# INCOME COMPUTATION AND DISCLOSURE STANDARDS

## 1 BACKGROUND:

1.1 Section 276 of the Income tax Bill 2025 dealing with "Method of Accounting". The concept of Tax Accounting Standards was introduced for the first time by Finance Act, 1995, effective from tax year 1996-97. By this, it is provided that computation of income from "Business or Profession" and "Income from Other Sources" shall be made in accordance with "Income Computation and Disclosure Standards" (ICDS) notified by the Central Government. In brief, Section 276 is divided into three parts as under:

1) Income under the heads "Income from Business or Profession" or "Income from other sources" shall be computed in accordance with either (a) cash or (b) mercantile system of accounting regularly adopted by the assessee.

2) The Central Government shall notify ICDS to be followed by the assessee for computation of income from the above two sources.

3) The assessing officer (A.O) can make a best judgment assessment under section 271 of the Act by estimating the income if the provisions of Section 276(1) and 276(2) are not complied with by the assessee.

1.2 On 25-01-1996 the Central Government notified two Accounting Standards viz. (i) Disclosure of Accounting Polices and (ii) Disclosure of Prior period and Extra Ordinary items and Changes in Accounting Policies". These standards were required to be followed by the assessee while maintaining his books of account. These two standards were more or less on the same lines as AS-1 and AS-5 issued by the

Institute of Chartered Accountants of India (ICAI). Thereafter, for about two

purposes of notification under the Act and to suggest amendments to the Act. This committee formulated drafts of 14 Tax Accounting Standards (TAS) and submitted its report in August, 2012. After inviting public comments on drafts of TAS, CBDT has revised 10 TAS and notified them u/s 145 (2) of Income Tax Act, 1961 on 31.03.2015. These standards are now called "Income Computation and Disclosure Standards" (ICDS). The Notification states that ICDS are issued u/s 145(2) of the previous Act will have to be followed by the assessee following the Mercantile System of Accounting for the purpose of computing income chargeable to tax under the head "Profits and Gains of Business or Profession" and "Income from other sources". This Notification comes into force with effect from Tax Year 2015-16. The new act followed the same ICDS.

1.3 The Ten ICDS notified u/s 276(2) of the Act has been incorporated under the Income Tax Bill 2025 and the corresponding AS issued by ICAI and IND – AS as notified under the companies Act, 2013, are as under:

| | Title | ICDS | AS (ICAI) | IND-AS |
|---|---|---|---|---|
| (i) | Accounting Policies | 1 | 1 | 8 |
| (ii) | Valuation of Inventories | 2 | 2 | 2 |
| (iii) | Construction Contracts | 3 | 7 | 11 |
| (iv) | Revenue Recognition | 4 | 9 | 18 |
| (v) | Tangible Fixed Assets | 5 | 10 | 16 |
| (vi) | Effects of changes in Foreign Exchange Rates | 6 | 11 | 21 |
| (vii) | Government Grants | 7 | 12 | 20 |
| (viii) | Securities | 8 | 13 | 32/109 |
| (ix) | Borrowing Costs | 9 | 16 | 23 |
| (x) | Provisions, Contingent Liabilities and Contingent Assets | 10 | 29 | 37 |

It may be noted that the Tax Accounting Standards Committee had recommended four more standards and two more for notification. These four standards deal with (i) Events Occurring After the Balance Sheet Date, (ii) Prior

Period Items, (iii) Leases and (iv) Intangible Assets. The two new incorporations has been done under standards which deals with (i) Revenue Recognition for Service Contract, (ii) Allowability of Mark-to-Market Losses. CBDT has not issued standards on these subjects while issuing the above notification.

## 2 IMPACT OF ICDS:

**2.1** It may be noted that ICDS issued u/s 276(2) of the Act only provides that income from Business / Profession or Income from Other Sources should be computed in accordance with ICDS. Therefore, the assessee will have to maintain its accounts in accordance with applicable AS or IND – AS notified under the Companies Act. If there is any difference between the accounting results and the requirements of applicable ICDS, the assessee will have to make adjustments while computing its taxable income from the above two sources while filing its Return of Income. If this is not done, the A.O. can call upon the assessee to furnish the required information and make the adjustments while computing the taxable income from these two sources. If the required information is not furnished by the assessee the A.O. can make the best judgment assessment u/s 271 of the Act.

**2.2** It may be noted that section 276 (3) of the Act provides that if the A.O. is not satisfied about the correctness or completeness of the accounts of the assessee or where the method of accounting as provided in section 276(1), i.e. either cash or Mercantile, has not been regularly followed by the assessee or income has not been computed in accordance with the requirements of ICDS, he can make a best judgment assessment. There is no requirement that the assessee should maintain accounts which comply with ICDS. In view of this, in the case of a company, no adjustment can be made to the computation of Book Profits u/s 206 of the Act if the accounts are prepared in accordance with the applicable Accounting Standards and the Provisions of the Companies Act. In other words, ICDS do not apply for computation of Book Profits u/s 206 of the Act.

**2.3** In the preamble of all the Ten ICDS it is stated that in case of conflict between the provisions of the Income Tax Act and ICDS, the provisions of the Act shall prevail to that extent. To take an example, if a provision for any tax, duty, cess or fee etc. is made and the same is in accordance with any ICDS, deduction will not be allowable unless actual payment is made as provided in Section 36 of the Act. Similar will be the position where provisions of section 37 are applicable. Further, all ICDS (except ICDS VIII relating to securities) contain transitional provisions which, in general, provide for recognition of outstanding contracts and transactions as on 1.4.2015 in accordance with ICDS after taking into account income, expenditure or Loss already recognized in past periods.

## 3 ICDS –I ACCOUNTING POLICIES:

This is a disclosure standard. This standard is different in respect of some material aspects from AS-1 (ICAI) and AS-1 notified in 276(2). In brief, the provisions of ICDS-1 are as under:

**3.1** **Fundamental Accounting Assumptions**: This standard recognizes (a) Going concern, (b) consistency and (c) Accrual as fundamental accounting assumptions. These three terms are defined in the same manner as AS-1 issued by ICAI. If these assumptions are not followed, disclosure of the same is necessary.

**3.2** **Accounting Policies**: The standard states that accounting policies refer to specific accounting principles and methods of applying these principles adopted by a person. It is also stated that the accounting policy adopted by a person should be such that they represent true and fair view of the state of affairs and income from business or profession of the assessee. For this purpose, the treatment and presentation of transactions and events shall be governed by their substance and not merely by the Legal form. Further, it allows deduction of MTM loss or other expected loss computed as per ICDS, but further also provides that such loss shall not be allowed as a deduction under any other provision. It may be noted that this standard does not recognize the concept of "Prudence" and "Materiality". As the standard does not recognize prudence and materiality as an accounting policy, the

A.O. may try to make additions of small items of expenses and try to levy penalty also on the ground that the same is not disclosed. Further, provision for expected losses as recognized in the accounting standards issued by ICAI on the basis of prudence is recognized by this standard.

**3.3** **Changes in Accounting Policies:** The standard states that any accounting policy shall not be changed without reasonable cause. What is a reasonable cause is a debatable issue. This particular provision in ICDS will invite litigation even if any such change in the accounting policy does not have material effect on income computation.

**3.4** **Disclosure of Accounting Policies:** It is provided that all significant accounting policies adopted by the assessee shall be disclosed. Any change in an accounting policy which has a material effect has to be disclosed. It may be noted that this standard does not deal with changes in "Accounting Estimates" as opposed to changes in "Accounting Policies". This concept is recognized in AS-5(ICAI). In AS-2 issued in 1996 u/s 276(2), it was provided that if a dispute arises whether a change is in accounting policy or accounting estimate, the same should be referred to CBDT. There is no similar provision in ICDS-1.

## 4 ICDS –II – VALUATION OF INVENTORIES:

This standard corresponds to AS-2 issued by ICAI. Broadly stated, the principle of valuation of Inventories in ICDS II under section 276(2) and AS-2 is similar and both standards recognize that Inventories shall be valued at cost, or net realizable value, whichever is lower. However, there are some differences between the two standards which are as under;

**4.1** **Cost of Purchase:** AS-2 states that the cost of purchase includes duties and taxes (other than those subsequently recoverable by the enterprise from taxing authorities). However, ICDS II states that all duties and taxes, whether subsequently

recoverable from tax authorities or not, should be considered as part of the cost. Thus, a question will arise whether the assessee will have to make adjustment for cost of inputs for valuation of inventory of finished goods.

**4.2** **Inventory of Service Provider**: ICDS II states that cost of services in the case of a service provider shall consist of labour and other cost of personnel directly engaged in providing the service, including supervisory personnel and attributable overheads. AS-2 does not make any such provision. Therefore, a service provider following mercantile method of accounting will have to make adjustment for valuation of closing inventory on this basis.

**4.3** **Inventory of Securities:** The inventory being the securities not listed on a recognized stock exchange or listed but not quoted on a recognized stock exchange with regularity from time to time shall be valued at actual cost. An inventory being securities other than specified before should be valued at lower of actual cost or net realizable value.

**4.4** **Standard Cost**: AS-2 allows use of standard cost if the results approximate the actual cost. ICDS II does not permit this method for inventory valuation.

**4.5** **Opening and closing inventory**: To reduce litigation, ICDS II specifically incorporates the well-established principle that the value of inventory of a business as at the beginning of a year shall be the same as the value of inventory at the end of the immediately preceding year. Similarly, the cost of inventory, if any, on the day of commencement of business will be opening inventory where business has commenced during the relevant tax year.

**4.6** **Change in method**: AS-2 permits change in the method of inventory valuation if it is required by statute or for compliance of accounting standard or if the change would result in a more appropriate presentation. ICDS II states that the inventory valuation method once adopted cannot be changed without reasonable cause. What is a reasonable cause is a debatable issue.

**4.7 Valuation of Inventory on Dissolution of Firm** : ICDS-II states that in case of dissolution of a partnership firm, A.O.P or BOI, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at net realizable value even if such value is more than the cost whether the business is discontinued or continues post-dissolution. The Supreme Court in the case of A.L.A Firm V/s CIT (189 ITR 285) had taken this view. However, in a later decision in Shakti Trading Co. V/s CIT (250 ITR 871) the Supreme Court clarified that on the death of a partner if the firm is dissolved but the surviving partners continued the business, the inventory should be valued at cost or net realizable value, whichever is less. To this extent, the proposition in Para 24 of ICDS II that even if the business continues after dissolution the inventory should be valued at net realizable value, which is more than cost, is against the principle laid down by the Supreme Court. Thus, the question will arise whether CBDT can make a Rule which goes against the Supreme Court decision.

## 5 ICDS – III – CONSTRUCTION CONTRACTS:

This standard corresponds to AS-7 issued by ICAI. This standard accepts the principle of recording the income on the basis of stage of completion of contract on the reporting date. Some significant differences between the two standards are as under.

**5. Retention Money**: Presently retention money is excluded in computing taxable income on the premise that the right to receive the retention money accrues only after the obligations under the contract are fulfilled and therefore it would not amount to income of the year in which the amount is retained. As against this ICDS III notified under section 276(2) that Retention money shall be recognized for computing revenue based on percentage of completion method. Thus, adjustment will be required in computing income from a contract where retention money is not included in the income as per book.

**5.1 Recognition of variations in Contract**: Criteria for recognition of variations

in contract work, claims and incentive payment is explained in AS-7. The variation required to be adjusted when it is probable that the customer will approve the variation and the amount of revenue can be readily measured.

5.2 **Early Stages of completion of contract**: Once a contract crosses 25% of completion stage, the revenue in respect of the contract is required to be recognized under ICDS III. AS-7 does not provide for such a fixed percentage of completion stage for recognizing income.

5.3 **Treatment of Incidental Income**: ICDS III states that contract costs can be reduced by any incidental income. However, interest, dividends or capital gains, which is not included in contract revenue, will be separately taxable. As against this, AS-7 provides that costs that relate directly to the specific contract shall be reduced by any incidental income that is not included in contract revenue. It may be noted that the Supreme Court has, in the case of CIT V/s Bokaro Steal Ltd (236ITR315), recognized this principle of netting off of incidental income against the contract cost.

5.4 **Recognition of expected Losses**: ICDS III provides that losses incurred on a contract shall be allowed only in proportion to the stage of completion. Further or anticipated losses shall not be allowed, unless such losses are actually incurred. As per AS-7 such losses are recognized on the basis of prudence.

5.5 **Transitional Provision:** ICDS III provides that this standard is applicable to all contracts which commenced on or before 31st March 2015 and were not completed before that date. However, AS-7 applies to all contracts which were entered into on or after the date of its notification.

## 6 ICDS-IV – REVENUE RECOGNITION:

This standard corresponds to AS-9 issued by ICAI. Both these standards deal with recognition of revenue from sale of goods, rendering of services, and the use by

others of the person's resources yielding interest, royalties or dividends. Some of the differences between the two standards are as under.

**6.1** **Revenue from Service Contract**: Under AS-9 revenue from rendering of services can be recognized under the completed service contract method or under the proportionate completion as may be appropriate. As against this, ICDS IV provides that revenue from service transactions shall be recognized by the percentage completion method only. The provisions of ICDS III (Construction Contracts) will apply for this purpose. In other words, this standard does not recognize completed service contract method. Service Provides following the mercantile method of accounting will have to make adjustments to total income if they are following completed service contract method.

**6.2** **Recognition of Dividend**: Under AS-9 dividend is recognized when owner's right to receive payment is established. Under ICDS IV dividend is recognized as provided in the Income tax Act i.e date of declaration of dividend, distributed or paid or u/s 95 dealing with deemed dividend.

**6.3** **Recognition of Royalty**: Under AS-9 Royalties accrue in accordance with the terms of the relevant agreement unless the receipt is uncertain. ICDS IV states that Royalties can be recognized on the basis of the terms of the agreement unless, having regard to the substance of the transaction, it is more appropriate to recognize revenue on some other systematic and rational basis.

## 7 ICDS-V- TANGIBLE FIXED ASSETS:

This standard corresponds to AS-10 issued by ICAI. The provisions relating to identification of Tangible Fixed Assets, component of actual cost, self-constructed tangible fixed assets, valuation etc. in both the standards are more or less similar. However, there are some differences in respect of the following matters.

**7.1 Non-Monetary consideration**: AS-10 provides that where fixed asset is acquired in exchange for another asset, shares or other securities issued, cost of asset acquired should be recorded either at fair market value of asset given up or shares or securities issued or fair market value of asset acquired, whichever is more clearly evident. In contrast, ICDS V provides that in case of acquisition of an asset in exchange for another asset, shares or other securities, fair value of tangible fixed asset acquired shall be recorded as actual cost of the asset so acquired.

**7.2 Recognition of Income**: Under ICDS-V income arising on transfer of a tangible fixed asset shall be computed in accordance with the provisions of the Income tax Act.

**7.3 Revaluation**: AS-10 contains provisions relating to revaluation of assets. These are not incorporated in ICDS V since the Income tax Act does not recognize the concept of revaluation of assets.

## 8 ICDS-VI- EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES:

This standard corresponds to AS-11 issued by ICAI. Broadly stated, this standard deals with three areas viz. (i) Transactions in Foreign Currency, (ii) translating financial statements of foreign operations and (iii) forward exchange contracts. The general principles in AS-11 and ICDS VI are more or less the same for recording the effects of changes in Foreign Exchange Rates. There are some

differences which are as under:

**8.1** AS-11 provides guidance on initial and subsequent recognition of foreign currency transactions and the resultant exchange differences. ICDS VI expressly provides that these provisions will be subject to Section 35 of the Income tax Act and sec 36 of the Income tax.

**8.2** AS-11 provides that exchange 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 Income tax Act does not provide for a distinction between integral and non-integral foreign operations, ICDS VI provides that such exchange differences shall be recognized for the purpose of computation of income.

**8.3** AS-11 provides that forward exchange or similar contracts entered for trading or speculation purposes should be mark-to-market at each balance sheet date and the resultant exchange differences should be recorded in statement of profit or loss. Since such mark-to-market gains or losses are unrealized in nature, ICDS VI provides that all gains or losses on such contracts shall be recognized on settlement.

## 9 ICDS VII – GOVERNMENT GRANTS:

This standard corresponds to AS-12 issued by ICAI. The definition of "income" in section 2(49) of the Income tax Act has now been widened. Under this definition any receipt from the central or state Government or any authority, body or agency in the form of any assistance in the form of subsidy, grant, cash incentive, duty drawback, waiver, concession or reimbursement in cash or kind will be considered as income. However, if any subsidy, grant etc is required to be deducted from the cost of any asset the same will not be considered as income.

From the wording of the above definition, it will be seen that no distinction

has been made between Government Grants which are of a capital nature, and which are in the nature of revenue grant. The Supreme Court and the various High Courts have held that subsidy received from Government as an incentive to set up an industry is a capital subsidy not liable to tax. In the case of Sahney Steel & Press Works Ltd V/s CIT (2281TR 253) the Supreme Court has held that subsidy given to set up the business or to complete a project will be considered as a Capital Receipt not liable to tax. ICDS VII defers from AS-12 for the treatment of Government Grants. This will be evident from the following.

**9.1** **Recognition of Government Grants:** AS-12 provides that 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 grant is received ICDS VII recognizes this concept but states that the grant should be recognized in the year of receipt even if the entity receiving the grant is not certain that it will be able to comply with the conditions attached to it.

**9.2** **Grant related to Tangible Fixed Assets**: AS – 12 states that the grant relating to depreciable fixed asset may be deducted from the cost / WDV of the asset or may be treated as deferred income over the useful life on a systematic and rational basis. ICDS VII permits only one method i.e. deducts the grant amount from cost /WDV of the asset.

**9.3** **Grant in the nature of Promoter's Contribution**: AS-12 provides that this should be credited to Capital Reserve. ICDS VII provides that, if the Grant is not relatable to any asset acquired or as compensation for expenses or losses, it should be recognized as income over the period necessary to match it with the related costs which it is intended to compensate. In other words, ICDS VII does not permit grant of a capital nature to be credited to Capital Reserve.

**9.4** **Transitional Provision** : In view of the above, a question will arise as to what will be the position of Government Grants received prior to 01.04.2015. The transitional provision states that the provisions of ICDS VII shall apply to Grants

received on or after 01.04.2015 after taking into account the amount, if any, of the said Grant recognized for any year on or before 31.03.2015.

## 10 ICDS – VIII – SECURITIES:

**10.1** This standard corresponds to AS-13 (Accounting for Investments) issued by ICAI. 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 ICDS-VIII deals with computation of income from business or profession and income from other sources, it only deals with securities held as stock-in-trade.

**10.2** It may be noted that 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. ICDS-VIII modifies the provisions of AS-13 to seek alignment with the provisions of the Income tax Act.

**10.3** ICDS VIII provides that securities should be valued at lower of cost or net realizable value (NRV). Comparison of cost and NRV shall be done category-wise (and not for each individual security), for which securities shall be classified into (i) Shares, (ii) Debt Securities, (iii) convertible securities and (iv) others.

**10.4** ICDS VIII provides that where unpaid interest has accrued before the acquisition of a 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 should be deducted from the actual cost of the security.

**10.5** In case of acquisition of securities in exchange for the issue of shares or other securities, fair value of shares or securities acquired shall be recorded as actual cost

of acquisition of the securities. This is in line with AS-13 which also requires recognition in such cases at fair value of securities issued.

**10.6** In case of acquisition of securities in exchange for another asset, fair value of securities acquired shall be recorded as actual cost of the securities. As against this, AS-13 requires recognition at fair value of securities issued or fair value of asset given up, whichever value is more clearly evident.

## 11 ICDS-IX – BORROWING COSTS:

This standard corresponds to AS-16 issued by ICAI. Both the standards deal with circumstances when such costs should be capitalized and circumstances when they should be treated as revenue expenses. Some significant differences between the two standards are discussed below.

**11.1** **Exchange Differences**: AS-16 recognizes foreign exchange differences as part of interest cost for capitalization purposes. ICDS IX treat this exchange difference as part of borrowing cost to be capitalized. The treatment in accounts under AS-16 will require adjustment under ICDS IX.

**11.2** **Qualifying Asset**: AS-16 does not include intangible assets while defining this term. ICDS specifically covers know-how, Patents, copy-rights, commercial rights, digital asset etc. (I.e. intangible assets). The capitalization of borrowing costs for digital assets would depend on whether the asset qualifies as one that takes a substantial period to be ready for its intended use or sale. Further, under AS-16 any movable and immovable asset which necessarily takes more than 12 months to get ready for its intended use or sale is treated as a qualifying asset and borrowing cost incurred during this period is to be capitalized. If the digital asset meets the criteria of the borrowing cost, it may be capitalized as a part of its cost. Under ICDS IX borrowing costs for inventories that require a period of 12 months or more to bring them to a saleable condition should be capitalized. Therefore, in respect of tangible

and intangible fixed assets, borrowing costs during the period (even if it is less than 12 months) from the date of purchase of the asset to the date when it is put to use will have to be capitalized. This provision is in line with Section 36(1)(iii) of the Income tax Act, as amended w.e.f. 2016-17.

**11.3** **Capitalization of Borrowing costs**: Under ICDS IX, capitalization of specific borrowing cost shall commence from the date of borrowing AS-16 requires cumulative fulfillment of three conditions viz. incurrence of capital expenditure, incurrence of borrowing costs and preparatory activities being in progress.

**11.4** **Capitalization Formula**: Under ICDS IX borrowing Cost in respect of borrowings partly used for acquisition of the qualifying asset is to be capitalized in accordance with the following formula:

(A)*(B)/(C)

(A) Borrowing cost except directly relatable to specific purpose

(B) Average cost of qualifying assets (other than assets funded out of specific borrowings) at the first day and last day of the previous year and

(C) Average cost of total assets at the first day and last day of the previous year, other than assets funded out of specific borrowings.

**11.5** **Income from temporary investment**: Under ICDS IX income from temporary investments of borrowed funds cannot be reduced from borrowing costs eligible for capitalization. AS-16 permits this adjustment.

**11.6** **Suspension of Capitalization**: ICDS IX capitalization of borrowing costs should be suspended during extended periods in which active development of the qualifying asset is interrupted. AS-16 provides for such suspension of capitalization. If an enterprise has suspended capitalization and treated borrowing cost as expense during this period, it will have to make adjustment under this ICDS.

## 12 ICDS–X – PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS:

This standard corresponds to AS-29 issued by ICAI. The provisions in both the standards are more or less similar. Some differences are as under.

**12.1** **Provision:** A provision can be recognized under ICDS X if it is "reasonably certain" that an outflow of resources embodying economic benefits will be required to settle the obligation. Under AS-29 it is provided that such provision should be made if it is "probable" that such outflow of resources will be required.

**12.2** **Contingent Asset**: This can be recognized under ICDS X if it becomes "reasonably certain" that inflow of economic benefit will arise. Under AS-29 such recognition is possible only if realization of income is "Virtually certain".

## 13. CONCLUSION:

**13.1** Accounting Standards issued by ICAI apply to all non-corporate assessee requiring obtaining tax audit report and to all Corporate assessee. IND-As notified under the Companies Act, 2013, will apply to certain companies as are notified. As compared to this, ICDS will apply to all assessee having income from Business or Profession or Income from other sources if the accounts are maintained on the basis of Mercantile Systems of accounting.

**13.2** If any provision in ICDS is in conflict with any provision in the income tax Act, the provisions of the Act apply. Therefore, no adjustment is required to be made in the computation of income under that ICDS, if the income tax Act provides otherwise.

**13.3** All the Ten ICDS issued by CBDT require certain disclosures to be made. It is not clarified as to where such disclosures should be made. If the disclosures are to be made in the Financial Statement, there will be confusion when the accounting standard applicable to the assessee for preparation and presentation of financial

statements requires different type of disclosures. Therefore, CBDT should clarify that such disclosures required under ICDS should be made in Tax Audit Report. For this purpose, Form 3CD will have to be amended.

**13.4** As stated earlier, the ICDS relate to only computation of Income from Business or Profession and Income from other sources. It is not clarified as to how adjustments to profit or loss as per accounts will be stated as no computation sheet can be enclosed with the return of income. For this purpose, the Form of the return of income prescribed by the Rules will have to be suitably modified. All adjustments required to be made by different ICDS will have to be incorporated in this Form. This will mean that the Form of Return of Income will get further complicated.

**13.5** AS-5 defines "Prior Period Items" to mean income or expense which arise in the current period as a result of errors and omissions in the preparation of the financial statements of one or more prior periods. Similar definition was given in AS-2 notified CBDT in 1996. The Tax Accounting Standards (TAS) Committee had recommended a separate standard on "Prior Period Items" and suggested that in order to provide certainly and reduce litigation, Prior Period expenses should be allowed if the assessee proves that such expenses accrued during the year. In actual practice assessees have to face litigation in respect of prior period expenses. In order to reduce this litigation, it is desirable that CBDT issues a clarification that prior period expenses should be allowed in the year in which the liability has arisen by rectification of assessment u/s 154, if required.

**13.6** TAS Committee has suggested that CBDT should issue a standard on 'Events After the Balance Sheet Date". It was also suggested that adjustment should be made in the computation of income if such events provide additional evidence to assist estimation of amounts relating to conditions existing on the balance sheet date. This can be illustrated by a case in which a court judgment relating to pending wage dispute is received after the balance sheet date but before finalizing accounts. The effect of this judgment can be given while finalizing the relevant accounts. CBDT should clarify this issue by circular

**13.7** TAS Committee has also suggested that separate standard on 'Leases' be issued. There is no clarity about taxation of Finance Lease. The standard drafted by TAS committee had attempted to ensure some uniformity of classification of a lease by the lessor and the lessee. In order to bring uniformity of treatment for artificially low and high rate of interest, TAS provided for adjustment in case of artificially high rate of interest. CBDT should issue ICDS on this subject.

**13.8** TAS Committee had also drafted TAS on the subject of "Intangible Assets". This standard was on the same lines as AS-26 issued by ICAI. In many cases questions arise as to whether a particular capital expenditure results in acquision of intangible asset on which depreciation is allowable under the Income tax Act. CBDT needs to issue ICDS on this topic.

**13.9** TAS Committee has also drafted TAS on the subject of "Mark-to-Market 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 statement of profit or loss. Since such mark-to-market gains or losses are unrealized in nature, ICDS VI provides that all gains or losses on such contracts shall be recognized on settlement and not on the unrealized Mark-to-Market gain. It led to Disputes over taxability of unrealized forex gains/losses. CBDT needs to issue ICDS on this topic.