with the provisions of the Act, to provide certainty, and reduce litigation, the TAS (SC) modifies the provisions of AS-13 relating to valuation of securities.

TAX ACCOUNTING STANDARD FOR BORROWING COSTS

5.2.11 The Tax Accounting Standard for Borrowing Costs [TAS (BC)] is based on the Accounting Standard-16 (AS-16) for Borrowing Costs issued by the ICAI. While recommending the TAS (BC), the Committee made the following changes in AS-16:

i. AS-16 provides that borrowing costs may include exchange differences arising from foreign currency borrowings to the extent they are regarded as an adjustment to interest costs. To align with the provisions of the Act, this provision has been removed in the TAS (BC).

ii. As per AS-16 a Qualifying Asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. To align with the provisions of the Act, the definition of Qualifying Asset in the TAS (BC) is modified.

iii. AS-16 provides that the borrowing costs on Qualifying Assets should be capitalised when it is probable that they will result in future economic benefits and can be reliably measured. To achieve alignment with the Act, this provision is removed from the TAS (BC).

iv. AS-16 provides that judgment should be used for determining whether general borrowings have been utilised to fund Qualifying Assets. To provide certainty and consistency, the TAS (BC) provides a specific formula for capitalising borrowing costs relating to general borrowings.

v. As per AS-16 income on temporary investments of funds borrowed should be reduced from borrowing costs eligible for capitalisation. To align with judicial precedents, this provision is removed from the TAS (BC).

vi. AS-16 provides for commencement, cessation and suspension of capitalisation of borrowing costs based on specified conditions. In the TAS (BC), the conditions relating to commencement and cessation have been aligned to the provisions of the Act, and the concept of suspension is removed.

TAX ACCOUNTING STANDARD FOR LEASES

5.2.12 The Tax Accounting Standard for Leases [TAS (LS)] is based on the Accounting Standard-19 (AS-19) for Leases issued by the ICAI. While recommending the TAS (LS), the Committee made the following changes to AS-19:

i. AS-19 provides for classification of lease into an operating lease or a finance lease. Application of AS-19 could result in a different classification of a lease by the lessor and the lessee. For ensuring uniformity of classification of a lease by the lessor and lessee, the TAS (LS) provides for uniformity of definitions and requires a joint confirmation regarding consistency of classification between the lessor and the lessee.

ii. AS-19 includes concepts of Gross Investment and Net Investment in case of finance leases. To ensure consistency and simplification, the TAS (LS) modifies these provisions.

iii. Where the lessor is a manufacturer/dealer, AS-19 proposes adjustment in the sale price only in the cases of artificially low rate of interest. In order to bring uniformity of treatment for artificially low and high rate of interest, the TAS (LS) provides for adjustment in case of artificially high rate of interest as well.

iv. AS-19 provides for adjustment in the recognition of income/expense on account of changes in estimates of the residual value. To provide certainty, the TAS (LS) provides that adjustments in the residual shall be carried out only at the end of the lease term.

v. AS-19 contains provisions relating to sale and lease back transactions. As the Act contains specific provisions for treatment of such transactions, the same has been removed in the TAS (LS).

5.2.12.1 The TAS provides that in the case of finance leases, depreciation will be allowed to the lessee even though the asset is owned by the lessor. Provisions of the Act relating to depreciation, ownership, block of assets, transfer etc. need to be aligned prior to notification of the TAS (LS). While formulating the TAS (LS), the Committee noted that the current provisions of the Act do not adequately address cases where after the sale and lease back transaction, the resulting lease is an operating lease. The Committee recommends necessary amendment to the Act to address these cases.

TAX ACCOUNTING STANDARD FOR INTANGIBLE ASSETS

5.2.13 The Tax Accounting Standard for Intangible Assets [TAS (IA)] is based on the Accounting Standard-26 (AS-26) for Intangible Assets issued by the ICAI. While recommending the TAS (IA), the Committee made the following changes to AS-26:

i. In the case of acquisition of an intangible asset in exchange for another asset, shares or other securities, AS-26 provides that the fair value of the asset/securities given up or fair value of the asset acquired, whichever is more clearly evident, should be recorded as actual cost. To provide certainty and consistency, the TAS (IA) provides that lower of the fair value of the asset/securities given up, or the asset acquired shall be recorded as actual cost.

ii. AS-26 provides guidance on amortisation, retirement and disposal of intangible assets, and intangible assets acquired on amalgamation. As the Act contains specific provisions relating to these areas, the same are not incorporated in the TAS.

TAX ACCOUNTING STANDARD FOR PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

5.2.14 The Tax Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets [TAS (PC)] is based on Accounting Standard-29 (AS-29) Provisions, Contingent Liabilities and Contingent Assets issued by the ICAI. While recommending the TAS (PC), the Committee made the following changes in AS-29:

i. AS-29 inter-alia stipulates recognition of a provision when it is probable that an outflow of economic resources will be required to settle an obligation. To provide certainty and to align with the principles for recognition of revenue, the TAS (PC) replaces the condition of "probable" with "reasonably certain" for recognising a provision.

ii. AS-29 provides for recognition of a contingent asset when the realisation of related income is virtually certain. In order to remove the differential treatment between recognition of income and expenses, the TAS (PC) replaces the condition of "virtually certain" with "reasonably certain" for recognition of income and the related asset.

iii. As there are specific provisions in the Act for restructuring expenses, the provisions of AS-29 relating to restructuring costs is not incorporated in the TAS (PC).

5.3 The drafts of the 14 Tax Accounting Standards formulated by the Committee are enclosed as Annexure 'D'.

Chapter 6

Interim Reports

6.1 As the finalisation of drafts of TAS on all topics identified by the Committee was expected to take a considerable time, the Committee decided to submit interim reports along with drafts of TAS finalised till the date of submission of the interim reports. The Committee submitted the first interim report in August 2011 along with the drafts of the following TAS:

(i)	Construction Contracts	(Corresponding to AS-7)
(ii)	Government Grants	(Corresponding to AS-12)
(iii)	Intangible Assets	(Corresponding to AS-26)

6.2 Thereafter, the Committee submitted the second interim report in May 2012 along with the drafts of the following TAS:

(i)	Accounting Policies	(Corresponding to AS-1)
(ii)	Valuation of Inventories	(Corresponding to AS-2)
(iii)	Revenue Recognition	(Corresponding to AS-9)
(iv)	Tangible Fixed Assets	(Corresponding to AS-10)
(v)	Borrowing Costs	(Corresponding to AS-16)
(vi)	Provisions, Contingent Liabilities and Contingent Assets	(Corresponding to AS-29)

Chapter 7

Limited revision of drafts of TAS submitted along with the interim reports

TAS on Intangible Assets

7.1 Subsequent to submission of the draft TAS on Intangible Assets, the Committee noted some inconsistencies between the draft TAS on Intangible Assets and the draft TAS on Tangible Fixed Assets in the area of initial measurement. In order to align the provisions for initial measurement of intangible assets with the provisions for initial measurement of tangible fixed assets, the Committee proposes the following revision to the draft of TAS on Intangible Assets, which was submitted along with the first interim report:

Para 10, 13 and 14 of the draft TAS on Intangible Assets submitted reads as under:

"*10. Where an intangible asset is acquired in exchange for shares or other securities, the asset shall be recorded at the fair value of the securities issued.*

13. Where an intangible asset is acquired in exchange for another asset, its actual cost shall be determined based on the fair value of the asset given up.

14. The actual cost of an intangible asset shall be adjusted subsequent to its acquisition on account of price adjustment, changes in duties or similar factors."

7.1.1 Para 10, 13 and 14 are proposed to be revised as under:

"*10. When an intangible asset is acquired in exchange for shares or other securities the asset shall be recorded at its fair value or the fair value of the securities issued, whichever is lower.*

13. When an intangible asset is acquired in exchange for another asset, its actual cost shall be recorded at its fair value or the fair value of the asset given up, whichever is lower.

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 Tax Accounting Standard for The Effects of Changes in Foreign Exchange Rates.*"

Tax Accounting Standard for Valuation of Inventories

7.2 Para 1(c) of the Tax Accounting Standard for Valuation of Inventories submitted along with the second interim report reads as under:

"Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Tax Accounting Standard on Investments;"

7.2.1 Subsequently, after deliberations, the TAS for Investments is proposed to be renamed as TAS on Securities. Accordingly, para 1(c) of the TAS for Valuation of Inventories is proposed to be revised as under:

"Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Tax Accounting Standard for Securities;"

7.2.2 Further, para 24 of the TAS reads as under:

Dissolution of Partnership Firm

"24. In case of dissolution of a partnership firm, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the net realisable value;"

7.2.3 Subsequently, after deliberations, the Committee considered it appropriate to include other similar entities within the scope of the above para. Accordingly, para 25 of the TAS is proposed to be revised as under:

Dissolution of Partnership Firm or Association of Persons or Body of Individuals

"24. In case of dissolution of a partnership firm or association of persons or body of individuals, notwithstanding whether business is discontinued or not, the inventory on the date of its dissolution shall be valued at the net realisable value;"

Chapter 8

Other terms of reference – IFRS and Ind-AS

8.1 The Committee noted that the proposed TAS along with the provisions of the Act will provide a comprehensive framework for computation of income (other than MAT) even if Ind-AS are made mandatory.

8.1.1 The concept of MAT is based on book profits, which are generally aligned to distributable profits as computed under the Companies Act, 1956. In the absence of clarity on amendments to the Companies Act, 1956 relating to the impact of the transition to Ind-AS on the computation of distributable profits; the corresponding impact on computation of MAT under the Act cannot be currently determined with certainty.

8.1.2 Further, subsequent to the Press Release – 7/2011 No. 1/1/2009-IFRS dated 25 February 2011 issued by the Ministry of Corporate Affairs, neither have the Ind-AS standards been notified nor has a firm schedule of implementation been announced. Similarly, other sector regulators are also yet to announce a firm schedule and basis for implementation. Moreover, subsequent to the Press Release, certain new IFRS have been issued by the International Accounting Standards Board as a result of which new differences have emerged between Ind-AS and IFRS. It is unclear whether the Ind-AS would be modified for such changes in IFRS.

8.1.3 Given the fluid and uncertain situation regarding the transition to Ind-AS, the Committee decided to primarily focus on the formulation of TAS harmonised with the provisions of the Act.

8.1.4 The Committee recommends that the status of the transition to Ind-AS should be carefully monitored, and appropriate amendments in the Act especially to the provisions relating to computation of MAT should be considered based on any such developments in the future.

8.1.5 The mandate of the Committee was to harmonise the accounting standards issued by ICAI with the provisions of the Act. However, the Committee noted that there are certain areas on which the ICAI is yet to issue any accounting standards but where guidance on computation of income under the Act is required to reduce litigation and provide certainty. Accordingly, the Committee recommends that TAS covering the following areas may also be considered for notification under the Act:

(i) Share based payment
(ii) Revenue recognition by real estate developers
(iii) Service concession arrangements (example, Built Operate Transfer agreements)
(iv) Exploration for and evaluation of mineral resources.

Annexure-A

F. No. 134/48/2010-SO (TPL)
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes
****

Dated: 20th December, 2010

ORDER

Subject: Constitution of Accounting Standard Committee – regarding

CBDT has constituted a committee comprising of the following member for formulation of Accounting Standard to be notified under sub section (2) of section 145 of the Income Tax Act, 1961(the Act) and to suggest appropriate amendments to the Act required on account of transition to IFRS regime:-

(i) Shri H. Srinivasulu, CIT-2, Hyderabad, as Convenor
(ii) Shri Pravin Kumar, CIT (A)-40, Mumbai, Member
(iii) Shri Pawan Kumar, Director, CBDT, Member
(iv) Shri Ankur Garg, Addl. CIT, Mumbai, Member
(v) Shri Rajesh Bhoot, Director, CBDT, Member Secretary
(vi) Shri M.P. Lohia, Executive Director, E&Y, Mumbai, Member
(vii) Shri Kamlesh Vikamsey, C.A., Member
(viii) Shri Jamil Khatri, C.A., Member
(ix) Shri Milin Mehta, C.A., Member

2. The term of reference of the committee are as under: -

i) to study the harmonization of all accounting standards issued by ICAI with the direct tax laws in India, and suggest accounting standards which need to be adopted under section 145(2) of the Act along with relevant modifications;

ii) to suggest method of determining tax base (book profit) for the purpose of MAT in case of companies migrating to IFRS in the initial year of adoption and thereafter.

3. Committee may submit its interim report by 15th February, 2011 and its final report by 31st March, 2011.

(M. Rajan)
Under Secretary (TPL-III), CBDT
Mob.: 09717308858

Copy to:-

(i) Shri H. Srinivasulu, CIT-2, Hyderabad

(ii) Shri Pravin Kumar, CIT (A)-40, Mumbai
(iii) Shri Pawan Kumar, Director, CBDT
(iv) Shri Ankur Garg, Addl. CIT, Mumbai
(v) Shri Rajesh Bhoot, Director, CBDT
(vi) Shri M.P. Lohia, Executive Director, E&Y, Mumbai
(vii) Shri Kamlesh Vikamsey, C.A.
(viii) Shri Jamil Khatri, C.A.
(ix) Shri Milin Mehta, C.A.

with a request to acknowledge the receipt of this order by sending e-mail to ustpl3@nic.in at their earliest convenience.

F. No. 134/48/2010-SO (TPL)
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes
****

New Delhi, dated the 19th January,2011.

ORDER

Subject: Nomination of Shri J. Krishna Kishore, Additional Commissioner of Income Tax, Hyderabad as a member in the Accounting Standard Committee – regarding.

You have been nominated as member to the Accounting Standard Committee constituted by the CBDT vide Order dated 20th December, 2010 in F.No.134/48/2010-SO(TPL).

2. This issues with the approval of Member(L&C).

(M. Rajan)
Under Secretary (TPL-III), CBDT
Mob.: 09717308858

To

Shri J. Krishna Kishore,
Additional Commissioner of Income Tax,
Range-2, 8th Floor, B-Block, Income Tax Towers,
Masab Tank, Hyderabad – 500 004.
e-mail : krishnakishore@hotmail.com

Copy to :

(i) Shri H. Srinivasulu, CIT-2, Hyderabad
(ii) Shri Pravin Kumar, CIT (A)-40, Mumbai
(iii) Shri Pawan Kumar, Director, CBDT
(iv) Shri Ankur Garg, Addl. CIT, Mumbai
(v) Shri Rajesh Bhoot, Director, CBDT
(vi) Shri M.P. Lohia, Executive Director, E&Y, Mumbai
(vii) Shri Kamlesh Vikamsey, C.A.
(viii) Shri Jamil Khatri, C.A.
(ix) Shri Milin Mehta, C.A.

Annexure-B

List of Accounting Standards issued by the ICAI which are not recommended for notification under the Act by the Committee		
Sl. No.	**AS No.**	**Title of the Accounting Standard**
1.	AS-3	Cash Flow Statements
2.	AS-6	Depreciation Accounting
3.	AS-14	Accounting for Amalgamations
4.	AS-15	Employee Benefits
5.	AS-17	Segment Reporting
6.	AS- 18	Related Party Disclosures
7.	AS-20	Earnings Per Share
8.	AS-21	Consolidated Financial Statements
9.	AS-22	Accounting for Taxes on Income
10.	AS-23	Accounting for Investments in Associates in Consolidated finance Statements
11.	AS-24	Discontinuing Operations
12.	AS-25	Interim Financial Reporting
13.	AS -27	Financial Reporting of Interests in Joint Ventures
14.	AS-28	Impairment of Assets
15.	AS-30	Financial Instruments : Recognition and Measurement
16.	AS-31	Financial Instruments : Presentation
17.	AS-32	Financial Instruments : Disclosures

Annexure-C

List of Accounting Standards issued by the ICAI which are harmonised with the provisions of the Act for the purposes of notification under the Act		
Sl. No.	**AS No.**	**Title of the Accounting Standard**
1.	AS-1	Disclosure of Accounting Policies
2.	AS-2	Valuation of Inventories
3.	AS-4	Contingencies and Events Occurring After the Balance Sheet Date
4.	AS-5	Net Profit or Loss for the Period, Prior Period Items and changes in Accounting Policies
5.	AS-7	Construction Contracts
6.	AS-9	Revenue Recognition
7.	AS-10	Accounting for Fixed Assets
8.	AS-11	The Effects of Changes in Foreign Exchange Rates
9.	AS-12	Accounting for Government Grants
10.	AS-13	Accounting for Investments
11.	AS-16	Borrowing Costs
12.	AS-1 9	Leases
13.	AS-26	Intangible Assets
14.	AS-29	Provisions, Contingent Liabilities and Contingent Assets

Annexure-D

The text of the draft Tax Accounting Standards formulated by the Committee for the purposes of notification under the Act		
Sl. No.	**Title of Tax Accounting Standard**	**Page No.**
1.	Disclosure of Accounting Policies (Corresponding to AS-1)	42 - 44
2.	Valuation of Inventories (Corresponding to AS- 2)	45 - 52
3.	Events Occurring After the Previous Year (Corresponding to AS-4)	53 - 54
4.	Prior Period Items (Corresponding to AS- 5)	55 - 56
5.	Construction Contracts (Corresponding to AS- 7)	57 - 63
6.	Revenue Recognition (Corresponding to AS- 9)	64 - 67
7.	Accounting for Tangible Fixed Assets (Corresponding to AS- 10)	68 - 73
8.	The Effects of Changes in Foreign Exchange Rates (Corresponding to AS-11)	74 - 81
9.	Government Grants (Corresponding to AS-12)	82 - 85
10.	Securities (Corresponding to AS-13)	86 - 89
11.	Borrowing Costs (Corresponding to AS-16)	90 - 94
12.	Leases (Corresponding to AS-19)	95 - 102
13.	Intangible Assets (Corresponding to AS- 26)	103 - 111
14.	Provisions, Contingent Liabilities and Contingent Assets (Corresponding to AS- 29)	112 - 118

Tax Accounting Standard [TAS]

Accounting Policies

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting 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

4. 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

5. 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 Tax Accounting Standard.

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

Disclosure of Accounting Policies

7. All significant accounting policies adopted by a person shall be disclosed.

8. 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.

9. Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

10. 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.

****

Tax Accounting Standard [TAS]

Valuation of Inventories

Preamble

This Tax accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting 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 Tax Accounting Standard on construction contracts;

   (b) Work-in-progress which is dealt with by other Tax Accounting Standards;

   (c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Tax Accounting Standard on Investments;

   (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 Tax Accounting Standard on tangible fixed assets.

Definitions

2(1) The following terms are used in this Tax Accounting 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 Tax Accounting 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, except in the case of a service provider, the inventories of services shall be valued at cost.

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 Tax Accounting 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 Stock

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

(i) nil, if 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, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the net realizable value.

Disclosure

25. 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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Tax Accounting Standard [TAS]

Events Occurring After the End of Previous Year

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting Standard deals with tax accounting for events occurring after the end of the previous year

Definitions

2(1) The following term is used in this Tax Accounting Standard with the meanings specified:

(a) **"Events occurring after end of the previous year"** are those significant events, both favourable and unfavourable, that occur after end of the relevant previous year but on or before the date on which the financial statements are approved by the Board of Directors in the case of a company, and, by the corresponding approving authority in the case of any other entity.

2(2) Words and expressions used and not defined in this Tax Accounting Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Recognition

3. Adjustment to assets, liabilities, income or expense shall be made for events occurring after the previous year that provide additional information materially affecting the determination of the amounts relating to conditions existing at the end of the relevant previous year.

Disclosure

4. Following disclosure shall be made in respect of each class of provision:

(a) a brief description of the item of income, expense, asset or liability recognized on account of events occurring after balance sheet date;

(b) amount recognized;

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Tax Accounting Standard [TAS]

Prior Period Expense

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

2. This Tax Accounting Standard deals with treatment of prior period expense.

Prior Period Expense

3. (1) Prior period expense means an expense which is recorded in the current previous year as a result of error or omission in any preceding year(s).

   (2) Prior period expense shall not be considered as allowable deduction in the previous year in which it is recorded unless the person proves that such expense accrued during the said previous year.

   (3) The expense arising on account of change in accounting estimate shall not constitute an error or omission for the purposes of classifying the same as prior period expense.

Disclosure

4. Prior period expense, whether considered as allowable deduction or not, shall be disclosed with reference to its nature and amount separately.

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Tax Accounting Standard [TAS]

Construction Contracts

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting 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 Tax Accounting 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 Tax Accounting 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 Tax Accounting 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 Tax Accounting 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 Tax Accounting 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 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.

10. 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

11. 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 Tax Accounting 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.

12. 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.

13. 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.

14. 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

15. 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.

16. 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.

17. The stage of completion of a contract shall be determined with reference to:

    (a) the proportion that contract costs incurred for work performed upto 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.

18. When the stage of completion is determined by reference to the contract costs incurred upto the reporting date, only those contract costs that reflect work performed are included in costs incurred upto 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.

19. 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

20. 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.

Disclosure

21. 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.

22. 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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Tax Accounting Standard [TAS]

Revenue Recognition

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1(1) This Tax Accounting 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 Tax Accounting Standard does not deal with the aspects of revenue recognition which are dealt with by other Tax Accounting Standards.

Definitions

2(1) The following term is used in this Tax Accounting 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 Tax Accounting 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. 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

5. 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. Tax Accounting Standard on construction contract also requires the recognition of revenue on this basis. The requirements of that Standard shall ***m*utatis 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

6. 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.

7. 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.

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

Disclosure

9. 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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Tax Accounting Standard [TAS]

Tangible Fixed Assets

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting Standard deals with the treatment of tangible fixed assets.

Definitions

2(1) The following terms are used in this Tax Accounting 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 Tax Accounting 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, subject to the fulfillment of the criteria mentioned in paragraph 12, 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 Tax Accounting 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, its actual cost shall be recorded at its fair market value or the fair value of the asset given up, whichever is lower.

11. When a tangible fixed asset is acquired in exchange for shares or other securities, the asset shall be recorded at its fair market value or the fair value of the securities issued, whichever is lower.

Improvements and Repairs

12. Expenditure for the purpose of preserving or maintaining an already existing tangible fixed asset and which does not bring a new asset into existence or does not result into a new or different advantage that increases the future benefits from the existing asset shall be charged to revenue.

13. Expenditure which does not meet the criteria mentioned in paragraph 12 is to be capitalised.

14. 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

15. 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.

16. Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

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) Modified Value Added Tax credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st 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) Modified Value Added Tax credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st 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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Tax Accounting Standard [TAS]

The Effects of Changes in Foreign Exchange Rates

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

2. This Tax Accounting 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

3. (1) The following terms are used in this Tax Accounting 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 Tax Accounting Standard but defined in the Act shall have the meaning assigned to them in the Act.

Foreign Currency Transactions

Initial Recognition

4. 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.

Conversion at Last Date of Previous Year

5. At last day of each previous year:

   (a) Foreign currency monetary items shall be converted into reporting currency by applying the closing rate.

   (b) 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

6. (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 4, 5 and 6

7. Notwithstanding anything contained in paragraph 4, 5 and 6; 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

8. (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

9. The financial statements of an integral foreign operation shall be translated using the principles and procedures in paragraphs 4 to 7 as if the transactions of the foreign operation had been those of the person himself.

Non-integral Foreign Operations

10. (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

11. 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.

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

12. (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.

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Tax Accounting Standard [TAS]

Government Grants

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting 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 Tax Accounting 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 Tax Accounting 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 Tax Accounting 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.

Disclosures

13. 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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Tax Accounting Standard (TAS)

Securities

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting Standard deals with securities held as stock-in-trade.

2. This Tax Accounting Standard does not deal with:

   (a) the bases for recognition of interest and dividends on securities which are covered by the Tax Accounting 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 Tax Accounting 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 Tax Accounting 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, its actual cost shall be recognised at its fair value or the fair value of the asset given up, whichever is lower.

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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Tax Accounting Standard [TAS]

Borrowing Costs

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. (1) This Tax Accounting Standard deals with treatment of borrowing costs.

   (2) This Tax Accounting 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 Tax Accounting 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 Tax Accounting 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 Tax Accounting Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.

4. For the purpose of this Tax Accounting 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 = the average cost of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year, other than those qualifying assets which are directly funded out of specific borrowings;

C = the average 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.

Disclosure

10. 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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Tax Accounting Standard [TAS]

Leases

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting 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 Tax Accounting 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 Tax Accounting 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

2 (1) The following terms are used in this Tax Accounting 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.

2(2) Words and expressions used and not defined in this Tax Accounting Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Classification of Leases

3(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.

3(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.

4(1). Lease classification shall be made at the inception of the lease and shall not be changed except as provided in Para 4 (2).

4(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.

5. 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

6. 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 hall 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.

7. 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.

8. 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.

9. Subject to execution of the joint confirmation referred to in Para 5, lessee shall be entitled to depreciation on the asset acquired under finance lease in accordance with the provisions of the Act.

Operating Leases

10. 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

11. 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;

12. 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.

13. 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.

14. 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.

15. 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

15. Lease income under an operating lease shall be recognised as an income on a straight line basis over the lease term.

16. 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.

16. Subject to execution of the joint confirmation referred to in Para 5, lesssor shall be entitled to depreciation on the asset given under operating lease in accordance with the provisions of the Act.

Sale and Leaseback Transactions

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

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Tax Accounting Standard [TAS]

Intangible Assets

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting Standard deals with the treatment of intangible assets. This Tax Accounting Standard does not deal with:

(a) intangible assets that are covered by another Tax Accounting 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 Tax Accounting 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 Tax Accounting 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. Where such item is acquired in an amalgamation, it shall be recognised in accordance with the Tax Accounting Standard on Amalgamations.

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. Where an intangible asset is acquired in exchange for shares or other securities, the asset shall be recorded at the fair value of the securities issued.

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 Tax Accounting Standard on Government Grants.

13. Where an intangible asset is acquired in exchange for another asset, its actual cost shall be determined based on the fair value of the asset given up.

14. The actual cost of an intangible asset shall be adjusted subsequent to its acquisition on account of price adjustment, changes in duties or similar factors.

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 Tax Accounting Standard on Inventories. The Tax Accounting 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.

Disclosures

26. 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) Modified 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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Tax Accounting Standard [TAS]

Provisions, Contingent Liabilities and Contingent Assets

Preamble

This Tax Accounting 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 Tax Accounting Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Tax Accounting 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 Tax Accounting Standard.

2. This Tax Accounting Standard does not deal with the recognition of revenue which is dealt with by Tax Accounting 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 Tax Accounting Standard.

Definitions

4(1) The following terms are used in this Tax Accounting 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 Tax Accounting 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.

Disclosure

20(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.

20(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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