9 CHAPTER Securities [ICDS-VIII]

INTRODUCTION

9.1 ICDS-VIII came into force with effect from April 1, 2016 and it deals with securities held as stock-in-trade. This ICDS has two parts; Part A and Part B. Part A provides guidance for valuation of securities held as stock-in-trade and Part B provides guidance for valuation of securities held by the Scheduled Banks and Public Financial Institutions.

Accounting

Books of accounts are maintained by Companies either as per Accounting Standards (AS) or as per Indian Accounting Standards (Ind AS). AS came into effect more than a decade ago whereas Ind AS came into effect from April 2015 and got applicable in various phases.

Accounting Standard (AS)

Accounting Standard-13 (*Accounting for Investments*) and Accounting Standard-2 (*Valuation of Inventories*) are two accounting standards which deal with corresponding provisions of ICDS-VIII (*Securities*). In accounting books, Accounting Standards are applied to arrive at the book profits. Therefore, it is important to understand AS provisions because 'Profits and gains of business or profession' as per Income-tax Act are arrived by making adjustments in the book profits derived as per AS.

Indian Accounting Standard (Ind AS)

Indian Accounting Standard-109 (*Financial Instruments*) deals with securities held as stock-in-trade. This standard is corresponding to ICDS-VIII (*Securities*). In accounting books, Ind AS standards are applied to arrive at the book profits. Ind AS standards have more depth and are quite different from AS. Apart from Balance sheet and statement of profit and loss, financials prepared as per Ind AS also have 'Statement of Comprehensive income'. Statement of Comprehensive income has certain specific income or expenses which are recognised here and not in Statement of profit and loss.

9.2 ABOUT

9.2-1 ***Meaning of Securities*** - 'Securities' shall include the items as specified in Section 2(*h*) of the Securities Contracts (Regulation) Act, 1956, and shares of a company in which public is not substantially interested. The derivatives shall not be considered as part of securities as per this ICDS. Thus, the securities under ICDS shall include shares (listed or unlisted), scrips, mutual funds, bonds, debentures, Govt. securities, units, rights or interest in securities except derivatives.

9.2-2 ***Enabling provision*** - Section 145A provides that for the purpose of determining the income chargeable under the head 'Profits and gains of business or profession', the value of securities held as stock-in-trade should be calculated in accordance with Income Computation and Disclosure Standards (ICDS). Thus, valuation of securities held as stock-in-trade shall be made in accordance with this ICDS-VIII.

If securities are held as investments, they are treated as capital asset. Hence, any gain or loss arising from sale of securities held as investment shall be computed in accordance with provisions of capital gains.

9.2-3 ***Out of Scope*** - This ICDS shall not deal with the following:

1. Basis for recognition of interest and dividends on securities (dealt with under ICDS IV - Revenue Recognition).
2. Securities held by the person engaged in business of insurance
3. Securities held by mutual funds, venture capital funds, banks and public financial institutions formed under an Act or so declared under the Companies Act.

Accounting Standards (AS)

Securities held as stock-in-trade are accounted as per Accounting Standard-13 (*Accounting for Investments*), however, the costing of such securities is accounted as per Accounting Standard-2 (*Valuation of Inventories*). Accounting Standard 13 also deals with various aspects of investments. However, only Accounting provisions pertaining to securities held as stock-in-trade are compared.

Indian Accounting Standards (Ind AS)

Indian Accounting Standard-109 (*Financial Instruments*) deals with securities held as stock-in-trade. There are other provisions in Ind AS 109 as well but only those provisions have been compared which pertain to securities held as stock-in-trade.

9.3 VALUATION OF SECURITIES HELD AS STOCK-IN-TRADE

9.3-1 *At the time of acquisition*

9.3-1a *Inclusion in actual cost* - Where any security is acquired by way of purchase, it shall be recognised at actual cost in the books of account. The actual cost shall be aggregate of purchase price and other directly attributable acquisition charges such as brokerage, fees, taxes, duty or cess.

If security is acquired in exchange of any other security or asset, the actual cost shall be the fair value of the security which has been acquired. Fair value of security refers to the amount for which the asset could be exchanged between knowledgeable parties in arm's length transaction.

ICDS does not provide any guidance on how the indirect cost should be attributed and added to the actual cost of the securities held as stock-in-trade. Thus, the general accounting principles can be referred to for such attribution. As per the principles mentioned in Accounting Standard-2 (*Inventories*), indirect cost shall be bifurcated on some appropriate basis. Thus, indirect costs, which are not directly attributable to any particular security, can be allocated on appropriate basis such as value of securities, number of securities, etc.

Example 1, Mr. A acquired following securities:

Equity Shares	*No. of shares*	*Rate per share (in ₹)*	*Total Value (in ₹)*
A Ltd.	100	100	10,000
B Ltd.	250	50	12,500
C Ltd.	150	15	2,250
D Ltd.	500	20	10,000
X Ltd.	50	150	7,500
Y Ltd.	100	25	2,500
Total			**44,750**

In respect of these acquisitions, the taxpayer has taken the advisory from a consultant and paid a consultancy fees at the rate of 10% of total value of the portfolio i.e. ₹ 4,475. He also pays the security transaction tax at the rate of 0.1% on value of each transaction.

For the purpose of calculation of actual cost of the securities, the directly attributable cost shall be taken on actual basis and the indirect expenses shall be allocated on some reasonable basis (i.e., value of securities acquired). Thus, the actual cost of these securities shall be determined in the following manner:

Equity Shares	*Cost of Acquisition*	*STT at the rate of 0.1%*	*Advisory fee at the rate of 10%*	*Actual cost of shares*
A Ltd.	10,000	10	1,000	11,010
B Ltd.	12,500	12.50	1,250	13,762.50
C Ltd.	2,250	2.25	225	2477.25
D Ltd.	10,000	10	1,000	11,010
X Ltd.	7,500	7.50	750	8,257.50
Y Ltd.	2,500	2.50	250	2752.50

Accounting Standards (AS)

Inclusion in cost

Accounting requirements are similar to ICDS. The acquisition cost as per ICDS is similar to acquisition cost as per AS.

Exchange of any other asset

AS requirements are different from ICDS requirements.

As per Accounting Standards, if a security is acquired in exchange, or part exchange, for another asset, the acquisition cost of the security is determined by reference to the fair value of the asset given up. It may be appropriate to consider the fair value of the security acquired, if it is more clearly evident. Whereas, as per ICDS, if security is acquired in exchange of any other asset then the actual cost would be fair value of the security which has been acquired.

Example, A Ltd. acquired 100 equity shares of X Ltd. by giving up one fixed asset whose book value is ₹ 4,000 and fair value is ₹ 8,900. The fair value of 100 equity shares of X Ltd. is ₹ 13,000 whereas the par value of such shares is ₹ 10,000. How the cost of security of X Ltd. should be accounted for in the books of A Ltd.?

As per Accounting Standards (AS), in the books of A Ltd., the cost of security of X Ltd. should be the fair value of the asset given up. Accordingly, the following accounting entries shall be passed in books of A Ltd. to record this transaction.

Investment in X Ltd. Dr. [Bal. Fig.]	₹ 8,900	
To Fixed Asset A/c (Book value)		₹ 4,000
To Gain on exchange A/c [Fair value (*less*) Book value]		₹ 4,900

As per ICDS, the cost of security of X Ltd. should be the fair value of the securities acquired. This transaction should been accounted in following manner:

Investment in X Ltd. - Dr. [Fair value]	₹ 13,000	
To Fixed Asset A/c (Book value)		₹ 4,000
To Gain on exchange A/c [Fair value - Book value]		₹ 9,000

As books of account are not required to be changed to comply with the provisions of ICDS, the difference arising under this ICDS shall be adjusted while computing the amount of business profits. ₹ 4,900 is already included in the taxable business profit, the differential amount of ₹ 4,100 (₹ 9,000 (*less*) ₹ 4,900) shall be added in the figure of such taxable profit and it shall also be disclosed in Form 3CD and ITR.

Indirect costs

AS accounting requirements are similar to ICDS requirements. The basis of allocation of indirect costs mentioned in ICDS is same as basis mentioned in Accounting Standard-2 (*Valuation of Inventories*).

Indian Accounting Standards (Ind AS)

Inclusion in actual cost

Ind AS accounting requirements are different from ICDS. Securities held as stock-in-trade are measured at fair value. Generally, fair value at the time of acquisition is actual cost. However, at the time of acquisition, if the fair value is different from actual cost then the difference between fair value and cost is treated as follows:

(*a*) *Situation 1:* If there is difference in fair value and actual cost, and the reference of fair value was obtained from quoted price in active market for an identical asset or the reference of fair value was based on data from observable market then the difference between fair value and actual cost is recognised upfront as gain or loss in the statement of profit and loss. To be noted that this treatment is different from ICDS.

(*b*) *Situation 2:* If there is difference in fair value and actual cost, and the reason for difference is other than reason mentioned in situation 1 then securities held as stock-in-trade shall be initially recognised at actual cost only. After initial recognition, the difference between fair value and actual cost shall be deferred. The deferred difference shall then be recognised as gain or loss in the statement of profit and loss to the extent that the difference is due to change in the pricing of security. Here, the acquisition cost as per ICDS is similar to acquisition cost as per Ind AS accounting books.

Example (*on Situation 1*), X Ltd. invested money in 1,000 equity shares of A Ltd. on January 31, Year 00. These securities are acquired at ₹ 100 per share and are not listed on any stock exchange. A Ltd. is operating in industry with perfect competition economy. If fair value of the assets and liabilities at principal market is obtained then the fair value per share of A Ltd. as on January 31, Year 00 was ₹ 98 per share. The fair value as on March 31, Year 00 was ₹ 95 per share. X Ltd. closes its books on March 31, Year 00.

As per Ind AS, the stock-in-trade shall be recognised at fair value. In this case, the actual cost was ₹ 100 per share whereas the fair value was ₹ 98 per share. In accordance with situation 1 above, there is an upfront loss of ₹ 2 per share which shall be recognised immediately. Therefore, as per Ind AS, the following entries shall be passed:-

Particulars	*Dr.*	*Cr.*
On January 31, Year 00		
Equity shares of A Ltd. held as stock-in-trade A/c Dr.	100,000	
To Bank A/c		100,000
(Being securities acquired)		
Loss on stock-in-trade A/c Dr.	2,000	
To Equity shares of A Ltd. held as stock-in-trade		2,000
(Being loss of ₹ 2 per share recognised)		

On January 31, Year 00, the securities held as stock-in-trade are valued at ₹ 98,000.

As per ICDS, such securities shall be valued at ₹ 100,000.

In case of subsequent valuation at period end [The provisions of ICDS, AS and Ind AS are discussed subsequently]

At the time of closing books on March 31, Year 00

Particulars	*Dr.*	*Cr.*
On March 31, Year 00		
Loss on stock-in-trade A/c Dr.	3,000	
To Equity shares of A Ltd. held as stock-in-trade		3,000
(Being securities now valued at ₹ 95 per share)		

At this point of time, the securities held as stock-in-trade are valued at ₹ 95,000 [₹ 100,000 - 2,000 - 3,000].

The valuation of securities held for stock-in-trade was at lesser of actual cost or fair value. Therefore, the valuation shall be ₹ 95,000.

As per ICDS, since the security is not listed, valuation shall remain at ₹ 100,000.

Exchange of any other security

Ind AS accounting requirements are similar to ICDS. The recognition should be done as per the fair value of the security acquired.

Exchange of any other asset

Ind AS accounting requirements are similar to ICDS. The recognition should be done as per the fair value of the security acquired.

Indirect related costs

Ind AS and ICDS provide similar treatment of indirect related costs. Both the standards state that any charge related to acquisition of the security shall be treated as part of the security actual cost.

9.3-1b *Reduction from actual cost* - When interest bearing security is acquired by a buyer, the purchase price of such security generally

includes a portion of interest which has accrued prior to its acquisition. When the buyer receives such interest, as attributable to the period prior to the acquisition of security (pre-acquisition interest), it shall be reduced from the actual cost.

Example 2, Mr. A acquired a security on November 1, Year 00 for ₹ 200. Total interest on security for 3rd quarter shall be ₹ 30. If the amount of accrued interest has been included in the sale price, the pre-acquisition interest shall be reduced from the actual cost. The amount to be reduced shall be calculated as follows:

Total interest for the 3rd quarter: ₹ 30

Interest for the pre-acquisition period (1 month): 30×1/3 = ₹ 10

Actual cost of security = ₹ 190 (₹ 200 - ₹ 10)

Accounting Standards (AS)

AS requirements are similar to ICDS requirements. Pre-acquisition interest and dividend are reduced from the cost of acquisition.

Indian Accounting Standards (Ind AS)

Ind AS requirements are different from ICDS. In Ind AS, there is no concept of pre-acquisition interest or dividend. Therefore, any interest income or dividend income is recognised in the statement of profit and loss without any reduction in the cost of security.

Example, X Ltd. purchased 1,000 bonds of A Ltd. at ₹ 100 per bond on February 1,Year 00. These bonds were held for trading purposes. A Ltd. announced the amount of interest on February 15, Year 00 which was ₹ 5 per bond. Such interest was for the period up to January 31, Year 00. How these should be recorded in the books as per Ind AS and ICDS?

There is no concept of pre-acquisition interest in Ind AS. Any interest income accrued shall be accounted in statement of profit and loss. Cost of securities held as stock-in-trade shall be ₹ 100,000. When interest income is accrued, it shall be recognised in statement of profit and loss, i.e., ₹ 5,000.

As per ICDS, pre-acquisition interest income of ₹ 5,000 shall reduce the cost of securities held as stock-in-trade. The actual cost shall now be at ₹ 95,000 [100,000 - 5,000].

9.3-2 *Subsequent valuation*

9.3-2a *Listed securities* - At the end of any previous year, the listed securities, which have been 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.*

For this purpose, the actual cost shall be determined as per specific identification method. Under this method, specific costs are attributed to the identified items of securities. If application of this method is not practically possible, then First-In-First-Out method or Weighted Average method can be applied.

The net realisable value of listed securities, for this purpose, shall be the price at which it is quoted at stock exchange *less* estimated cost to be incurred on its sale.

The comparison of actual cost initially recognised and net realisable value shall be done category-wise and not for each individual security. For this purpose, securities shall be classified into the following categories:

1. Shares
2. Debt Securities
3. Convertible Securities
4. Any other securities not covered above

Marked-to-market loss, computed as per this ICDS, arising on subsequent valuation of listed securities held as stock-in-trade shall be allowed as deduction under Section 36(1)(*xviii*). If the notional loss is not computed in accordance with this ICDS, it shall be disallowed under Section 40A(13). While as if any gain arises due to such valuation, it shall be taxable as business income under Section 28. All these adjustments shall be made in the taxable business profits and will be reflected separately in ITR and tax audit report.

Example 3

Security	*Category*	*Cost*	*NRV*	*Lower of cost or NRV*	*ICDS Value*
A	Share	100	**75**	**75**	
B	Share	120	150	120	
C	Share	140	120	120	
D	Share	200	190	190	
	Total	**560**	**535**	**505**	**535**
E	Debt Security	150	160	150	
F	Debt Security	105	**90**	**90**	
G	Debt Security	125	135	125	
H	Debt Security	220	230	220	
	Total	**600**	**615**	**585**	**600**
Securities Total		**1,160**	**1,150**	**1,090**	**1,135**

When listed securities are transferred during the year, the closing stock of such securities shall be valued at the year-end as per specific identification method and in its absence, as per FIFO or Weighted Avg. method.

Example 4, Mr. X acquired following securities in physical form (share certificates):

Equity shares	*Date of purchase*	*No. of shares*	*Cost per share (In ₹)*	*Total Value (In ₹)*
Wipro	May 1, Year 00	150	100	15,000
Infosys	June 10, Year 00	200	150	30,000
Wipro	July 31, Year 00	50	110	5,500
Tata Steel	October 08, Year 00	100	250	25,000
Infosys	November 15, Year 00	75	140	10,500
Tata Steel	November 30, Year 00	100	240	24,000
Total		**675**		**1,10,000**

He transfers following shares on December 05, Year 00:

Equity shares	*Date of purchase*	*No. of shares*	*Sale price per share (In ₹)*	*Total Value (In ₹)*
Wipro	May 1, Year 00	50	120	6,000
Infosys	June 10, Year 00	100	200	20,000
Wipro	July 31, Year 00	10	150	1,500
Tata Steel	November 30, Year 00	75	300	22,500
Total		**235**		**50,000**

As physical certificates available in the closing stock can be easily recognized, the value of shares remaining in the stock at the year-end shall be determined as per specific identification method (assuming that the NRV of these shares at year-end is more than the actual cost of acquisition):

Equity shares	*Date of purchase*	*No. of shares*	*Cost per share (In ₹)*	*Total Value (In ₹)*
Wipro	May 1, Year 00	100	100	10,000
Infosys	June 10, Year 00	100	150	15,000
Wipro	July 31, Year 00	40	110	4,400
Tata Steel	October 08, Year 00	100	250	25,000
Infosys	November 15, Year 00	75	140	10,500
Tata Steel	November 30, Year 00	25	240	6,000
Total		**440**		**70,900**

Example 5, assume that in *Example 4*, Mr. X purchases all securities in Demat form and NRV of securities, as on the last date of previous

year, is different from the actual cost of acquisition. Further, during the relevant year, he transfers following shares:

Equity shares	*No. of shares*	*Sale price per share (In ₹)*	*Total Value (In ₹)*
Wipro	60	120	7,200
Infosys	100	200	20,000
Tata Steel	75	300	22,500
Total	**235**		**49,700**

As in case of listed shares (held in Demat form) it is impossible to follow the specific identification method, the value of equity shares at the year-end can be determined either as per FIFO Method or Weighted Average Method.

Value of closing stock as per FIFO method

Equity shares	*Date of purchase*	*No. of shares remaining*	*Cost per share*	*NRV*	*Total Cost*	*Total NRV*
Wipro	May 1, Year 00	*90*	*100*	*125*	*9,000*	*11,250*
Infosys	June 10, Year 00	*100*	*150*	*160*	*15,000*	*16,000*
Wipro	July 31, Year 00	*50*	*110*	*125*	*5,500*	*6,250*
Tata Steel	October 08, Year 00	*25*	*250*	*200*	*6,250*	*5,000*
Infosys	November 15, Year 00	*75*	*140*	*160*	*10,500*	*12,000*
Tata Steel	November 30, Year 00	*100*	*240*	*200*	*24,000*	*20,000*
Total		***440***			***70,250***	***70,500***

As aggregate of cost of securities, held as stock-in-trade at the end of the year, is less than the aggregate of NRV of securities, no adjustment is required under this ICDS in business profits.

Value of closing stock as per weighted average

Equity shares	*No. of shares remaining*	*Cost per share (In ₹)**	*Net Realisable Value (NRV)*	*Total Cost*	*Total NRV*
Wipro	140	102.50	125	14,350	17,500
Tata Steel	125	245	200	30,625	25,000
Infosys	175	147.27	160	25,772	28,000
Total	**440**			**70,747**	**70,500**

*The cost per share as per weighted average shall be calculated as per following formula:

$$\text{Weighted Avg. cost per share} = \frac{\text{Total cost incurred in 1st acquisition + Total cost incurred in 2nd acquisition + …….. and so on}}{\text{Total No. of shares acquired}}$$

As aggregate of NRV of securities, held as stock-in-trade at the end of the year, is less than the aggregate of actual cost of acquisition, the difference shall be treated as marked-to-market loss.

As ICDS does not provide any guidance on how the marked-to-market loss should be adjusted from the value of closing stock, it should be reduced proportionately from the value of those securities whose NRV at year-end is less than the actual cost. The rationale behind such treatment is that as marked-to-market losses arise in relation to a few securities, it should be adjusted from these securities only. Such adjustment of losses from the actual cost should be done in proportion to the notional loss, i.e., difference between actual cost and NRV.

Thus, the marked-to-market loss of ₹ 247(₹ 70,747(*less*) ₹ 70,500) shall be reduced from the actual cost of Tata Steel as its NRV has fallen below the actual cost. Total value of shares of Tata steel at year-end shall be ₹ 30,378 (₹ 30,625 (*less*) ₹ 247) and the weighted avg. cost per share shall be ₹ 243 (₹ 30,378/125).

Example 6, assume that in *Example 5*, the market value of shares of Tata Steel and Wipro as on the last date of previous year has fallen to ₹ 200 and ₹ 90 per share respectively. The value of closing stock and marked-to-market loss shall be calculated in following manner:

Value of closing stock as per FIFO method

Equity shares	*Date of purchase*	*No. of shares remaining*	*Cost per share*	*NRV*	*Total Cost*	*Total NRV*
Wipro	May 1, Year 00	90	100	90	9,000	8,100
Infosys	June 10, Year 00	100	150	160	15,000	16,000
Wipro	July 31, Year 00	50	110	90	5,500	4,500
Tata Steel	October 08, Year 00	25	250	200	6,250	5,000
Infosys	November 15, Year 00	75	140	160	10,500	12,000
Tata Steel	November 30, Year 00	100	240	200	24,000	20,000
Total		**440**			**70,250**	**65,600**

As aggregate of NRV of securities, held as stock-in-trade at the end of the year, is less than the aggregate of actual cost of acquisition, the difference shall be treated as marked-to-market loss, *i.e.*, ₹ 4,650 (₹ 70,250 (*less*) ₹ 65,600), which shall be reduced from the actual cost of those shares whose NRV is less than the actual cost, i.e., Wipro and Tata Steel.

Such loss shall be adjusted from the actual cost in proportion to the notional loss, as per following equation:

$$\text{Adjustment to be made from actual cost of relevant share} = \text{Actual marked-to-market loss} \times \frac{\text{Notional loss of relevant share}}{\text{Total Notional Loss}}$$

Equity shares	*No. of shares remaining*	*Cost per share*	*NRV*	*Notional loss*	*Marked-to-market loss*	*Value of closing stock*
Wipro	90	100	90	900	586	8,414
Infosys	100	150	160	-	-	15,000
Wipro	50	110	90	1,000	650	4,850
Tata Steel	25	250	200	1,250	813	5,437
Infosys	75	140	160	-	-	10,500
Tata Steel	100	240	200	4,000	2,601	21,399
Total	**440**			**7,150**	**4,650**	**65,600**

Value of closing stock as per weighted average

Equity shares	*No. of shares*	*Cost per share (In ₹)**	*Net Realisable Value (NRV)*	*Total Cost*	*Total NRV*
Wipro	*140*	*102.50*	*90*	*14,350*	*12,600*
Tata Steel	*125*	*245*	*200*	*30,625*	*25,000*
Infosys	*175*	*147.27*	*160*	*25,772*	*28,000*
Total	***440***			***70,747***	***65,600***

* The cost per share as per weighted average shall be calculated as per following formula:

$$\text{Weighted Avg. cost per share} = \frac{\text{Total cost incurred in 1st acquisition + Total cost incurred in 2nd acquisition + …….. and so on}}{\text{Total No. of shares acquired}}$$

The marked-to-market loss of ₹ 5,147(₹ 70,747 (*less*) ₹ 65,600) shall be reduced from the actual cost of Wipro and Tata Steel as their NRVs have fallen below the actual cost. Such loss shall be adjusted from the actual cost in proportion to the notional loss.

Equity shares	*No. of shares*	*Cost per share (In ₹)*	*Net Realisable Value (NRV)*	*Notional Loss*	*Marked-to-market loss*	*Value of closing stock*
Wipro	*140*	*102.50*	*90*	*1,750*	*1,221*	*13,129*
Tata Steel	*125*	*245*	*200*	*5,625*	*3,925*	*26,699*
Infosys	*175*	*147.27*	*160*	-	-	*25,772*
Total	***440***			***7,375***	***5,147***	***65,600***

A tracker should be maintained to keep track of actual cost or NRV value of each script.

Accounting Standard (AS)

AS requirements are similar to ICDS requirements. At the end of financial year, listed securities held as stock-in-trade shall be valued at lower of cost or net realisable value.

Comparison of cost with NRV -Category wise or Individual security wise

AS requirements are different from ICDS requirements. As per AS-13, valuation of security on overall (or global) basis is not considered appropriate. Sometimes, the concern of an entity can be with respect to the value of a category of related security and not with each individual security, and accordingly the security may be carried at the lower of cost and fair value computed category wise (i.e. equity shares, preference shares, convertible debentures, etc.). However, the global method is rarely used. Practically, the appropriate method is to carry security individually (rather than category wise) at the lower of cost and net realisable value.

As per ICDS, the comparison of actual cost initially recognised and net realisable value shall be done category-wise and not for each individual security. For this purpose, securities shall be classified into Shares, Debt Securities, Convertible Securities or any other securities not covered. This causes variance between ICDS and Accounting Standards.

Therefore, as per AS, the value of closing stock of securities, held as stock-in-trade, shall be determined at lower of cost of acquisition and NRV. Unlike ICDS, in AS such comparison is done security-wise and not category-wise. The marked-to-market losses as per AS are actually adjusted from books profits computed as per AS, whereas the losses as per ICDS are adjusted from business profits at the time of computation of taxable income. Such losses as per ICDS are never reflected in books of accounts. These are considered only for computation of taxable income.

Example,

Security	*Category*	*Cost*	*NRV*	*AS Value* (*Lower of cost or NRV for each security*)	*ICDS Value* (*Lower of cost or NRV for each category*)
A	Share	100	75	75	
B	Share	120	150	120	
C	Share	140	120	120	
D	Share	200	190	190	
	Sub-Total	**560**	**535**	**505**	**535**
E	Debt Security	150	160	150	

Security	*Category*	*Cost*	*NRV*	*AS Value* (*Lower of cost or NRV for each security*)	*ICDS Value* (*Lower of cost or NRV for each category*)
F	Debt Security	105	90	90	
G	Debt Security	125	135	125	
H	Debt Security	220	230	220	
	Sub-Total	**600**	**615**	**585**	**600**
Securities Total		**1,160**	**1,150**	**1,090**	**1,135**

Since the subsequent valuation of securities as per AS and ICDS are different, the profit and loss amount shall also differ in accounting books and taxation books. To accommodate this, entities can follow the practice tip mentioned below.

Practice tip

It is difficult to track the value of security considering the different treatment in accounting books and ICDS books. Therefore, it is advisable that an entity should maintain an excel tracker so that profitability from transfer of shares can be precisely calculated for Accounting as well as Income-tax. This excel tracker may capture the following fields in respect of each security:

1. Name of Security
2. Number of Shares
3. Date of Purchase
4. Historical Cost of acquisition
5. NRV at year end
6. Losses adjusted from cost of acquisition
7. Carrying value as per AS accounting books
8. Carrying value as per ICDS (Income-tax Act)

Valuation of closing stock

AS requirements are similar to ICDS requirements. When listed securities are transferred during the year, the closing stock of such securities shall be valued at the year-end as per specific identification method and in its absence, as per FIFO or Weighted Average method.

Indian Accounting Standard (Ind AS)

Listed securities

Ind AS requires securities held as stock-in-trade to be valued at fair value. Under Ind AS, there is no criterion of recognising at the lower of cost or net realisable value as mentioned in ICDS.

Further, Ind AS is silent on the following aspects:

(*a*) Costing method - Whether specific identification method or FIFO or weighted average method. Practically, the requirements as mentioned in ICDS shall remain similar in Ind AS.

(*b*) Comparison of cost with NRV is done category wise (not security wise) in ICDS. Since, in Ind AS securities are recognised only at fair value therefore there is no question of comparison.

Fair value in case of listed securities shall be the quoted price *less* estimated costs to be incurred for its sale.

As per ICDS, at the end of any previous year, listed 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*. For this purpose, the actual cost shall be determined as per specific identification method. Under this method, specific costs are attributed to the identified items of securities. If application of this method is not practically possible then First-In-First-Out method or Weighted Average method can be applied.

The net realisable value of listed securities, for this purpose, shall be the price at which it is quoted at stock exchange *less* estimated cost to be incurred on its sale.

The comparison of actual cost initially recognised and net realisable value shall be done category-wise and not for each individual security. For this purpose, securities shall be classified into the following categories:

1. Shares
2. Debt Securities
3. Convertible Securities
4. Any other securities not covered above

Marked-to-market loss, computed as per this ICDS, arising on subsequent valuation of listed securities held as stock-in-trade shall be allowed as deduction under Section 36(1)(*xviii*). If the notional loss is not computed in accordance with this ICDS, it shall be disallowed under Section 40A(13). While if any gain arises due to such valuation, it shall be taxable as business income under Section 28. All these adjustments shall be made in the taxable business profits and will be reflected separately in ITR and tax audit report.

Example,

Security	*Category*	*Cost*	*NRV*	*Ind AS Value* (*Fair Value*)	*ICDS Value* (*Lower of cost or NRV for each category*)
A	Share	100	75	75	
B	Share	120	150	120	