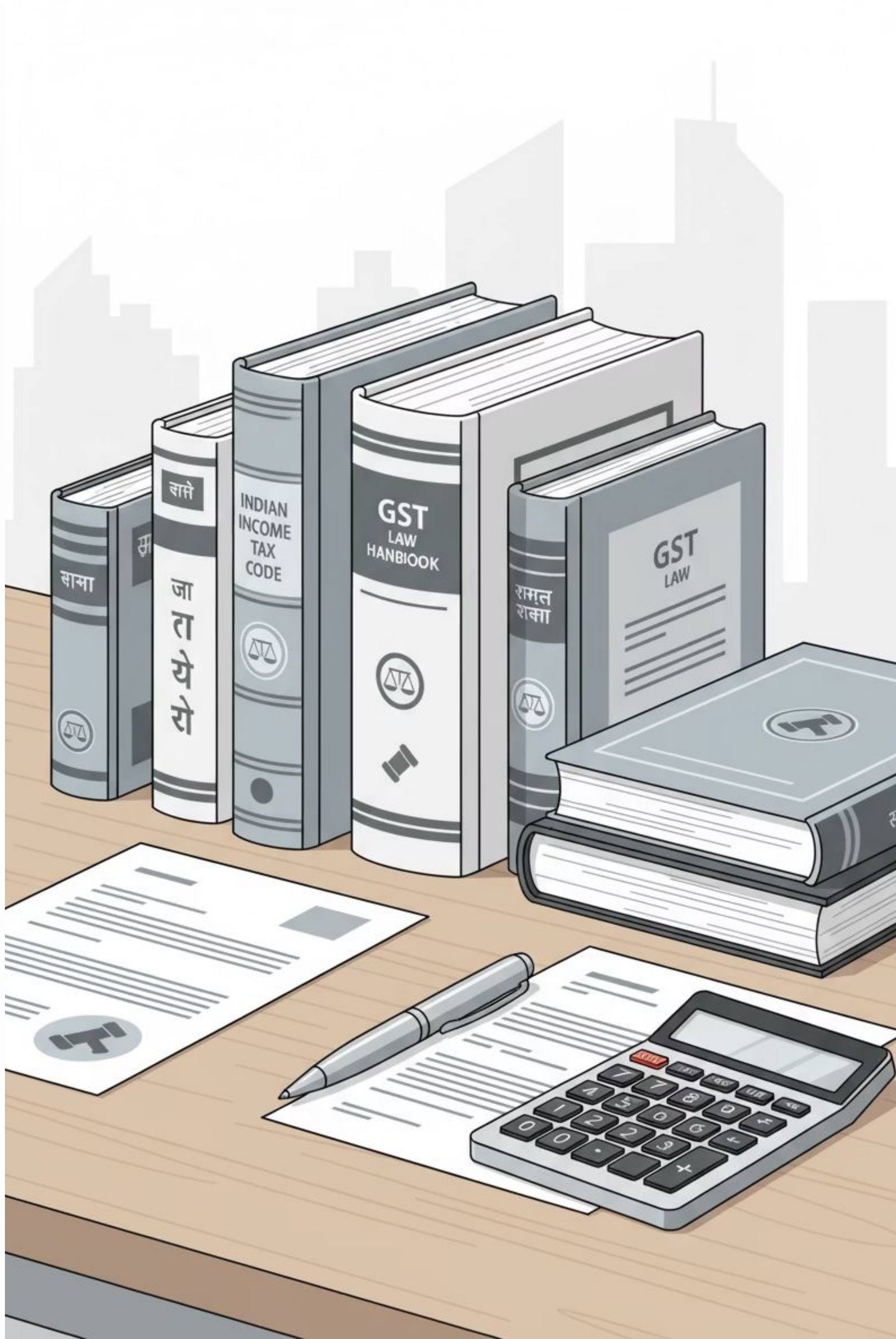
ICDS Did Not Go Away. The Section Numbers Did.

How the Income-tax Act 2025 renumbers the method of accounting for FY 2026-27

INCOME-TAX ACT 2025 | ICDS | SECTION 276 | SECTION 277 | FORM 3CD



What Actually Changed on 1 April 2026

New Act in Force

The Income-tax Act 2025 is in force from 1 April 2026 and applies from FY 2026-27 (AY 2027-28).

Section 145 becomes Section 276

Section 145 of the 1961 Act (method of accounting) is now Section 276.

Section 145A becomes Section 277

Section 145A of the 1961 Act (inventory and securities valuation) is now Section 277.

ICDS Unchanged

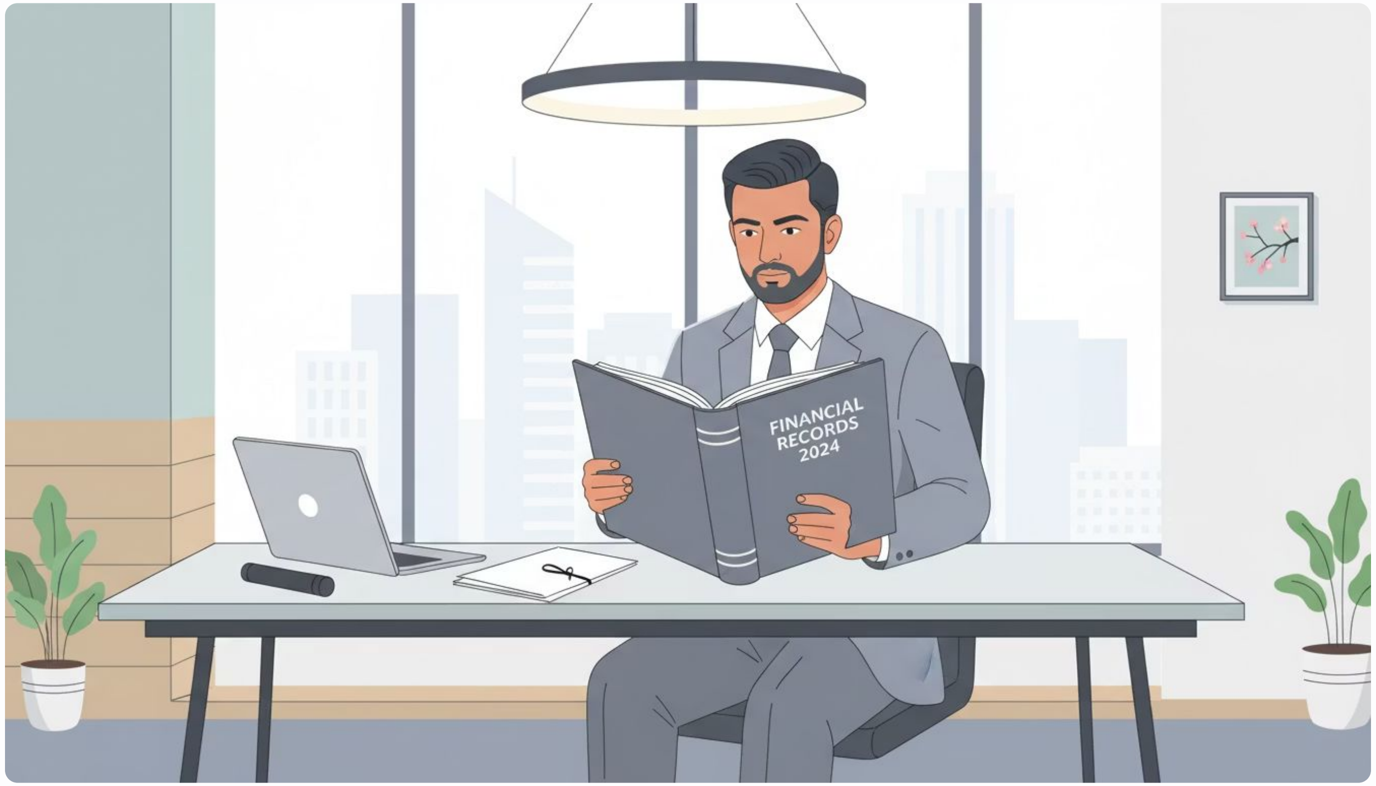
The ten ICDS are unchanged and continue, now anchored to Section 276(2).

FY 2025-26 Still Under Old Act

FY 2025-26 (AY 2026-27) is still governed by Sections 145 and 145A of the 1961 Act.

Key point: This is a renumbering, not a rewrite. Your ICDS obligations carry forward intact.

Section 276: Method of Accounting



Basis of Computation

Business income (Profits and gains of business or profession) and Income from Other Sources are computed on the cash or mercantile system regularly employed by the assessee.

Power to Notify ICDS

Section 276(2) empowers the Central Government to notify ICDS for any class of assessee or class of income.

Best-Judgment Assessment

The Assessing Officer may compute income on a best-judgment basis (in the manner provided in Section 271) where the accounts are incorrect or incomplete, the method is not regularly followed, or income is not computed as per the notified ICDS.

Section 277: Method of Accounting in Certain Cases

Inventory Valuation

Inventory is valued at the lower of actual cost or net realisable value, computed as per the ICDS notified under Section 276(2).

Inclusive Method

The value of purchases, sales and inventory includes any tax, duty, cess or fee actually paid or incurred to bring the goods to their location and condition on the valuation date.

Securities Valuation

Securities held by a scheduled bank or public financial institution are valued as per ICDS after taking the RBI guidelines into account.

The Ten ICDS Continue Under Section 276(2)

01

ICDS I

Accounting Policies

02

ICDS II

Valuation of Inventories

03

ICDS III

Construction Contracts

04

ICDS IV

Revenue Recognition

05

ICDS V

Tangible Fixed Assets

01

ICDS VI

Effects of Changes in Foreign Exchange Rates

02

ICDS VII

Government Grants

03

ICDS VIII

Securities

04

ICDS IX

Borrowing Costs

05

ICDS X

Provisions, Contingent Liabilities and Contingent Assets

Governing rule: Where an ICDS conflicts with your books, the ICDS prevails for computing taxable income.

Who This Applies To

Applies To

- Assessees on the mercantile system computing business or professional income.
- Assessees reporting Income from Other Sources.

Does Not Apply To

- Individuals and HUFs not required to undergo a tax audit.
- Assessees on the cash system.
- Income computed under presumptive schemes, which ICDS does not reopen.

Where the Book-to-Tax Gap Bites

Revenue Recognition - ICDS IV

Can pull income forward and deny deferral of expected credit losses.

Construction and Long Service Contracts - ICDS III

The percentage-of-completion method is mandatory.

Government Grants - ICDS VII

Recognition can trigger even when your books defer it.

Foreign Exchange - ICDS VI

Mark-to-market treatment often differs from Ind AS 21 and Ind AS 109.

Your FY 2026-27 Action Plan

1 Update Form 3CD Templates

Update Form 3CD templates and working papers to cite Sections 276 and 277, not 145 and 145A.

2 Rebuild ICDS Adjustment Schedules

Rebuild ICDS adjustment schedules for all ten standards.

3 Reconcile Inventory

Reconcile inventory to books using the inclusive method of valuation.

4 Map New Book-to-Tax Differences

Map new book-to-tax differences flowing from the Ind AS 2026 amendments (ESG-linked loans, renewable power contracts).

5 Document Every ICDS Adjustment

Document every ICDS adjustment with an audit trail before scrutiny asks for it.

Key Dates and What To Do

1

FY 2025-26 (AY 2026-27)

Sections 145 and 145A of the 1961 Act still apply.

2

FY 2026-27 (AY 2027-28) Onward

Sections 276 and 277 of the Income-tax Act 2025 apply.

3

ICDS Disclosures

ICDS adjustments are disclosed in Form 3CD with your tax audit.

Unsure how the renumbered ICDS regime changes your tax computation? Book a call with A S Banka Advisors Private Limited.

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