

GUIDANCE NOTE ON

INVENTORY VALUATION UNDER THE INCOME TAX ACT, 1961

**Cost Accounting Standards Board &
Direct Taxation Committee**

April, 2024



ICMAI

**THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA**

(Statutory Body under an Act of Parliament)

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**Behind every successful business decision,
there is always a CMA**



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DISCLAIMER

This Guidance Note has been designed to assist the auditors, practicing professionals and other stakeholders for better understanding of the provisions relating to the Form 6D for report of inventory valuation under section 142(2A) of the Income Tax Act, 1961. The members should utilize this guide in light of their professional judgement and facts & circumstances involved in each particular case.

The CASB, Direct Taxation Committee and the Council of the Institute disclaim any responsibility or liability that may occur, directly or indirectly, as consequence of the use and application of this Guidance Note.

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Foreword by the Chairman, CBDT

I am happy to place before you the **“Guidance Note on Inventory Valuation under the Income-tax Act, 1961”**, brought out by the Institute of Cost Accountants of India. This publication is an important endeavour of the Institute for the capacity building of the CMA professionals in the area of Inventory Valuation in terms of Section 142 (2A) (ii) of the Income-tax Act, 1961 (the ‘Act’).

The Government of India amended Section 142 (2A) of the Act authorizing the Assessing Officer to get the inventory of an assessee valued by a practicing Cost Accountant as per the prescribed terms and conditions. Accordingly, the Central Board of Direct Taxes (CBDT) has also notified Form 6D for furnishing of ‘Inventory Valuation Report’. The purpose of this amendment is to ensure that valuation of inventory is done in accordance with the law. It aims to foster fair tax assessment by enhancing the transparency and accuracy of inventory valuation.

This amendment not only opens a specialized professional avenue for the practicing Cost Accountants to demonstrate their skill and expertise in the area of valuation, but also strengthens their collaboration with the Government to prevent revenue leakage. It is commendable to observe that the Institute of Cost Accountants of India has prioritized the capacity building of its members in professional matters.

This publication is a step towards providing structured professional guidance on the legal provisions, amendments and computation methodology related to inventory valuation, emphasizing the critical role of Cost Accountants in ensuring accurate valuation, to curb tax evasion and concealment resulting from over or under valuation of inventory.

I am confident that this publication will serve as a valuable reference for the Cost Accountants in understanding the nuances of Inventory Valuation under the Act. I compliment the efforts of the



Institute in developing and publishing this essential document and I hope that Cost Accountants find this publication immensely useful.

I extend my best wishes to the Institute and its members for the continued success in their endeavours.

Nitin Gupta, IRS
Chairman, CBDT

***Preface by the Chairman, CASB, ICAI***

I am happy to present the first edition of Guidance Note on Inventory Valuation under the Income Tax Act, 1961 to the members on behalf of the Cost Accounting Standards Board of the Institute (CASB of ICAI). The publication has been a very comprehensive document with the relevant legal provisions, notifications, formats and standards. I am thankful to the Members of the CASB of ICAI for their continued guidance and support for achieving this feat.

The Government of India has amended the Section 142 (2A) of the Income Tax Act to authorize the Assessing Officer to get the inventory of an assessee valued by a practicing cost accountant under the prescribed terms and conditions and present its report in the Form 6D notified by the CBDT. The amendment will go a long way in preventing the revenue leakage and valuation of inventory in accordance with the law.

This Guidance Note will assist the practicing members and other professionals to keep abreast with the requirements of preparing the Inventory Valuation Report under the Section 142(2A) of the Income Tax Act, 1961. The aim is to equip the member in a structured manner which will not only aid the report preparation but also guide the members on the methodology to be followed. The Guidance Note contains all latest provisions of the relevant sections of the Income Tax Act and the Income Computation and Disclosure Standards (ICDS).

The Guidance Note has 8 chapters describing various aspects of the Inventory Valuation under the Income Tax Act. Chapter 1 on Preamble describes the background and objectives of the amendment. Chapter 2 prescribes the relevant Legal provisions along with explanations for better understanding. Chapter 3 consists of the Mode of Engagement and Criteria for Empanelment of PCMA's followed by various Income Tax Commissionerate pan India. Chapter 4 describes the provisions of the relevant



ICDSs. Chapter 5 is the most important chapter which explains the Form 6D issued by the CBDT for filing of Inventory Valuation Report by a PCMA. Chapter 6 on Checklist and Requirement from the assessee prescribes the check lists to be followed by the PCMA while carrying out the assignment. Chapter 7 contains some important Case Laws pertaining to the Inventory Valuation. Lastly Chapter 8 contains notifications, standards, format and other relevant provisions of the law as annexures. I sincerely hope that the members of the profession and other stakeholders will find this Guidance Note useful in understanding various contours of the Inventory Valuation and format for filing the Inventory Valuation Report.

I am grateful to CMA Navneet Kumar Jain, Convenor of the Small Group of the CASB constituted for the development of the Guidance Note, for his efforts and excellent coordination with the CBDT officials to bring the publication into the current shape. Further, I am thankful to CMA Rakesh Kumar Sinha our key resource person for the guidance note for his herculean effort in drafting the Guidance Note with all necessary annexures and formats and bringing out the document at the earliest. I convey my sincere gratitude to CMA Ravi Kumar Sahani, Member, CASB for his valuable efforts in editing the draft of the Guidance Note and also to CMA (Dr) SK Gupta, MD, RVO of ICAI for vetting the certain parts of the Guidance Note.

I am greatly thankful to CMA Ashwin G Dalwadi, President and CMA Bibhuti Bhusan Nayak, Vice-President of the Institute for their all-out support to the activities of the CASB. I assure that the CASB will come out with many more Technical Guides in the near future.

Members may appreciate that this specialized area has come for the first time for the Institute and as the work progresses we shall collect feedback from the stakeholders and update the Guidance Note as and when required. It will be a continuous evolution process till the time the process is stabilized. I urge the members to share their constructive suggestions for further improvement in the text of the Guidance Note so that the same can suitably incorporated in the future editions of the publication. Members are also urged to share their queries with the CASB while carrying out the Inventory Valuation assignments so that the same can be part of the FAQs to be compiled on the subject.

I am sure that the Guidance Note will help the members of the Institute in supplementing their efforts in the area of Inventory Valuation and they will be benefitted in imparting their professional responsibilities successfully.

Thank you very much.

CMA Neeraj D. Joshi
Council Member &
Chairman, CASB of ICAI



Message by the Joint Secretary, Policy, CBDT

I congratulate the Institute of Cost Accountants of India for bringing out the Guidance Note on Inventory Valuation under the Income Tax Act, 1961 to assist its members in filing the Inventory Valuation Report in Form 6D notified by the CBDT.

I hope that the Guidance Note will be helpful to the Cost and Management Accountants who will be assigned the task of inventory valuation under the Section 142 (2A) of the Income Tax Act, 1961 and to other stakeholders too. The correct valuation report will be of immense help to the Government in better assessment of incomes and prevention of loss of revenue caused by the over or under valuation of inventory. Cost and Management Accountants with their wide experience and expert knowledge of Costing, finance and Valuation are the apt professionals for this assignment. That was the basis of amending the Act to formalize the inputs sought from cost accountants on inventory valuation.

I am thankful to CMA Navneet Kumar Jain for his continuous coordination with the department in the matter. I once again congratulate the entire Council of the Institute headed by the President for taking this initiative.

Wishing the CMA fraternity all the best

Raman Chopra, IRS
Joint Secretary (TPL I)
Ministry of Finance, GoI



Message by the Whole Time Member, SEBI

I am pleased to note that the Institute of Cost Accountants of India is bringing out the Guidance Note on Inventory Valuation which will help taxpayers to correctly compute its income for the purposes of the taxation under the Income Tax Act. The role of Cost Accountant in Inventory Valuation has been recognised under the Income Tax Act through the amendment carried out by the Finance Act 2023.

This Guidance Note would be very helpful to the taxpayers, as well as Cost and Management Accountants, across the country in ensuring that the inventory is valued properly in accounts. Paying the right amount of tax by taxpayers helps the Government in fulfilling its socio-economic objectives and nation building. Thus, this note would, in a way, help Cost and management professional to make their contribution for nation building.

I convey my best wishes to entire CMA community and pay my sincere gratitude to the Council of the Institute for taking up this important work and finalizing it on priority.

Kamlesh C Varshney
Whole Time Member,
Securities and Exchange Board of India



Message by the President, ICMAI

I extend my heartfelt congratulations to the Cost Accounting Standards Board and Direct Taxation Committee of the Institute for their commendable effort in producing the ***"Guidance Note on Inventory Valuation under the Income Tax Act, 1961."*** This publication comes at a crucial juncture, offering invaluable support to practicing members in their inventory valuation assignments.

The publication was long awaited post amendment in the Income Tax Act, 1961, which prescribes the Assessing Officer to get the inventory of an assessee valued by a practicing cost accountant and to submit his report in Form 6D, notified by the CBDT. This legislative change is poised to bolster governmental efforts in curbing revenue leakage and ensuring accurate tax assessments.

The Institute has been in the forefront of the capacity building of its members in all the practice areas by the way of organizing programs, webinars, talks and publishing technical papers. This particular assignment is very prestigious for the members of the Institute and they should take it very seriously. The Guidance Note is focused on guiding them step by step in understanding the nuances of the subject and filing of the inventory valuation report diligently.

The significance of this particular assignment cannot be overstated, and members are encouraged to approach it with utmost seriousness.

The Guidance Note serves as a comprehensive resource, meticulously guiding practitioners through the intricacies of inventory valuation and the diligent filing of valuation reports. Its timely release is bound to benefit not only the Institute's members but also all stakeholders involved in this domain.



I congratulate CMA Neeraj D Joshi, Chairman, CASB, and CMA (Dr) V Murali, Chairman, Direct Taxation Committee of the Institute for developing and publishing this publication in the shortest possible time.

I wish the readers of this publication happy reading.

CMA Ashwin G Dalwadi
President, ICAI



Message by the Vice-President, ICAI

I am pleased to note that the CASB and the Direct Taxation Committee of the Institute of Cost Accountants of India are bringing out the “Guidance Note on Inventory Valuation under the Income Tax Act, 1961”. I congratulate the respective Chairmen for coming out with such a well-timed and important publication.

Many factors have to be assessed to determine valuation for an inventory. Determining the value of inventory is a complicated and intricate process. It may require a good amount of professional experience, knowledge of the subject and analytical skill to carry out the assignment of Inventory Valuation. This particular assignment is based on the Income Computation and Disclosure Standards (ICDS) issued by the Government and the members are required to have deep understanding of the same. The Guidance Note in its present shape is expected to give a in-depth inside of the ICDS, relevant to the assignment, to its readers.

I am sure that this publication will serve as a base for understanding the concept of Inventory Valuation and its implications. I complement the efforts of the CASB Secretariat for coordinating the activity of developing this very important publication. I hope that the readers of this document will find this useful. I wish them success in their endeavor.

CMA Bibhuti Bhusan Nayak
Vice-President, ICAI



Message by the Convenor, Small Group of CASB, ICAI

I am elated to note that the Cost Accounting Standards Board (CASB) of the Institute has finalized the Guidance Note on Inventory Valuation under the Income Tax Act, 1961. I feel privileged as the Convenor of the Small Group of the CASB constituted to develop the said Guidance Note. And now when it is being published, it gives me immense satisfaction.

It is the result of the relentless coordination and numerous meetings with the officials of the CBDT and Ministry of Finance. Their guidance and support paved the way for the release of this Guidance Note. I am immensely thankful to Shri Nitin Gupta, IRS, Chairman, CBDT for his kind consent to release this publication and also for writing the Foreword to this Guidance Note. I am grateful to Ms. Mrinalini Kaur Sapra, Director, CBDT for her guidance and support in development of this publication.

I am profusely thankful to CMA (Dr) V. Murali, Co-Convenor, Small Group, CMA B.B. Goyal, Advisor (ICMAI-MARF), CMA (Dr) Priyanka Saxena, Tax Expert, Shri Pramod Kumar Agarwal, GAIL India Limited and Shri Anil Kumar Jain, IOCL, members of the Small Group of the CASB for their expert guidance and inputs for the development of this document. My special thanks to CMA (Dr) Pawan Jaiswal, Tax Consultant and member of the Small Group for his input on the case laws to be included in the Guidance Note.

I will be failing in my responsibility if I do not convey my heartfelt regards and gratitude to CMA Rakesh Kumar Sinha, Resource Person and Author of this document for his efforts in drafting the Guidance Note using all of his experience as an Income Tax Practitioner. Moreover, he has very kindly agreed to assist us post release of the guidance note in resolving the queries of the members in the matter.



My sincere gratitude to CMA (Dr) Ashish P Thatte and CMA Chittaranjan Chattopadhyay, Council Members, CMA Manish Kandpal, and CMA Jeewan Chandra, NIRC Regional Council Members and CMA Aseem Jain, Practicing Member for their all-out support while coordinating with the officials of the CBDT and Ministry of Finance in this regard.

I am greatly thankful to CMA Neeraj D Joshi, Chairman, CASB of ICAI for posing confidence in my abilities and assigning the responsibility of heading the Small Group of the CASB specifically constituted for this job. Also, I appreciate the support and coordination by the CASB Secretariat in this regard.

Developing and releasing the Guidance Note serves only a part of the capacity building exercise. The next foremost action will be organizing physical / virtual events on Inventory Valuation assignments by the Institute for the members. The Regions and chapters of the Institute have a big role to play in this aspect.

I am confident that the Guidance Note will serve its purpose and as we gain experience, we will be able to further improve the Guidance Note.

Thank you very much.

CMA Navneet Kumar Jain
Council Member &
Convenor, Small Group of the CASB, ICAI



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CHAPTER 1: PREAMBLE

On 1st February, 2023 the Hon'ble Union Finance Minister, Government of India, Smt. Nirmala Sitharaman, proposed a very important amendment in Sub-section 2A of Section 142 of Income Tax Act, 1961, which was passed by the both houses of the Parliament of India on 24th March, 2023 and got assent of the Hon'ble President of India on 31st March, 2023. Amendment in section 142(2A) is applicable w.e.f. 1st April, 2023. By this amendment the Government of India, recognising the expertise of CMAs, has put immense responsibility on the Cost Accountants.

1.1 Amendment passed in the Union Budget 2023¹

In section 142 of the Income-tax Act, for sub-section (2A), the following sub-section shall be substituted, namely:--

“(2A) If, at any stage of the proceedings before him, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts, doubts about the correctness of the accounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee, and the interests of the revenue, is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, direct the assessee to get either or both of the following, namely:--

- (I) to get the accounts audited by an accountant, as defined in the Explanation below sub-section (2) of section 288, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf and to furnish a report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars, as may be prescribed, and such other particulars as the Assessing Officer may require;*
- (ii) to get the inventory valued by a cost accountant, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf and to furnish a report of such inventory valuation in the prescribed form duly signed and verified by such cost accountant and setting forth such particulars, as may be prescribed, and such other particulars as the Assessing Officer may require:*

¹ In this Guidance Note, the text quoted from any legislation is appearing in *italics* font.



Provided that the Assessing Officer shall not direct the assessee to get the accounts so audited or inventory so valued unless the assessee has been given a reasonable opportunity of being heard.”;

In sub-section (2D),--

(i) for the words, brackets, figure and letter “audit under sub-section (2A) (including the remuneration of the accountant)”, the words, brackets, figure and letter “auditor inventory valuation under sub-section (2A) (including the remuneration of the accountant or the cost accountant, as the case may be)” shall be substituted;

(ii) in the proviso,--

(I) for the words “audit under”, the words “audit or inventory valuation under” shall be substituted;

(II) for the words and brackets “such audit (including remuneration of the accountant)”, the words and brackets “such audit or inventory valuation (including the remuneration of the accountant or the cost accountant, as the case may be)” shall be substituted;

In sub-section (3), after the word “audit”, the words “or inventory valuation” shall be inserted;

After sub-section (4), the following Explanation shall be inserted, namely:--

‘Explanation.--For the purposes of this section, “cost accountant” means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 and who holds a valid certificate of practice under sub-section (1) of section 6 of the said Act.’

Method of computation of Inventory Valuation for the Companies to which maintenance of cost records is applicable

Company has to maintain quantitative details of finished goods produced or manufactured raw materials, W.I.P, by-products and joint products. The quantitative records have to be reconciled with the Excise or GST records. All relevant costs are required to be allocated and apportioned to the cost of inventory based on feasible economic base. The cost of inventory determined as per the costing manual and techniques are much reliable, true and correct. Relevant portion of Form CRA-1 as



prescribed by the Companies (Cost Records and Audit) Rules, 2014 notified under the Companies Act 2013 in respect of inventory valuation, is quoted here for ready reference.

Production Records

Quantitative records of all finished goods (packed or unpacked) or services rendered showing production, issues for sales and balances of different type of the goods or services under reference, shall be maintained. The quantitative details of production of goods or services rendered shall be maintained separately for self-produced, third party on job work, loan license basis etc.

Sales Records

Separate details of sales shall be maintained for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services, details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales under market price, and delivery or sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service centre wise for total as well as per unit sales realization.

Cost Statements

- a) Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each goods or service under reference shall be prepared showing details of available capacity, actual production, production as per excise records, production as per GST records, capacity utilisation (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale, total quantity of outward supplies as per cost records and total outward supplies as per GST records during current financial year and previous year.*
- b) Such statements shall also include details in respect of all major items of costs constituting cost of production of goods and services, cost of sales of goods or services and margin in total as well as per unit of the goods and services. The goods or services emerging from a process, which forms raw material or an input material or service for a subsequent process, shall be valued at the cost of production or cost of service up to the previous stage.*
- c) Cost statements (monthly, quarterly and annually) in respect of reconciliation of indirect taxes showing details of total clearances of goods or services, assessable value,*



duties or taxes paid, CENVAT or VAT or Service Tax or GST Credit utilised, duties or taxes recovered and interest or penalty paid.

- d) If the company is operating more than one plant, factory or service centre, separate cost statements as specified above shall be prepared in respect of each plant. Factory or service centre.*
- e) Any other statement or information considered necessary for suitable presentation of costs and profitability of goods or services produced by the company shall also be prepared.*

Statistical Records

- a) The records regarding available machine hours or direct labour hours in different production departments and actually utilized shall be maintained for production of goods or rendering of services under reference and shortfall suitably analysed. Suitable records for computation of idle time of machines or labor shall also be maintained and analysed.*
- b) Proper records shall be maintained to enable company to identify the capital employed, net fixed assets and working capital separately for the production of goods or rendering of services under reference and other goods or services to the extent such elements are separately identifiable. Non-identifiable items shall be allocated on a suitable and reasonable basis to different goods or services. Fresh investments on fixed assets for production of goods or rendering of services under reference that have not contributed to the production of goods or rendering of services during the relevant period or year shall be indicated in cost records. The records shall, in addition, show assets added as replacement and those added for increasing existing capacity.*

Records of Physical Verification

Records for physical verification may be maintained in respect of all items held in the stock such as raw material, process materials, packing materials, consumables, stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.



Material Costs-

- a) *Proper records shall be maintained showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.*
- b) *The material receipt shall be valued at purchase price including duties and taxes, freight inwards, insurance, and other expenditure directly attributable to procurement (net of trade discounts, rebates, taxes and duties refundable or to be credited by the taxing authorities) that can be quantified with reasonable accuracy at the time of acquisition.*
- c) *Finance costs incurred in connection with the acquisition of materials shall not form part of material cost.*
- d) *Self-manufactured materials or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.*
- e) *Spare parts shall be recognised as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.*
- f) *Normal loss or spoilage of material prior to reaching the factory or at places where the services are provided shall be absorbed in the cost of balance materials net of amounts recoverable from suppliers, insurers, carriers or recoveries from disposal.*
- g) *Losses due to shrinkage or evaporation and gain due to elongation or absorption of moisture etc., before the materialism received shall be absorbed in material cost to the extent they are normal, with corresponding adjustment in the quantity.*
- h) *The forex component of imported material cost shall be converted at the rate on the date of the transaction. Any subsequent change in the exchange rate till payment or otherwise shall not form part of the material cost.*
- i) *Any demurrage or detention charges, or penalty levied by transport or other authorities shall not form part of the cost of materials.*
- j) *Subsidy or grant or incentive and any such payment received or receivable with respect to any material cost shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.*



- k) issues shall be valued using appropriate method as per the provisions contained in the accounting standard applicable for the time being in force.*
- l) Where materials are accounted at standard cost, the price variances related to materials shall be treated as part of material cost.*
- m) Any abnormal cost shall be excluded from the material cost.*
- n) Wherever, material costs include transportation costs, determination of costs of transportation shall be governed by Para No. 9 on Determination of Cost of Transportation.*
- o) Self-manufactured components and sub-assemblies or captive consumption shall be valued including direct material cost, direct employee cost, direct expenses, factory overheads, share of administrative overheads relating to production but excluding share of other administrative overheads, finance cost and marketing overheads.*
- p) The material cost of normal scrap or defectives which are rejects shall be included in the material cost of goods manufactured. The material cost of actual scrap or defectives, not exceeding the normal shall be adjusted in the material cost of good production. Material Cost of abnormal scrap or defectives should not be included in material cost but treated as loss after giving credit to the realisable value of such scrap or defectives.*
- q) Material costs shall be directly traced to a Cost object to the extent it is economically feasible or shall be assigned to the cost object on the basis of material quantity consumed or similar identifiable measure and valued as per above principles.*
- r) Where the material costs are not directly traceable to the cost object, the same shall be assigned on a suitable basis like technical estimates.*
- s) Where a material is processed or part manufactured by a third party according to specifications provided by the buyer, the processing or manufacturing charges payable to the third party shall be treated as part of the material cost.*
- t) Wherever part of the manufacturing operations or activity is subcontracted, the subcontract charges related to materials shall be treated as direct expenses and assigned directly to the cost object.*
- u) The cost of indirect materials shall be assigned to the various Cost objects based on a suitable basis such as actual usage or technical norms or a similar identifiable measure.*



- v) *The cost of materials like catalysts, dies, tools, moulds, patterns etc., which are relatable to production over a period of time shall be amortized over the production units benefited by such cost.*
- w) *The cost of indirect material with life exceeding one year shall be included in cost over the useful life of the material.*

Overheads

- a) *Proper records shall be maintained for various items of indirect expenses comprising overheads pertaining to goods or services under reference. These expenses shall be analysed, classified and grouped according to functions.*
- b) *Overheads representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts (other than cash discounts), taxes and duties refundable or to be credited.*
- c) *Overheads other than those referred to above shall be determined on the basis of cost incurred in connection therewith.*
- d) *Any abnormal cost where it is material and quantifiable shall not form part of the overheads.*
- e) *Finance costs incurred in connection with procured or self-generated resources shall not form part of overheads.*
- f) *Overheads shall not include imputed cost.*
- g) *Overhead variances attributable to normal reasons shall be treated as part of overheads. Overhead variances attributable to abnormal reasons shall be excluded from overheads.*
- h) *Subsidy or grant or incentive and any such payment received or receivable with respect to overheads shall be reduced from cost of the cost object in the financial year when such subsidy or grant or incentive and any such payment is recognised as income.*
- i) *Fines, penalties, damages and similar levies paid to statutory authorities or other third parties shall not form part of the overheads.*
- j) *Credits or recoveries relating to the overheads, material and quantifiable, shall be deducted from the total overhead to arrive at the net overheads. Where the recovery exceeds the total overheads, the balance recovery shall be treated as other income.*



- k) Any change in the cost accounting principles applied for the measurement of the overheads shall be made only if, it is required by law or a change would result in a more appropriate preparation or presentation of cost statements of an entity.*
- l) While assigning overheads, traceability to a cost object in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to a cost object shall be directly assigned.*
- m) Overheads shall be classified according to functions, viz., works, administration, selling and distribution. Works overheads, also known as Production Overheads, Operation Overheads, Factory Overheads or Manufacturing Overheads, shall be the indirect costs involved in the production of a product or in providing service. Administrative overheads shall be the aggregate of cost of resources consumed in activities relating to general management and administration of an organisation. Selling and Distribution overheads shall be the aggregate of cost of resources consumed in the selling and distribution activities of the organization.*
- n) Assignment of overheads to the cost objects shall be based on either of the following two principles; (1) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost and (2) Benefits received – overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.*
- o) The variable production overheads shall be absorbed to products or services based on actual capacity utilisation.*
- p) The fixed production overheads shall be absorbed based on the normal capacity.*
- q) In case of leased assets, if the lease is an operating lease, the entire rentals shall be included in the administrative overheads. If the lease is a financial lease, the finance cost portion shall be segregated and treated as part of finance costs.*
- r) Selling and Distribution Overheads, the benefits of which are expected to be derived over a long period, shall be amortized on a rational basis.*
- s) Any demurrage or detention charges or penalty levied by the transportation or other authorities in respect of distribution activity shall not form part of Selling and Distribution Overheads*

Capacity Determination

- a) Capacity shall be determined in terms of units of production or services or equivalent machine or man hours.*
- b) Installed capacity is determined based on:*



- i) *Manufacturers' Technical specifications*
 - ii) *Capacities of individual or interrelated production centres.*
 - iii) *Operational constraints or capacity of critical machines or*
 - iv) *Number of shifts*
- c) *In case manufacturers' technical specifications are not available, the estimates by technical experts on capacity under ideal conditions shall be considered for determination of installed capacity. In case any production facility is added or discarded the installed capacity shall be reassessed from the date of such addition or discard. In case the same is reassessed as per direction of the Government, it shall be in accordance with the principles laid down in the said directives. In case of improvement in the production process, the installed capacity shall be reassessed from the date of such improvement.*
- d) *Normal capacity shall be determined vis-a-vis installed capacity after carrying out following adjustments:*
- i) *Holidays, normal shut down days and normal idle time,*
 - ii) *Normal time lost in batch change over,*
 - iii) *Time lost due to preventive maintenance and normal break downs of equipment,*
 - iv) *Loss in efficiency due to ageing of the equipment, or*
 - v) *Number of shifts.*
- e) *Capacity utilization is actual production measured as a percentage of installed capacity.*

Work-in-Progress and Finished Stock

The method followed for determining the cost of work-in-progress and finished stock of the goods and for services under delivery or in-process shall be appropriate and shall be indicated in the cost records so as to reveal the cost element that have been taken into account in such computation. All conversion costs incurred in bringing the inventories to their present location and condition shall be taken into account while computing the cost of work-in-progress and finished stock. The method adopted for determining the cost of work-in progress and finished goods shall be followed consistently.



Captive Consumption

If the goods or services under reference are used for captive consumption, proper records shall be maintained showing the quantity and cost of each such goods or services transferred to other departments or cost centres or units of the company for self-consumption and sold to outside parties separately.

By-Products and Joint Products

- a) Proper Records shall be maintained for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value. The basis adopted for valuation of by-product for giving credit to the respective process shall be equitable and consistent and should be indicated in cost records. Records showing the expenses incurred on further processing, if any, as well as actual sales realization of by-product shall be maintained. The proper records shall be maintained in respect of credits or recoveries from the disposal of by-products.*
- b) The cost up to the point of separation of products or services shall be apportioned to joint products or services on reasonable and equitable basis and shall be applied consistently. The basis on which such joint costs are apportioned to different products or services arising from the process shall be indicated in the cost records. Proper records shall be maintained in respect of credits or recoveries from the disposal of joint products or services.*

Adjustment of Cost Variances

Where the company maintains cost records on any basis other than actual such as standard costing, the records shall indicate the procedure followed by the company in working out the cost of the goods or services under such system. The cost variances shall be shown against separate heads and analysed into material, labour, overheads and further segregated into quantity, price and efficiency variances. The method followed for adjusting the cost variances in determining the actual cost of the goods or services shall be indicated clearly in the cost records. The reasons for the variances shall be duly explained in the cost records and statements.

Statutory background to the amendment in sub section 2A of section 142 of the Income Tax Act, 1961

In order to complete the assessment, Section 142 empowers the Assessing Officer (AO) to serve a notice to the assessee to submit the copy of income tax return filed under section 139 or 115WD, or in case, if the return has not been filed by the assessee, allow the assessee to furnish his income tax return



under clause (I) of sub section 1 of section 142. Further the AO may also serve a notice to the assessee to furnish such accounts or documents or furnish such information as may be required. Further, the AO may also serve a notice to the assessee for furnishing full information in respect of income or loss and any other information, as he may consider necessary.

In the process of assessment if the AO with respect to the nature and complexity of the accounts, or volume of the accounts doubts about the correctness of the accounts or multiplicity of transaction in the accounts or specialized nature of business activity of the assessee and has reason to believe that it is necessary in the interest of revenue, may direct the assessee at any stage of assessment proceedings to get its accounts audited from an Accountant as per explanation in section 288(2) i.e. Chartered Accountant within a specific period of time as he thinks fit under sub section 2A with the prior approval of Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner of Income Tax. AO has to complete his assessment or reassessment or re-computation of tax, as the case may be within a stipulated period of time as per section 153 of IT Act, 1961.

By virtue of Income Tax Act, 1961, income of any person has to be determined under five heads of income viz. "Income from salary", "Income from house property", "Profit or gains from business or profession", "Income from capital gain" and "Income from other sources".

Under the head "Income from salary", "Income from house property" and "Income from capital gain" computation of taxable income is to be done as per the provision specified in these heads. No specific method of accounting and standards as specified under section 145 and 145A are required to be followed in computing the income under these heads.

For computation of income or loss under the head "Income from business or profession" and "Income from other sources" along with the specified provisions under these heads of income, method of accounting as prescribed under section 145 and 145A are required to be followed.

The assessee is required to follow either cash or mercantile system of accounting along with the income computation and disclosure standards as notified by the Central Government from time to time while computing income or loss under the head "Income from business or profession" and "Income from other sources".

Method of accounting in certain cases for the purpose of computation of income tax under the head "Income from business or profession" and "Income from other sources" shall be as below: -

- The valuation of opening stock and closing stock of inventory shall be at the actual cost or net realisable value whichever is low and shall be computed as per the income computation and disclosure standards notified by the Central Government from time to time



- The valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred i.e. no tax credit is claimed later.
- The inventory of securities not listed on a recognised stock exchange or listed but not quoted on a recognised stock exchange, shall be valued at actual cost initially recognised in accordance with Income Computation and Disclosure Standards (ICDS) notified by the Central Government from time to time
- The inventory of securities listed on a recognised stock exchange, shall be valued at the lower of the actual cost or net realisable value computed in accordance with ICDS notified by the Central Government from time to time

Provision of section 145 and 145A in prior period was as below

1. Prior to 1st April, 1997, the method of accounting to compute income chargeable under the head “Income from business or profession” and “Income from other sources” was the method of accounting regularly employed by the assessee.
2. W.e.f. 1st April, 1997, the method of accounting to compute income chargeable under the head “Income from business or profession” and “Income from other sources” either cash or mercantile system of accounting regularly followed by the assessee subject to the accounting standards as notified by the central government from time to time. The Central Government on 25th January, 1996 notified the following Accounting Standards w.e.f. the A.Y. 1997-98
 - (i) Disclosure of accounting policies
 - (ii) Disclosure of prior period and extraordinary items and changes in accounting policies.
3. As per the section 145A, the valuation of purchase and sale of goods or services and of inventory for the purpose of determining the income chargeable under the head “Income from business or profession” and “Income from other sources” shall be
 - a) in accordance with the method of accounting regularly employed by the assessee; and
 - b) further adjusted to include the amount of any tax, duty, cess or fee actually paid or incurred by the assessee to bring the goods to the place of its location and condition as on the date of valuation.

Statutory power to the Assessing Officer under section 142(2A)

In order to complete the assessment under the Income Tax Act, 1961, Section 142(2A) empowers the assessing officer, in the case of complex and voluminous accounts or where he has doubt about the



correctness of accounts, in the interest of revenue, to take assistance of an expert at any stage of the proceedings with prior approval of PCCIT or CCIT or PCIT or CIT.

The Finance Act, 2023 made a significant amendment in sub section 2A of section 142 w.e.f. the 1st day of April, 2023 by empowering the Assessing officer to take assistance of either or both of a practising Chartered Accountant or Cost Accountant. He may take assistance of a Chartered Accountant for the special audit of accounts and/or he may take assistance of a practicing Cost Accountant for the valuation of inventory.

Under the Income tax Act, 1961 the assessee has to get its accounts audited by an accountant under section 44AB subject to the conditions prescribed for the section 44AB even though the assessee has to get its accounts audited under any other law like Companies Act, Trust Act, Society Act etc.; The auditor has to submit the report as per Rule 6 in form 3CA or 3CB and give particulars in the Form 3CD. Assessee is responsible for the financial statements that give true and fair view of accounts and give particulars in the Form 3CD. The auditor's responsibility is to give his opinion on these financial statements based on his audit and evidence collected on amounts and disclosures on the risk of material misstatement by the assessee. Further auditor has to verify the particulars of Form 3CD and give opinion whether it is true and correct.

In the case of audit under any other law specifically under the Companies Act, the auditor has to follow the guidelines of Accounting Standards, Ind AS, SAs (Standards on Auditing) and CARO. The financial auditor i.e. Chartered Accountant has to give his opinion on the inventory valuation as below

1. Method of valuation of inventory
2. Whether Physical verification of inventory has been conducted or not.
3. Whether the method of valuation is being consistently followed or not.
4. Disclosure as per relevant AS, Ind AS, SA and CARO to the inventory valuation

Similarly in Form 3CD, Chartered Accountant has to give opinion and verification report in respect of inventory valuation as below

- i. Method of inventory valuation
- ii. Whether the inventory valuation is as per ICDS or not
- iii. Impact on profit or loss in case of any deviation from ICDS

Auditor under section 44AB does not determine the inventory valuation; he has to give only his opinion on the true and correct value of inventory. The inventory valuation is the responsibility of the management and the inventory value is certified by the management. In the prevailing system the



purpose of special audit under section 142(2A) in respect of inventory valuation may be very much fruitful to the government in the interest of revenue.

Central Government has notified ICDS in the year 2016 vide S.O. 3079(E), dated 29.09.2016 under section 145(2) of IT Act, 1961 w.e.f. the assessment year 2017-18 and subsequent assessment years. ICDS is to be followed by all the assessee following the mercantile system of accounting for the purpose of computation of chargeable income under the heads “Income from business or profession” and “Income from other sources”. The most relevant ICDS to inventory valuation are

- ICDS-II: - Valuation of Inventories;
- ICDS-III: - Construction Contracts; and
- ICDS-VIII: - Securities

ICDS-II places more emphasis and reliance on the costing techniques, principles and formulas, as it emphasizes on the apportionment and allocation of direct and indirect cost, fixed and variable cost, overheads, capacity determination, use of FIFO or weighted average cost method, standard costing etc.;

Cost and Management Accounting is the core area of CMA (Cost & Management Accountant). CMA profession used various costing techniques, formulas, standards to derive actual cost of each activity, product and service. On considering the skill and expertise of Cost Accountants in Cost Accounting and to the interest of revenue in respect of true and correct inventory valuation, the Central Government has made amendment in section 142(2A) of the Income Tax Act, 1961 and empowered the AO to take assistance of a practicing Cost Accountant as to ensure true and correct valuation of inventory. By this amendment the Central Government made the enquiry process more effective and transparent to curb the tax evasion and concealment due to over or under valuation of inventory in the financial statements.



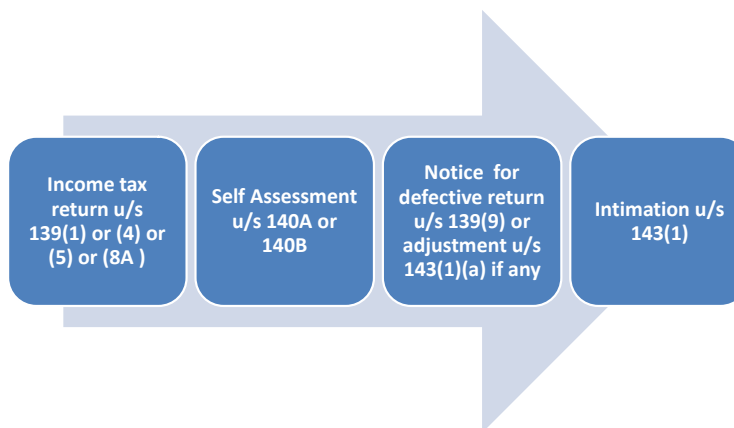
CHAPTER-2: LEGAL PROVISIONS ALONG WITH EXPLANATIONS

While doing inventory valuation by a practicing Cost Accountant under clause (ii) of sub section 2A of section 142 it is pertinent to understand the legal provisions relevant to an assessment procedure under the Income Tax Act, 1961(Chapter XIV).²

PROCEDURE FOR ASSESSMENT

- 2.1. Under the Income tax Act assessment may be of regular assessment or scrutiny assessment or escaped assessment. First assessment starts from the self-assessment. The assessee has to compute his total income chargeable to tax under the five heads of income and is required to furnish income tax return in the prescribed form within the stipulated date in the prescribed mode duly signed either through EVC or Digital Signature. The assessee is required to pay his tax liability before furnishing the income return. The return filed is processed at the Central Processing Unit (CPU), Bengaluru which is an automated computer-based centre. At CPU, particulars and data furnished in income tax return by the assessee is analysed and compared with the information available with the CPU i.e. Form 26AS, AIS; and based on the regular assessment a refund is issued to the assessee or a notice for demand of tax payable by the assessee as the case may be intimated to the assessee through e mail.

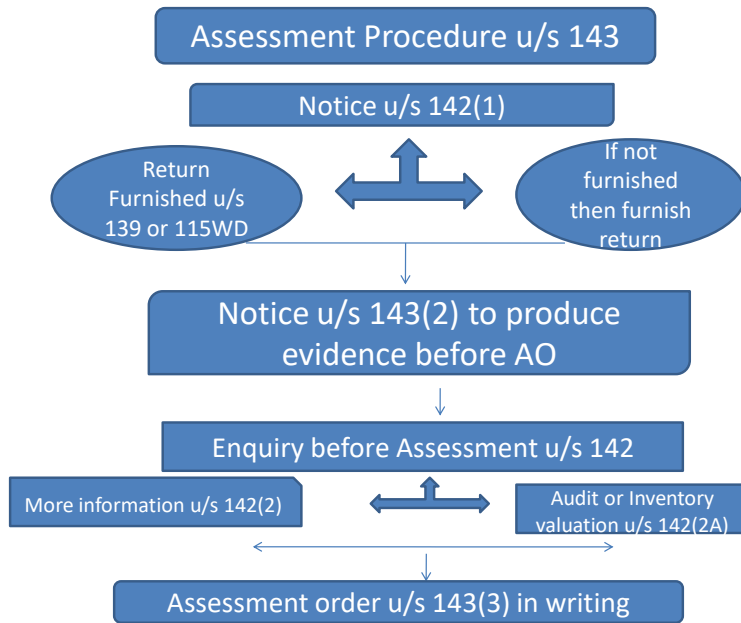
Regular Assessment Procedure



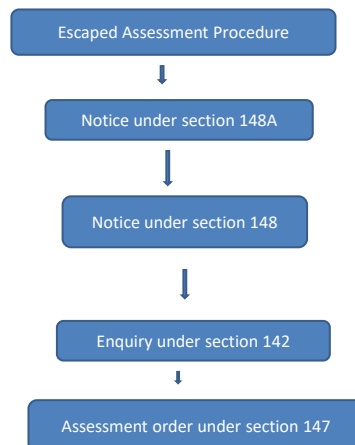
² Text of the Act is quoted below the line of explanation for reference.



Scrutiny Assessment Procedure: If the AO has doubt about the completeness, correctness of the particulars given in the income tax return furnished by the assessee, the AO may start the process of scrutiny as per the provision under section 143.



Escaped Assessment: In some cases the AO may start 'escaped assessment' under section 147.





Step-I Filing of Income Tax Return (Section 139)

- 2.2. Every person is required to furnish income tax return of his income or the income of any other person in respect of which he is assessable under this Act, within the due date as prescribed under section 139(1) in the prescribed form and manner. In case, any person could not file his income tax return within the stipulated time, he may furnish belated return under section 139(4) or updated return under section 139(8A).
- a. As per section 139(1)(b) an Individual or HUF or AOP or BOI (whether registered or not) or Local authority or Artificial judicial person shall furnish income tax return if his total income (or the total income of any other person in respect of which assessable under the Income Tax Act, 1961) during the previous year exceeds the maximum amount which is exempt from the income tax without giving deduction under chapter VI (section 80C to 80U) and giving effect of provisions under section 10(38), 10A, 10B, 10BA, 54, 54B, 54D, 54EC, 54, 54G, 54GA, 54GB (Adjustment of Capital gain).
 - b. As per section 139(1) (a) in case of every company (Domestic or Foreign) or Firm (including an LLP whether resident or not) it is mandatory to furnish its income tax return in every previous year whether during the previous year incurred profit or loss.
 - c. Provided in some cases as specified by the CBDT, wherein person as mentioned under clause (b) of sub section 1 of section 139 and various proviso, is not required to furnish a return, shall furnish income tax return if he satisfies the following condition/s
 - i. Consume electricity during the previous year of exceeding Rs.1 lakhs
 - ii. At any time occupy during the previous year an immovable property exceeding a specified floor area, whether by way of ownership, tenancy or otherwise, or
 - iii. At any time during the previous year is the owner or leasee of a motor vehicle other than two wheeled vehicle, or
 - iv. At any time during the previous year travelled to any foreign country and incurred travel expenditure exceeding Rs. 2 lakhs whether for himself or for any other person, or
 - v. At any time during the previous year is the holder of a credit card, not being “add-on” issued by any bank or institution, or
 - vi. At any time during the previous year is a member of a club where entrance fee is charged Rs. 25 thousand or more.



- vii. Who during the previous year has deposited an amount or aggregate of the amounts exceeding Rs. 1 crore in one or more current accounts maintained in any bank or a co-operative bank
- viii. If his total sales, turnover or gross receipts, as the case may be in the business exceeds Rs. 60 lakhs during the previous year.
- ix. If his gross receipts in profession exceeds Rs. 10 lakhs during the previous year.
- x. If the aggregate of TDS and TCS is Rs. 25000 or more during the previous year.
- xi. In case of an individual resident in India who is of age of 60 years or more at any time during the previous year if the aggregate of TDS and TCS is Rs. 50000 or more during the previous year.
- xii. The deposit in one or more savings bank accounts of the person in aggregate is Rs. 50 lakhs or more during the previous year.

2.3. **Return Form:** CBDT has notified the following income tax return forms under Rule 12 of IT Rule, 1962 and person is required to furnish his income tax return by selecting the appropriate form based on his source of income and other conditions as per section 139 read with rule 12. The selection criteria are enumerated below for the ITR forms.

ITR-1

Person who is Resident Individual and not ordinarily resident of India and having income from Salary and is not a director in any company or having income from a family pension as explained under clause (iia) of section 57[Family pension means a regular monthly amount payable by the employer to a person belonging to the family of an employee in the event of his death], Income from one house property, Income from other sources like interest, dividend, etc. Agriculture income up to Rs. 5000/- Total income up to Rs. 50 lakhs

ITR-2

Person who is an Individual or HUF who is Resident and not ordinarily resident in India and having income from salary including director in any company, Income from more than one house property, Has assets in Foreign country, income from any source from foreign, Income governed by Portuguese Civil Code, Income from Capital gain or loss, Income from other sources, Claim for Double taxation relief u/s 90 or 90A, Agriculture income more than Rs. 5000/-, Total income is more than Rs. 50 lakhs, Dividend income more than Rs. 10 lakhs u/s 115BBDA, Income u/s 115 BBE[Cash credits u/s 68, unexplained investments u/s 69, unexplained money u/s 69A, Undisclosed investments u/s 69B, Unexplained expenditures u/s 69C, Borrowed or paid amount on hundi u/s 69D, TDS u/s 194N, start up u/s 191(2) or 192(1C)]



ITR-3

Person who is an Individual or HUF who is Resident and not ordinarily resident in India and having income from business or profession, capital gain, income from more than one house property, has assets in foreign country, income from any source from foreign, income governed by Portuguese Civil Code, income from salary including director in any company, having brought forward loss or loss to be carry forward, income from other sources, claim for double taxation relief u/s 90 or 90A, agriculture income more than Rs. 5000/-, total income is more than Rs. 50 lakhs, income u/s 115 BBE [Cash credits u/s 68, unexplained investments u/s 69, unexplained money u/s 69A, undisclosed investments u/s 69B, unexplained expenditures u/s 69C, borrowed or paid amount on hundi u/s 69D.

ITR-4

Person who is an Individual or HUF who is Resident and not ordinarily resident in India or Firm resident in India and having income from business or profession computed u/s 44AD, 44ADA, 44AE, other sources, one house property, salary income excluding director in any company, agriculture income up to Rs. 5000/-, total income up to Rs. 50 lakhs.

ITR-5

Person who is a Firm or AOP or BOI [do not fulfil conditions u/s 139(4A) (4B) (4C) (4D)], Local Authority, artificial juridical person and having income from business or profession, house property, capital gain, other sources.

ITR-6

Person who is a company and do not fulfil condition as per section 139(4A) (4B) (4C) (4D) and having income from business or profession, house property, capital gain, other sources.

ITR-7

All persons including company, whether registered u/s 8 of Companies Act, 2013 [u/s 25 of Companies Act, 1956] or not and fulfil the condition u/s 139(4A) (4B) (4C) (4D) and having income from Business or profession, House property, Capital gain, other sources.

Return of income.

139 (1) Every person,—

- (a) being a company or a firm; or
- (b) being a person other than a company or a firm, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income or the income of such



other person during the previous year, in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed:

Provided that a person referred to in clause (b), who is not required to furnish a return under this sub-section and residing in such area as may be specified by the Board in this behalf by notification in the Official Gazette, and who during the previous year incurs an expenditure of fifty thousand rupees or more towards consumption of electricity or at any time during the previous year fulfils any one of the following conditions, namely:—

- (i) is in occupation of an immovable property exceeding a specified floor area, whether by way of ownership, tenancy or otherwise, as may be specified by the Board in this behalf; or
- (ii) is the owner or the lessee of a motor vehicle other than a two-wheeled motor vehicle, whether having any detachable side car having extra wheel attached to such two-wheeled motor vehicle or not; or
- (iii) [***]
- (iv) has incurred expenditure for himself or any other person on travel to any foreign country; or
- (v) is the holder of a credit card, not being an "add-on" card, issued by any bank or institution; or
- (vi) is a member of a club where entrance fee charged is twenty-five thousand rupees or more, shall furnish a return, of his income during any previous year ending before the 1st day of April, 2005, on or before the due date in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed :

Provided further that the Central Government may, by notification in the Official Gazette, specify the class or classes of persons to whom the provisions of the first proviso shall not apply:

Provided also that every company or a firm shall furnish on or before the due date the return in respect of its income or loss in every previous year:

Provided also that a person, being a resident other than not ordinarily resident in India within the meaning of clause (6) of section 6, who is not required to furnish a return under this sub-section and who at any time during the previous year,—

- (a) holds, as a beneficial owner or otherwise, any asset (including any financial interest in any entity) located outside India or has signing authority in any account located outside India; or



- (b) *is a beneficiary of any asset (including any financial interest in any entity) located outside India, shall furnish, on or before the due date, a return in respect of his income or loss for the previous year in such form and verified in such manner and setting forth such other particulars as may be prescribed:*

Provided also that nothing contained in the fourth proviso shall apply to an individual, being a beneficiary of any asset (including any financial interest in any entity) located outside India where, income, if any, arising from such asset is includible in the income of the person referred to in clause (a) of that proviso in accordance with the provisions of this Act:

Provided also that every person, being an individual or a Hindu undivided family or an association of persons or a body of individuals, whether incorporated or not, or an artificial juridical person, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year, without giving effect to the provisions of clause (38) of section 10 or section 10A or section 10B or section 10BA or section 54 or section 54B or section 54D or section 54EC or section 54F or section 54G or section 54GA or section 54GB or Chapter VI-A exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income or the income of such other person during the previous year, in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed:

Provided also that a person referred to in clause (b), who is not required to furnish a return under this sub-section, and who during the previous year—

- (i) *has deposited an amount or aggregate of the amounts exceeding one crore rupees in one or more current accounts maintained with a banking company or a co-operative bank; or*
- (ii) *has incurred expenditure of an amount or aggregate of the amounts exceeding two lakh rupees for himself or any other person for travel to a foreign country; or*
- (iii) *has incurred expenditure of an amount or aggregate of the amounts exceeding one lakh rupees towards consumption of electricity; or*
- (iv) *fulfils such other conditions as may be prescribed, shall furnish a return of his income on or before the due date in such form and verified in such manner and setting forth such other particulars, as may be prescribed.*

Explanation 1.—For the purposes of this sub-section, the expression "motor vehicle" shall have the meaning assigned to it in clause (28) of section 2 of the Motor Vehicles Act, 1988 (59 of 1988).

Explanation 2.—In this sub-section, "due date" means,—

- (a) *where the assessee other than an assessee referred to in clause (aa) is—*



- (i) a company; or
 - (ii) a person (other than a company) whose accounts are required to be audited under this Act or under any other law for the time being in force; or
 - (iii) a partner of a firm whose accounts are required to be audited under this Act or under any other law for the time being in force [or the spouse of such partner if the provisions of section 5A applies to such spouse], the 31st day of October of the assessment year;
- (aa) in the case of an assessee [including the partners of the firm or the spouse of such partner (if the provisions of section 5A applies to such spouse), being such assessee,] who is required to furnish a report referred to in section 92E, the 30th day of November of the assessment year;
- (b) in the case of a person other than a company, referred to in the first proviso to this sub-section, the 31st day of October of the assessment year;
- (c) in the case of any other assessee, the 31st day of July of the assessment year.

Explanation 3.—For the purposes of this sub-section, the expression "travel to any foreign country" does not include travel to the neighbouring countries or to such places of pilgrimage as the Board may specify in this behalf by notification in the Official Gazette.

Explanation 4.—For the purposes of this section "beneficial owner" in respect of an asset means an individual who has provided, directly or indirectly, consideration for the asset for the immediate or future benefit, direct or indirect, of himself or any other person.

Explanation 5.—For the purposes of this section "beneficiary" in respect of an asset means an individual who derives benefit from the asset during the previous year and the consideration for such asset has been provided by any person other than such beneficiary.

Explanation 6.—For the purposes of this sub-section,—

- (a) "banking company" shall have the meaning assigned to it in clause (i) of the Explanation to section 269SS;
 - (b) "co-operative bank" shall have the meaning assigned to it in clause (ii) of the Explanation to section 269SS.
- (1A) Without prejudice to the provisions of sub-section (1), any person, being an individual who is in receipt of income chargeable under the head "Salaries" may, at his option, furnish a return of his income for any previous year to his employer, in accordance with such scheme as may be specified by the Board in this behalf, by notification in the Official Gazette, and subject to such conditions as may be specified therein, and such employer shall furnish all returns of income received by him on or before the due date,



in such form (including on a floppy, diskette, magnetic cartridge tape, CD-ROM or any other computer readable media) and manner as may be specified in that scheme, and in such case, any employee who has filed a return of his income to his employer shall be deemed to have furnished a return of income under sub-section (1), and the provisions of this Act shall apply accordingly.

- (1B) Without prejudice to the provisions of sub-section (1), any person, being a company or being a person other than a company, required to furnish a return of income under sub-section (1), may, at his option, on or before the due date, furnish a return of his income for any previous year in accordance with such scheme as may be specified by the Board in this behalf by notification in the Official Gazette and subject to such conditions as may be specified therein, in such form (including on a floppy, diskette, magnetic cartridge tape, CD-ROM or any other computer readable media) and in the manner as may be specified in that scheme, and in such case, the return of income furnished under such scheme shall be deemed to be a return furnished under sub-section (1), and the provisions of this Act shall apply accordingly.*
- (1C) Notwithstanding anything contained in sub-section (1), the Central Government may, by notification in the Official Gazette, exempt any class or classes of persons from the requirement of furnishing a return of income having regard to such conditions as may be specified in that notification.*
- (3) If any person who has sustained a loss in any previous year under the head "Profits and gains of business or profession" or under the head "Capital gains" and claims that the loss or any part thereof should be carried forward under sub-section (1) of section 72, or sub-section (2) of section 73, or sub-section (2) of section 73A or sub-section (1) or sub-section (3) of section 74, or sub-section (3) of section 74A, he may furnish, within the time allowed under sub-section (1), a return of loss in the prescribed form and verified in the prescribed manner and containing such other particulars as may be prescribed, and all the provisions of this Act shall apply as if it were a return under sub-section (1).*
- (4) Any person who has not furnished a return within the time allowed to him under sub-section (1), may furnish the [return for any previous year at any time before three months prior to] the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.*
- (4A) Every person in receipt of income derived from property held under trust or other legal obligation wholly for charitable or religious purposes or in part only for such purposes, or of income being voluntary contributions referred to in sub-clause (iia) of clause (24) of section 2, shall, if the total income in respect of which he is assessable as*



a representative assessee (the total income for this purpose being computed under this Act without giving effect to the provisions of sections 11 and 12) exceeds the maximum amount which is not chargeable to income-tax, furnish a return of such income of the previous year in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed and all the provisions of this Act shall, so far as may be, apply as if it were a return required to be furnished under sub-section (1).

(4B) The chief executive officer (whether such chief executive officer is known as Secretary or by any other designation) of every political party shall, if the total income in respect of which the political party is assessable (the total income for this purpose being computed under this Act without giving effect to the provisions of section 13A) exceeds the maximum amount which is not chargeable to income-tax, furnish a return of such income of the previous year in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed and all the provisions of this Act, shall, so far as may be, apply as if it were a return required to be furnished under sub-section (1).

(4C) Every—

- (a) research association referred to in clause (21) of section 10;*
- (b) news agency referred to in clause (22B) of section 10;*
- (c) association or institution referred to in clause (23A) of section 10;*
- (ca) person referred to in clause (23AAA) of section 10;*
- (d) institution referred to in clause (23B) of section 10;*
- (e) fund or institution referred to in sub-clause (iv) or trust or institution referred to in sub-clause (v) or any university or other educational institution referred to in sub-clause (iiiab) or sub-clause (iiiad) or sub-clause (vi) or any hospital or other medical institution referred to in sub-clause (iiiac) or sub-clause (iiiae) or sub-clause (via) of clause (23C) of section 10;*
- (ea) Mutual Fund referred to in clause (23D) of section 10;*
- (eb) securitisation trust referred to in clause (23DA) of section 10;*
- (eba) Investor Protection Fund referred to in clause (23EC) or clause (23ED) of section 10;*
- (ebb) Core Settlement Guarantee Fund referred to in clause (23EE) of section 10;*
- (ec) venture capital company or venture capital fund referred to in clause (23FB) of section 10;*



- (f) trade union referred to in sub-clause (a) or association referred to in sub-clause (b) of clause (24) of section 10;
 - (fa) Board or Authority referred to in clause (29A) of section 10;
 - (g) body or authority or Board or Trust or Commission (by whatever name called) referred to in clause (46) of section 10;
 - (h) infrastructure debt fund referred to in clause (47) of section 10,
shall, if the total income in respect of which such research association, news agency, association or institution, person or fund or trust or university or other educational institution or any hospital or other medical institution or trade union or body or authority or Board or Trust or Commission or infrastructure debt fund or Mutual Fund or securitisation trust or venture capital company or venture capital fund is assessable, without giving effect to the provisions of section 10, exceeds the maximum amount which is not chargeable to income-tax, furnish a return of such income of the previous year in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed and all the provisions of this Act shall, so far as may be, apply as if it were a return required to be furnished under sub-section (1).
- (4D) Every university, college or other institution referred to in clause (ii) and clause (iii) of sub-section (1) of section 35, which is not required to furnish return of income or loss under any other provision of this section, shall furnish the return in respect of its income or loss in every previous year and all the provisions of this Act shall, so far as may be, apply as if it were a return required to be furnished under sub-section (1).
- (4E) Every business trust, which is not required to furnish return of income or loss under any other provisions of this section, shall furnish the return of its income in respect of its income or loss in every previous year and all the provisions of this Act shall, so far as may be, apply if it were a return required to be furnished under sub-section (1).
- (4F) Every investment fund referred to in section 115UB, which is not required to furnish return of income or loss under any other provisions of this section, shall furnish the return of income in respect of its income or loss in every previous year and all the provisions of this Act shall, so far as may be, apply as if it were a return required to be furnished under sub-section (1).
- (5) If any person, having furnished a return under sub-section (1) or sub-section (4), discovers any omission or any wrong statement therein, he may furnish a revised



return at any time [before three months prior to the end] of the relevant assessment year or before the completion of the assessment, whichever is earlier.

- (6) The prescribed form of the returns referred to in sub-sections (1) and (3) of this section, and in clause (i) of sub-section (1) of section 142 shall, in such cases as may be prescribed, require the assessee to furnish the particulars of income exempt from tax, assets of the prescribed nature and value, held by him as a beneficial owner or otherwise or in which he is a beneficiary, his bank account and credit card held by him, expenditure exceeding the prescribed limits incurred by him under prescribed heads and such other outgoings as may be prescribed.
- (6A) Without prejudice to the provisions of sub-section (6), the prescribed form of the returns referred to in this section, and in clause (i) of sub-section (1) of section 142 shall, in the case of an assessee engaged in any business or profession, also require him to furnish the report of any audit referred to in section 44AB, or, where the report has been furnished prior to the furnishing of the return, a copy of such report together with proof of furnishing the report, the particulars of the location and style of the principal place where he carries on the business or profession and all the branches thereof, the names and addresses of his partners, if any, in such business or profession and, if he is a member of an association or body of individuals, the names of the other members of the association or the body of individuals and the extent of the share of the assessee and the shares of all such partners or the members, as the case may be, in the profits of the business or profession and any branches thereof.
- (7) [***]
- (8) (a) Where the return under sub-section (1) or sub-section (2) or sub-section (4) for an assessment year is furnished after the specified date, or is not furnished, then [whether or not the Assessing Officer has extended the date for furnishing the return under sub-section (1) or sub-section (2)], the assessee shall be liable to pay simple interest at fifteen per cent per annum, reckoned from the day immediately following the specified date to the date of the furnishing of the return or, where no return has been furnished, the date of completion of the assessment under section 144, on the amount of the tax payable on the total income as determined on regular assessment, as reduced by the advance tax, if any, paid, and any tax deducted at source :

Provided that the Assessing Officer may, in such cases and under such circumstances as may be prescribed, reduce or waive the interest payable by any assessee under this sub-section.

Explanation 1.—For the purposes of this sub-section, "specified date", in relation to a return for an assessment year, means,—



- (a) *in the case of every assessee whose total income, or the total income of any person in respect of which he is assessable under this Act, includes any income from business or profession, the date of the expiry of four months from the end of the previous year or where there is more than one previous year, from the end of the previous year which expired last before the commencement of the assessment year or the 30th day of June of the assessment year, whichever is later;*
- (b) *in the case of every other assessee, the 30th day of June of the assessment year.*

Explanation 2.—*Where, in relation to an assessment year, an assessment is made for the first time under section 147, the assessment so made shall be regarded as a regular assessment for the purposes of this sub-section.*

Where as a result of an order under section 147 or section 154 or section 155 or section 250 or section 254 or section 260 or section 262 or section 263 or section 264 or an order of the Settlement Commission under sub-section (4) of section 245D, the amount of tax on which interest was payable under this sub-section has been increased or reduced, as the case may be, the interest shall be increased or reduced accordingly, and—

- (i) *in a case where the interest is increased, the Assessing Officer shall serve on the assessee, a notice of demand in the prescribed form specifying the sum payable, and such notice of demand shall be deemed to be a notice under section 156 and the provisions of this Act shall apply accordingly;*
 - (ii) *in a case where the interest is reduced, the excess interest paid, if any, shall be refunded.*
 - (c) *The provisions of this sub-section shall apply in respect of the assessment for the assessment year commencing on the 1st day of April, 1988, or any earlier assessment year, and references therein to the other provisions of this Act shall be construed as references to the said provisions as they were applicable to the relevant assessment year.*
- (8A) *Any person, whether or not he has furnished a return under sub-section (1) or sub-section (4) or sub-section (5), for an assessment year (herein referred to as the relevant assessment year), may furnish an updated return of his income or the income of any other person in respect of which he is assessable under this Act, for the previous year relevant to such assessment year, in the prescribed form, verified in such manner and setting forth such particulars as may be prescribed, at any time within twenty-four months from the end of the relevant assessment year:*



Provided that the provision of this sub-section shall not apply, if the updated return,—

- (a) is a return of a loss; or
- (b) has the effect of decreasing the total tax liability determined on the basis of return furnished under sub-section (1) or sub-section (4) or sub-section (5); or
- (c) results in refund or increases the refund due on the basis of return furnished under sub-section (1) or sub-sections (4) or (5), of such person under this Act for the relevant assessment year:

Provided further that a person shall not be eligible to furnish an updated return under this sub-section, where—

- (a) a search has been initiated under section 132 or books of account or other documents or any assets are requisitioned under section 132A in the case of such person; or
- (b) a survey has been conducted under section 133A, other than sub-section (2A) of that section, in the case of such person; or
- (c) a notice has been issued to the effect that any money, bullion, jewellery or valuable article or thing, seized or requisitioned under section 132 or section 132A in the case of any other person belongs to such person; or
- (d) a notice has been issued to the effect that any books of account or documents, seized or requisitioned under section 132 or section 132A in the case of any other person, pertain or pertains to, or any other information contained therein, relate to, such person, for the assessment year relevant to the previous year in which such search is initiated or survey is conducted or requisition is made and any assessment year preceding such assessment year:

Provided also that no updated return shall be furnished by any person for the relevant assessment year, where—

- (a) an updated return has been furnished by him under this sub-section for the relevant assessment year; or
- (b) any proceeding for assessment or reassessment or re-computation or revision of income under this Act is pending or has been completed for the relevant assessment year in his case; or
- (c) the Assessing Officer has information in respect of such person for the relevant assessment year in his possession under the Smugglers and Foreign



Exchange Manipulators (Forfeiture of Property) Act, 1976 (13 of 1976) or the Prohibition of Benami Property Transactions Act, 1988 (45 of 1988) or the Prevention of Money-laundering Act, 2002 (15 of 2003) or the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (22 of 2015) and the same has been communicated to him, prior to the date of furnishing of return under this sub-section; or

- (d) information for the relevant assessment year has been received under an agreement referred to in section 90 or section 90A in respect of such person and the same has been communicated to him, prior to the date of furnishing of return under this sub-section; or*
- (e) any prosecution proceedings under the Chapter XXII have been initiated for the relevant assessment year in respect of such person, prior to the date of furnishing of return under this sub-section; or*
- (f) he is such person or belongs to such class of persons, as may be notified by the Board in this regard:*

Provided also that if any person has sustained a loss in any previous year and has furnished a return of loss in the prescribed form within the time allowed under sub-section (1) and verified in the prescribed manner and containing such other particulars as may be prescribed, he shall be allowed to furnish an updated return where such updated return is a return of income:

Provided also that if the loss or any part thereof carried forward under Chapter VI or unabsorbed depreciation carried forward under sub-section (2) of section 32 or tax credit carried forward under section 115JAA or under section 115JD is to be reduced for any subsequent previous year as a result of furnishing of return of income under this sub-section for a previous year, an updated return shall be furnished for each such subsequent previous year.]

- (9) Where the Assessing Officer considers that the return of income furnished by the assessee is defective, he may intimate the defect to the assessee and give him an opportunity to rectify the defect within a period of fifteen days from the date of such intimation or within such further period which, on an application made in this behalf, the Assessing Officer may, in his discretion, allow; and if the defect is not rectified within the said period of fifteen days or, as the case may be, the further period so allowed, then, notwithstanding anything contained in any other provision of this Act, the return shall be treated as an invalid return and the provisions of this Act shall apply as if the assessee had failed to furnish the return :*



Provided that where the assessee rectifies the defect after the expiry of the said period of fifteen days or the further period allowed, but before the assessment is made, the Assessing Officer may condone the delay and treat the return as a valid return.

Explanation.—for the purposes of this sub-section, a return of income shall be regarded as defective unless all the following conditions are fulfilled, namely:—

- (a) the annexures, statements and columns in the return of income relating to computation of income chargeable under each head of income, computation of gross total income and total income have been duly filled in;
- (aa) [***]
- (b) the return is accompanied by a statement showing the computation of the tax payable on the basis of the return;
- (bb) the return is accompanied by the report of the audit referred to in section 44AB, or, where the report has been furnished prior to the furnishing of the return, by a copy of such report together with proof of furnishing the report;
- (c) the return is accompanied by proof of—
 - (i) the tax, if any, claimed to have been deducted or collected at source and the advance tax and tax on self-assessment, if any, claimed to have been paid:

Provided that where the return is not accompanied by proof of the tax, if any, claimed to have been deducted or collected at source, the return of income shall not be regarded as defective if—

- (a) a certificate for tax deducted or collected was not furnished under section 203 or section 206C to the person furnishing his return of income;
- (b) such certificate is produced within a period of two years specified under sub-section (14) of section 155;
 - (ii) the amount of compulsory deposit, if any, claimed to have been made under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974 (38 of 1974);
- [(ca) the return is accompanied by the proof of payment of tax as required under section 140B, if the return of income is a return furnished under sub-section (8A);]
- (d) where regular books of account are maintained by the assessee, the return is accompanied by copies of—



- (i) *manufacturing account, trading account, profit and loss account or, as the case may be, income and expenditure account or any other similar account and balance sheet;*
- (ii) *in the case of a proprietary business or profession, the personal account of the proprietor; in the case of a firm, association of persons or body of individuals, personal accounts of the partners or members; and in the case of a partner or member of a firm, association of persons or body of individuals, also his personal account in the firm, association of persons or body of individuals;*
- (e) *where the accounts of the assessee have been audited, the return is accompanied by copies of the audited profit and loss account and balance sheet and the auditor's report and, where an audit of cost accounts of the assessee has been conducted, under section 233B of the Companies Act, 1956 (1 of 1956), also the report under that section;*
- (f) *where regular books of account are not maintained by the assessee, the return is accompanied by a statement indicating the amounts of turnover or, as the case may be, gross receipts, gross profit, expenses and net profit of the business or profession and the basis on which such amounts have been computed, and also disclosing the amounts of total sundry debtors, sundry creditors, stock-in-trade and cash balance as at the end of the previous year:*

[Provided that the Board may, by notification in the Official Gazette, specify that any of the conditions specified in clauses (a) to (f) to the Explanation shall not apply to such class of assessees or shall apply with such modifications, as may be specified in such notification.]

(10) [Omitted by the Finance (No. 2) Act, 1991, w.e.f. 1-4-1991.]

Step 2:- Self Assessment (Section 140A)

- 2.4. **Meaning of Self-Assessment:** Assessee has to compute his total taxable income and tax liability himself under the five heads of income viz; Income from salary, Income from house property, Income from business or profession, Income from capital gain and Income from other sources. Central government has presumed that the assessee has declared his all income, assets and liability correctly without any tax evasion and concealment intention and has paid tax liability payable before furnishing income tax return. Self-assessment requires an assessee to comply with certain tax obligations before furnishing the return of income. The assessee has to pay tax after making adjustment of TDS, TCS, Advance tax, any relief of tax under section 89, 90 or 91, 90A, 115JAA or 115JD or the amount paid under any provision of the Income tax Act,



1961 with interest and fees, if any on the basis of income tax return filed under section 139 or 115WD of 115WH or 142 or 148 or 153A or 158BC before furnishing the return. The CPU processes the income tax return filed and releases a refund amount due to the assessee as claimed in the return. The acknowledgement generated after furnishing the return is treated as intimation under section 143(1) in case where tax payable or refund payable is nil.

Self-assessment

140A. (1) *Where any tax is payable on the basis of any return required to be furnished under section 115WD or section 115WH or section 139 or section 142 or section 148 or section 153A or, as the case may be, section 158BC, after taking into account,—*

- (i) *the amount of tax, if any, already paid under any provision of this Act;*
- (ii) *any tax deducted or collected at source;*
- (iia) *any relief of tax claimed under section 89;*
- (iii) *any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;*
- (iv) *any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section;*
- (v) *any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD; and*
- (vi) *any tax or interest payable according to the provisions of sub-section (2) of section 191, the assessee shall be liable to pay such tax together with interest and fee payable under any provision of this Act for any delay in furnishing the return or any default or delay in payment of advance tax, before furnishing the return and the return shall be accompanied by proof of payment of such tax, interest and fee.*

Explanation.—*Where the amount paid by the assessee under this sub-section falls short of the aggregate of the tax, interest and fee as aforesaid, the amount so paid shall first be adjusted towards the fee payable and thereafter towards the interest payable as aforesaid and the balance, if any, shall be adjusted towards the tax payable.*

(1A) *For the purposes of sub-section (1), interest payable,—*

- (i) *under section 234A shall be computed on the amount of the tax on the total income as declared in the return as reduced by the amount of,—*
 - (a) *advance tax, if any, paid;*
 - (b) *any tax deducted or collected at source;*
 - (ba) *any relief of tax claimed under section 89;*



- (c) any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;
- (d) any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section; and
- (e) any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD;
- (ii) under section 115WK shall be computed on the amount of tax on the value of the fringe benefits as declared in the return as reduced by the advance tax, paid, if any.
- (1B) For the purposes of sub-section (1), interest payable under section 234B shall be computed on an amount equal to the assessed tax or, as the case may be, on the amount by which the advance tax paid falls short of the assessed tax.

Explanation.—For the purposes of this sub-section, "assessed tax" means the tax on the total income as declared in the return as reduced by the amount of,—

- (i) tax deducted or collected at source, in accordance with the provisions of Chapter XVII, on any income which is subject to such deduction or collection and which is taken into account in computing such total income;
- (ia) any relief of tax claimed under section 89;
- (ii) any relief of tax or deduction of tax claimed under section 90 or section 91 on account of tax paid in a country outside India;
- (iii) any relief of tax claimed under section 90A on account of tax paid in any specified territory outside India referred to in that section; and
- (iv) any tax credit claimed to be set off in accordance with the provisions of section 115JAA or section 115JD.
- (2) After a regular assessment under section 115WE or section 115WF or section 143 or section 144 or an assessment under section 153A or section 158BC has been made, any amount paid under sub-section (1) shall be deemed to have been paid towards such regular assessment or assessment, as the case may be.
- (3) If any assessee fails to pay the whole or any part of such tax, interest or fee in accordance with the provisions of sub-section (1), he shall, without prejudice to any other consequences which he may incur, be deemed to be an assessee in default in respect of the tax, interest or fee remaining unpaid, and all the provisions of this Act shall apply accordingly.



- (4) *The provisions of this section as they stood immediately before their amendment by the Direct Tax Laws (Amendment) Act, 1987 (4 of 1988), shall apply to and in relation to any assessment for the assessment year commencing on the 1st day of April, 1988, or any earlier assessment year and references in this section to the other provisions of this Act shall be construed as references to those provisions as for the time being in force and applicable to the relevant assessment year.*
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Step-3 Intimation of Regular Assessment [Section 143(1)]

- 2.5. Where a return is furnished under section 139 or section 142(1) (i), the return so furnished is processed through computerized processing at Centralize Processing Unit, Bengaluru to expedite the refund or tax payable. During the processing of the return at CPU, the total income or loss is computed after making the adjustment, if any, for arithmetical error in the return or incorrect claim, disallowance of loss claimed, disallowance of expenditure, disallowance of deduction claimed. Before making such adjustment, a notice is served under section 143(1)(a) and an opportunity is given to the assessee to respond on the adjustment to be made to compute total income or loss as the case may be. The assessee is required to respond within thirty days of the issue of such notice. Thereafter, the tax payable or the amount of refund due shall be determined after the adjustment of tax, interest or fee, if any. CPU sends intimation under section 143(1) to the assessee specifying the tax payable or tax refundable. An intimation is also sent where no tax, interest or fee is payable by or no refund is due to him.

Time limit: The intimation under section 143(1) is sent to the end of nine months from the end of the financial year in which return is furnished. Suppose return for the previous year 2022-23 is furnished on 31st July, 2023, intimation for regular assessment shall be sent upto 31st December, 2024.

143. (1) *where a return has been made under section 139, or in response to a notice under sub-section (1) of section 142, such return shall be processed in the following manner, namely:—*

- (a) *The total income or loss shall be computed after making the following adjustments, namely:—*
- i. any arithmetical error in the return;*
 - ii. an incorrect claim, if such incorrect claim is apparent from any information in the return;*



- iii. *disallowance of loss claimed, if return of the previous year for which set off of loss is claimed was furnished beyond the due date specified under sub-section (1) of section 139:*
- iv. *disallowance of expenditure [or increase in income] indicated in the audit report but not taken into account in computing the total income in the return;*
- v. *disallowance of deduction claimed under [section 10AA or under any of the provisions of Chapter VI-A under the heading "C.—Deductions in respect of certain incomes", if] the return is furnished beyond the due date specified under sub-section (1) of section 139; or*
- vi. *addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return:*

Provided that no such adjustments shall be made unless an intimation is given to the assessee of such adjustments either in writing or in electronic mode:

Provided further that the response received from the assessee, if any, shall be considered before making any adjustment, and in a case where no response is received within thirty days of the issue of such intimation, such adjustments shall be made:

Provided also that no adjustment shall be made under sub-clause (vi) in relation to a return furnished for the assessment year commencing on or after the 1st day of April, 2018;

- (b) *The tax, interest and fee, if any, shall be computed on the basis of the total income computed under clause (a);*
- (c) *the sum payable by, or the amount of refund due to, the assessee shall be determined after adjustment of the tax, interest and fee, if any, computed under clause (b) by any tax deducted at source, any tax collected at source, any advance tax paid, any relief allowable under section 89, any relief allowable under an agreement under section 90 or section 90A, or any relief allowable under section 91, any rebate allowable under Part A of Chapter VIII, any tax paid on self-assessment and any amount paid otherwise by way of tax, interest or fee;*
- (d) *an intimation shall be prepared or generated and sent to the assessee specifying the sum determined to be payable by, or the amount of refund due to, the assessee under clause (c); and*
- (e) *the amount of refund due to the assessee in pursuance of the determination under clause (c) shall be granted to the assessee:*



Provided that an intimation shall also be sent to the assessee in a case where the loss declared in the return by the assessee is adjusted but no tax, interest or fee is payable by, or no refund is due to, him:

Provided further that no intimation under this sub-section shall be sent after the expiry of [nine months] from the end of the financial year in which the return is made.

Explanation.— For the purposes of this sub-section,—

- (a) "an incorrect claim apparent from any information in the return" shall mean a claim, on the basis of an entry, in the return,—
 - (i) of an item, which is inconsistent with another entry of the same or some other item in such return;
 - (ii) in respect of which the information required to be furnished under this Act to substantiate such entry has not been so furnished; or
 - (iii) in respect of a deduction, where such deduction exceeds specified statutory limit which may have been expressed as monetary amount or percentage or ratio or fraction;
- (b) the acknowledgement of the return shall be deemed to be the intimation in a case where no sum is payable by, or refundable to, the assessee under clause (c), and where no adjustment has been made under clause (a).
 - (1A) For the purposes of processing of returns under sub-section (1), the Board may make a scheme for centralised processing of returns with a view to expeditiously determining the tax payable by, or the refund due to, the assessee as required under the said sub-section.
 - (1B) Save as otherwise expressly provided, for the purpose of giving effect to the scheme made under sub-section (1A), the Central Government may, by notification in the Official Gazette, direct that any of the provisions of this Act relating to processing of returns shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in that notification; so, however, that no direction shall be issued after the 31st day of March, 2012.
 - (1C) Every notification issued under sub-section (1B), along with the scheme made under sub-section (1A), shall, as soon as may be after the notification is issued, be laid before each House of Parliament.



(1D) Notwithstanding anything contained in sub-section (1), the processing of a return shall not be necessary, where a notice has been issued to the assessee under sub-section (2):

Provided that the provisions of this sub-section shall not apply to any return furnished for the assessment year commencing on or after the 1st day of April, 2017.

Step-4 Enquiry before Assessment (Section 142)

- 2.6. This section empowers the Assessing officer or prescribed income tax authority (As per rule 12F prescribed income tax authority means not below the rank of Income tax officer who has been authorized by the Central Board of Direct Taxes to act as such authority for the purposes of that clause) for the purpose of making an assessment under the Income tax Act, 1961
- i. to serve a notice to any person who has furnished his income tax return under section 115WD or section 139 or section 141(1)
 - ii. to serve a notice to any person who has not furnished his return within the time allowed under section 139(1) or before the end of the relevant assessment year under section 141(1) (i). The assessee to whom a notice has been served under this clause is required to furnish income tax return within the time as mentioned in the notice.
 - iii. to serve notice to produce such accounts or documents or information on such points or matters as required by the AO as he thinks fit for the assessment with the approval of Joint Commissioner under the clause (ii) & (iii) of section 141(1).
 - iv. Section 142(2) empowers the AO to get full information of income or loss and make such enquiry as he deems necessary to complete the assessment and to serve a notice to the assessee.
 - v. Section 142(2A) empowers the AO in case of complex and voluminous accounts or doubt in the correctness of accounts or multiplicity of transactions, to issue an order to the assessee with the prior approval of PCCIT or CCIT or PCIT or CIT to get either or both the audit done of accounts from a practising Chartered Accountant or get Inventory valuation done from a practising Cost Accountant as nominated by the PCCIT or CCIT or PCIT or CIT.
 - vi. **Time limit:** Under section 142 the AO cannot call for the production of accounts of the period more than 3 years prior to the relevant P.Y. Suppose for making the assessment



of the P.Y. 2022-23, the AO can call for books of accounts for the period of 2019-20, 2020-21 & 2021-22

- vii. Section 142A empowers the AO for the purpose of assessment or reassessment to engage a Valuation officer to estimate the value, fair market value of any asset, property or investment.
- viii. Section 142B empowers the Central government to make a scheme in order to enhance efficiency, transparency and accountability for making faceless enquiry under section 142(1), 142(2) and 142(2A) and valuation under section 142A

✓ *The Principal Chief Commissioner or the Principal Director General, as the case may be, in-charge of the National Faceless Assessment Centre shall, in accordance with the procedure laid down by the Board in this regard, if he considers appropriate that the provisions of sub-section (2A) of section 142 may be invoked in the case,—*

(i) forward the reference received from an assessment unit under clause (xxxii) of sub-section (1) to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner having jurisdiction over such case, and inform the assessment unit accordingly;

(ii) Transfer the case to the Assessing Officer having jurisdiction over such case in accordance with sub-section (8);

(b) where a reference has been received by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner under sub-clause (i) of clause (a), he shall direct the Assessing Officer, having jurisdiction over the case, to invoke the provisions of sub-section (2A) of section 142;

(c) Where a reference has not been forwarded to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, having jurisdiction over the case, in a case referred to in sub-clause (i) of clause (a), the assessment unit shall proceed to complete the assessment in accordance with the procedure laid down in this section.

Inquiry before assessment

142. *(1) For the purpose of making an assessment under this Act, the Assessing Officer may serve on any person who has made a return under section 115WD or section 139 or in whose case the time allowed under sub-section (1) of section 139 for furnishing the return has expired a notice requiring him, on a date to be therein specified,—*



- (i) where such person has not made a return within the time allowed under sub-section (1) of section 139 or before the end of the relevant assessment year, to furnish a return of his income or the income of any other person in respect of which he is assessable under this Act, in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed, or:

Provided that where any notice has been served under this sub-section for the purposes of this clause after the end of the relevant assessment year commencing on or after the 1st day of April, 1990 to a person who has not made a return within the time allowed under sub-section (1) of section 139 or before the end of the relevant assessment year, any such notice issued to him shall be deemed to have been served in accordance with the provisions of this sub-section:

[Provided further that a notice under this sub-section for the purposes of this clause may also be served by the prescribed income-tax authority,]

- (ii) To produce, or cause to be produced, such accounts or documents as the Assessing Officer may require, or
- (iii) To furnish in writing and verified in the prescribed manner information in such form and on such points or matters (including a statement of all assets and liabilities of the assessee, whether included in the accounts or not) as the Assessing Officer may require:

Provided that—

- (a) The previous approval of the Joint Commissioner shall be obtained before requiring the assessee to furnish a statement of all assets and liabilities not included in the accounts;
- (b) The Assessing Officer shall not require the production of any accounts relating to a period more than three years prior to the previous year.
- (2) For the purpose of obtaining full information in respect of the income or loss of any person, the Assessing Officer may make such inquiry as he considers necessary.
- [(2A) If, at any stage of the proceedings before him, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts, doubts about the correctness of the accounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee, and the interests of the revenue, is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, direct the assessee to get either or both of the following, namely:—**



- (i) *to get the accounts audited by an accountant, as defined in the Explanation below sub-section (2) of section 288, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf and to furnish a report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars, as may be prescribed, and such other particulars as the Assessing Officer may require;*
 - (ii) *to get the inventory valued by a cost accountant, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf and to furnish a report of such inventory valuation in the prescribed form²¹ duly signed and verified by such cost accountant and setting forth such particulars, as may be prescribed, and such other particulars as the Assessing Officer may require:*
- 142A.** (1) *The Assessing Officer may, for the purposes of assessment or reassessment, make a reference to a Valuation Officer to estimate the value, including fair market value, of any asset, property or investment and submit a copy of report to him.*
- (2) *The Assessing Officer may make a reference to the Valuation Officer under sub-section (1) whether or not he is satisfied about the correctness or completeness of the accounts of the assessee.*
- (3) *The Valuation Officer, on a reference made under sub-section (1), shall, for the purpose of estimating the value of the asset, property or investment, have all the powers that he has under section 38A of the Wealth-tax Act, 1957 (27 of 1957).*
- (4) *The Valuation Officer shall, estimate the value of the asset, property or investment after taking into account such evidence as the assessee may produce and any other evidence in his possession gathered, after giving an opportunity of being heard to the assessee.*
- (5) *The Valuation Officer may estimate the value of the asset, property or investment to the best of his judgment, if the assessee does not co-operate or comply with his directions.*
- (6) *The Valuation Officer shall send a copy of the report of the estimate made under sub-section (4) or sub-section (5), as the case may be, to the Assessing Officer and the assessee, within a period of six months from the end of the month in which a reference is made under sub-section (1).*



- (7) *The Assessing Officer may, on receipt of the report from the Valuation Officer, and after giving the assessee an opportunity of being heard, take into account such report in making the assessment or reassessment.*

Explanation.—*In this section, "Valuation Officer" has the same meaning as in clause (r) of section 2 of the Wealth-tax Act, 1957 (27 of 1957).*

142B. (1) *The Central Government may make a scheme, by notification in the Official Gazette, for the purposes of issuing notice under sub-section (1) or making inquiry before assessment under sub-section (2), or directing the assessee to get his accounts audited under sub-section (2A) of section 142, or estimating the value of any asset, property or investment by a Valuation Officer under section 142A, so as to impart greater efficiency, transparency and accountability by—*

- (a) eliminating the interface between the income-tax authority or Valuation Officer and the assessee or any person to the extent technologically feasible;*
 - (b) optimising utilisation of the resources through economies of scale and functional specialisation;*
 - (c) introducing a team-based issuance of notice or making of enquiries or issuance of directions or valuation with dynamic jurisdiction.*
- (2) *The Central Government may, for the purpose of giving effect to the scheme made under sub-section (1), by notification in the Official Gazette, direct that any of the provisions of this Act shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification:*

Provided *that no direction shall be issued after the 31st day of March, 2022.*

- (3) *Every notification issued under sub-section (1) and sub-section (2) shall, as soon as may be after the notification is issued, be laid before each House of Parliament.*

Step-5 Scrutiny Assessment [Section 143(3)]

- 2.7. Scrutiny assessment is a detailed examination of the Income tax return furnished by the assessee under section 139 or section 142(1). Every year a certain percentage of tax returns are selected for the scrutiny assessment. The cases are selected through CASS (Computer Aided Scrutiny Selection). CASS is a system-based method for selection of cases through data analysis



and 360- degree data profiling of taxpayers and in a non-discretionary manner. CBDT time to time issues guidelines and the parameters for the selection of cases for detailed scrutiny.

- a) The scrutiny assessment can be either “limited scrutiny” or “complete scrutiny”. Through limited scrutiny CBDT limits the scope of scrutiny. In limited scrutiny cases, notice contains certain specific issues for the examination. The enquiry shall remain confined only to the specific issues or reasons for which the case has been picked up for scrutiny. These cases are completed in a limited number of hearings. **Practical example** during the demonetisation, several notices were issued to examine the cases wherein cash has been deposited into the bank accounts in between 09.11.2016 to 30.12.2016 of amount more than Rs. 2 lakhs.
- b) The AO or the prescribed income tax authority, as the case may be considers it to be necessary to ensure that the assessee has not understated the income or has not computed excessive loss or has not under-paid the tax, shall serve a notice under section 143(2) to the assessee to produce any evidence on which the assessee may rely in support of his return.

Time limit: Notice under this sub section 2 of section 143 shall not be issued after the expiry of three months from the end of the financial year in which return has been furnished. Suppose a return has been filed on 31.07.2023 for the p.y. 2022-23. Then in this case notice for detailed scrutiny under section 143(2) may be served up to 30th June, 2024.

- c) **Assessment order:** The AO or the prescribed income tax authority shall pass an assessment order under section 143(3) in writing after considering the evidence as produced by the assessee and on the basis of other information and evidence as collected by the AO as per the provision of section 142.

143(2) Where a return has been furnished under section 139, or in response to a notice under sub-section (1) of section 142, the Assessing Officer or the prescribed income-tax authority, as the case may be, if, considers it necessary or expedient to ensure that the assessee has not understated the income or has not computed excessive loss or has not under-paid the tax in any manner, shall serve on the assessee a notice requiring him, on a date to be specified therein, either to attend the office of the Assessing Officer or to produce, or cause to be produced before the Assessing Officer any evidence on which the assessee may rely in support of the return:

Provided that no notice under this sub-section shall be served on the assessee after the expiry of [three] months from the end of the financial year in which the return is furnished.



(3) On the day specified in the notice issued under sub-section (2), or as soon afterwards as may be, after hearing such evidence as the assessee may produce and such other evidence as the Assessing Officer may require on specified points, and after taking into account all relevant material which he has gathered, the Assessing Officer shall, by an order in writing, make an assessment of the total income or loss of the assessee, and determine the sum payable by him or refund of any amount due to him on the basis of such assessment:

[Provided that in the case of a—

- (a) research association referred to in clause (21) of section 10;*
- (b) news agency referred to in clause (22B) of section 10;*
- (c) association or institution referred to in clause (23A) of section 10;*
- (d) institution referred to in clause (23B) of section 10,*

which is required to furnish the return of income under sub-section (4C) of section 139, no order making an assessment of the total income or loss of such research association, news agency, association or institution, shall be made by the Assessing Officer, without giving effect to the provisions of section 10, unless—

- (i) the Assessing Officer has intimated the Central Government or the prescribed authority the contravention of the provisions of clause (21) or clause (22B) or clause (23A) or clause (23B), as the case may be, by such research association, news agency, association or institution, where in his view such contravention has taken place; and*
- (ii) the approval granted to such research association or other association or institution has been withdrawn or notification issued in respect of such news agency or association or institution has been rescinded:]*

[Provided further that where the Assessing Officer is satisfied that any fund or institution referred to in sub-clause (iv) or trust or institution referred to in sub-clause (v) or any university or other educational institution referred to in sub-clause (vi) or any hospital or other medical institution referred to in sub-clause (via), of clause (23C) of section 10, or any trust or institution referred to in section 11, has committed any specified violation as defined in Explanation 2 to the fifteenth proviso to clause (23C) of section 10 or the Explanation to sub-section (4) of section 12AB, as the case may be, he shall—

- (a) Send a reference to the Principal Commissioner or Commissioner to withdraw the approval or registration, as the case may be; and*
- (b) no order making an assessment of the total income or loss of such fund or institution or trust or any university or other educational institution or any hospital or other medical institution shall be made by him without giving effect to the order passed by the*



Principal Commissioner or Commissioner under clause (ii) or clause (iii) of the fifteenth proviso to clause (23C) of section 10 or clause (ii) or clause (iii) of sub-section (4) of section 12AB:

Provided also that where the Assessing Officer is satisfied that the activities of the university, college or other institution referred to in clause (ii) and clause (iii) of sub-section (1) of section are not being carried out in accordance with all or any of the conditions subject to which such university, college or other institution was approved, he may, after giving a reasonable opportunity of showing cause against the proposed withdrawal to the concerned university, college or other institution, recommend to the Central Government to withdraw the approval and that Government may by order, withdraw the approval and forward a copy of the order to the concerned university, college or other institution and the Assessing Officer.

(3A) The Central Government may make a scheme, by notification in the Official Gazette, for the purposes of making assessment of total income or loss of the assessee under sub-section (3) or section 144 so as to impart greater efficiency, transparency and accountability by—

- (a) eliminating the interface between the Assessing Officer and the assessee in the course of proceedings to the extent technologically feasible;
- (b) optimising utilisation of the resources through economies of scale and functional specialisation;
- (c) introducing a team-based assessment with dynamic jurisdiction.

(3B) The Central Government may, for the purpose of giving effect to the scheme made under sub-section (3A), by notification in the Official Gazette, direct that any of the provisions of this Act relating to assessment of total income or loss shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification:

Provided that no direction shall be issued after the 31st day of March, 2021.

(3C) Every notification issued under sub-section (3A) and sub-section (3B) shall, as soon as may be after the notification is issued, be laid before each House of Parliament.

(3D) Nothing contained in sub-section (3A) and sub-section (3B) shall apply to the assessment made under sub-section (3) or under section 144, as the case may be, on or after the 1st day of April, 2021.

(4) Where a regular assessment under sub-section (3) of this section or section 144 is made,—



- (a) any tax or interest paid by the assessee under sub-section (1) shall be deemed to have been paid towards such regular assessment;
- (b) if no refund is due on regular assessment or the amount refunded under sub-section (1) exceeds the amount refundable on regular assessment, the whole or the excess amount so refunded shall be deemed to be tax payable by the assessee and the provisions of this Act shall apply accordingly.

(5) [Omitted by the Finance Act, 1999, w.e.f. 1-6-1999.]

Step-6 Best judgment Assessment [Section 144]

2.8. Where any person does not cooperate with the AO in assessment proceedings and

- (i) failed to file his income tax return under section 139 or on notice under section 142(1)
- (ii) and failed to comply with the direction under section 142(2A)
- (iii) has filed income tax return but failed to comply with the notice under section 143(2)

The AO after taking into account of all relevant material which he gathered makes the assessment of the total income or loss to the best of his judgment and determines the tax payable by the assessee.

Faceless Assessment

- 2.9. The Central Government under section 144B can prescribe for an assessment or reassessment or re-computation under section 143(3) or 144 or 147, as the case may be in a faceless manner
- the National Faceless Assessment Centre shall assign the case selected for the purposes of faceless assessment under this section to a specific assessment unit through an automated allocation system;
 - the National Faceless Assessment Centre shall intimate the assessee that assessment in his case shall be completed in accordance with the procedure laid down under this section;
 - a notice shall be served to the assessee, through the National Faceless Assessment Centre, under sub-section (2) of section 143 or under sub-section (1) of section 142 and the assessee may file his response to such notice within the date specified therein, to the National Faceless Assessment Centre which shall forward the same to the assessment unit.

Best judgment assessment.

144. (1) If any person—



- (a) *fails to make the return required under sub-section (1) of section 139 and has not made a return or a revised return under sub-section (4) or sub-section (5) [or an updated return under sub-section (8A)] of that section, or*
- (b) *fails to comply with all the terms of a notice issued under sub-section (1) of section 142 or fails to comply with a direction issued under sub-section (2A) of that section, or*
- (c) *having made a return, fails to comply with all the terms of a notice issued under sub-section (2) of section 143, the Assessing Officer, after taking into account all relevant material which the Assessing Officer has gathered, shall, after giving the assessee an opportunity of being heard, make the assessment of the total income or loss to the best of his judgment and determine the sum payable by the assessee on the basis of such assessment:*

Provided that such opportunity shall be given by the Assessing Officer by serving a notice calling upon the assessee to show cause, on a date and time to be specified in the notice, why the assessment should not be completed to the best of his judgment :

Provided further that it shall not be necessary to give such opportunity in a case where a notice under sub-section (1) of section 142 has been issued prior to the making of an assessment under this section.

- (2) *The provisions of this section as they stood immediately before their amendment by the Direct Tax Laws (Amendment) Act, 1987 (4 of 1988), shall apply to and in relation to any assessment for the assessment year commencing on the 1st day of April, 1988, or any earlier assessment year and references in this section to the other provisions of this Act shall be construed as references to those provisions as for the time being in force and applicable to the relevant assessment year.*

Faceless Assessment

144B. [(1) Notwithstanding anything to the contrary contained in any other provision of this Act, the assessment, reassessment or re-computation under sub-section (3) of section 143 or under section 144 or under section 147, as the case may be, with respect to the cases referred to in sub-section (2), shall be made in a faceless manner as per the following procedure, namely:—

- (i) *The National Faceless Assessment Centre shall assign the case selected for the purposes of faceless assessment under this section to a specific assessment unit through an automated allocation system;*



- (ii) *The National Faceless Assessment Centre shall intimate the assessee that assessment in his case shall be completed in accordance with the procedure laid down under this section;*
- (iii) *a notice shall be served on the assessee, through the National Faceless Assessment Centre, under sub-section (2) of section 143 or under sub-section (1) of section 142 and the assessee may file his response to such notice within the date specified therein, to the National Faceless Assessment Centre which shall forward the same to the assessment unit;*
- (iv) *where a case is assigned to the assessment unit, under clause (i), it may make a request through the National Faceless Assessment Centre for—*
 - (a) *obtaining such further information, documents or evidence from the assessee or any other person, as it may specify;*
 - (b) *conducting of enquiry or verification by verification unit;*
 - (c) *seeking technical assistance in respect of determination of arm's length price, valuation of property, withdrawal of registration, approval, exemption or any other technical matter by referring to the technical unit;*
- (v) *where a request under sub-clause (a) of clause (iv) has been initiated by the assessment unit, the National Faceless Assessment Centre shall serve appropriate notice or requisition on the assessee or any other person for obtaining the information, documents or evidence requisitioned by the assessment unit and the assessee or any other person, as the case may be, shall file his response to such notice within the time specified therein or such time as may be extended on the basis of an application in this regard, to the National Faceless Assessment Centre which shall forward the reply to the assessment unit;*
- (vi) *where a request,—*
 - (a) *for conducting of enquiry or verification by the verification unit has been made by the assessment unit under sub-clause (b) of clause (iv), the request shall be assigned by the National Faceless Assessment Centre to a verification unit through an automated allocation system; or*
 - (b) *for reference to the technical unit has been made by the assessment unit under sub-clause (c) of clause (iv), the request shall be assigned by the National Faceless Assessment Centre to a technical unit through an automated allocation system;*



- (vii) *The National Faceless Assessment Centre shall send the report received from the verification unit or the technical unit, as the case may be, based on the request referred to in clause (vi) to the concerned assessment unit;*
- (viii) *where the assessee fails to comply with the notice served under clause (v) or notice issued under sub-section (1) of section 142 or the terms of notice issued under sub-section (2) of section 143, the National Faceless Assessment Centre shall intimate such failure to the assessment unit;*
- (ix) *The assessment unit shall serve upon such assessee, as referred to in clause (viii), a notice, through the National Faceless Assessment Centre, under section 144, giving him an opportunity to show-cause on a date and time as specified in such notice as to why the assessment in his case should not be completed to the best of its judgment;*
- (x) *the assessee shall, within the time specified in the notice referred to in clause (ix) or such time as may be extended on the basis of an application in this regard, file his response to the National Faceless Assessment Centre which shall forward the same to the assessment unit;*
- (xi) *where the assessee fails to file response to the notice served under clause (ix) within the time specified therein or within the extended time, if any, the National Faceless Assessment Centre shall intimate such failure to the assessment unit;*
- (xii) *the assessment unit shall, after taking into account all the relevant material available on the record, prepare, in writing,—*
 - (a) *an income or loss determination proposal, where no variation prejudicial to assessee is proposed and send a copy of such income or loss determination proposal to the National Faceless Assessment Centre; or*
 - (b) *in any other case, a show cause notice stating the variations prejudicial to the interest of assessee proposed to be made to the income of the assessee and calling upon him to submit as to why the proposed variation should not be made and serve such show cause notice, on the assessee, through the National Faceless Assessment Centre;*
- (xiii) *the assessee shall file his reply to the show cause notice served under sub-clause (b) of clause (xii) on a date and time as specified therein or such time as may be extended on the basis of an application made in this regard, to the National Faceless Assessment Centre, which shall forward the reply to the assessment unit;*
- (xiv) *where the assessee fails to file response to the notice served under sub-clause (b) of clause (xii) within the time specified therein or within the extended time, if any, the*



National Faceless Assessment Centre shall intimate such failure to the assessment unit;

- (xv) the assessment unit shall, after considering the response received under clause (xiii) or after receipt of intimation under clause (xiv), as the case may be, and taking into account all relevant material available on record, prepare an income or loss determination proposal and send the same to the National Faceless Assessment Centre;*
- (xvi) upon receipt of the income or loss determination proposal, as referred to in sub-clause (a) of clause (xii) or clause (xv), as the case may be, the National Faceless Assessment Centre may, on the basis of guidelines issued by the Board,—*
 - (a) convey to the assessment unit to prepare draft order in accordance with the income or loss determination proposal, which shall thereafter prepare a draft order; or*
 - (b) assign the income or loss determination proposal to a review unit through an automated allocation system, for conducting review of such proposal;*
- (xvii) The review unit shall conduct review of the income or loss determination proposal assigned to it by the National Faceless Assessment Centre, under sub-clause (b) of clause (xvi), whereupon it shall prepare a review report and send the same to the National Faceless Assessment Centre;*
- (xviii) the National Faceless Assessment Centre shall, upon receiving the review report under clause (xvii), forward the same to the assessment unit which had proposed the income or loss determination proposal;*
- (xix) the assessment unit shall, after considering such review report, accept or reject some or all of the modifications proposed therein and after recording reasons in case of rejection of such modifications, prepare a draft order;*
- (xx) the assessment unit shall send such draft order prepared under sub-clause (a) of clause (xvi) or under clause (xix) to the National Faceless Assessment Centre;*
- (xxi) in case of an eligible assessee, where there is a proposal to make any variation which is prejudicial to the interest of such assessee, as mentioned in sub-section (1) under section 144C, the National Faceless Assessment Centre shall serve the draft order referred to in clause (xx) on the assessee;*
- (xxii) in any case other than that referred to in clause (xxi), the National Faceless Assessment Centre shall convey to the assessment unit to pass the final assessment order in accordance with such draft order, which shall thereafter*



- pass the final assessment order and initiate penalty proceedings, if any, and send it to the National Faceless Assessment Centre;*
- (xxiii) *upon receiving the final assessment order as per clause (xxii), the National Faceless Assessment Centre shall serve a copy of such order and notice for initiating penalty proceedings, if any, on the assessee, along with the demand notice, specifying the sum payable by, or refund of any amount due to, the assessee on the basis of such assessment;*
- (xxiv) *where a draft order is served on the assessee as referred to in clause (xxi), such assessee shall,—*
- (a) *file his acceptance of the variations proposed in such draft order to the National Faceless Assessment Centre; or*
- (b) *file his objections, if any, to such variations, with—*
- (I) *The Dispute Resolution Panel, and*
- (II) *The National Faceless Assessment Centre, within the period specified in sub-section (2) of section 144C;*
- (xxv) *The National Faceless Assessment Centre shall,—*
- (a) *upon receipt of acceptance from the eligible assessee; or*
- (b) *if no objections are received from the eligible assessee, within the period specified in sub-section (2) of section 144C, intimate the assessment unit to complete the assessment on the basis of the draft order;*
- (xxvi) *The assessment unit shall, upon receipt of intimation under clause (xxv), pass the assessment order, in accordance with the relevant draft order, within the time allowed under sub-section (4) of section 144C and initiate penalty proceedings, if any, and send the order to the National Faceless Assessment Centre;*
- (xxvii) *Where the eligible assessee files objections with the Dispute Resolution Panel, under sub-clause (b) of clause (xxiv), the National Faceless Assessment Centre shall send such intimation along with a copy of objections filed to the assessment unit;*
- (xxviii) *The National Faceless Assessment Centre shall, in a case referred to in clause (xxvii), upon receipt of the directions issued by the Dispute Resolution Panel under sub section (5) of section 144C, forward such directions to the assessment unit;*
- (xxix) *the assessment unit shall, in conformity with the directions issued by the Dispute Resolution Panel under sub-section (5) of section 144C, complete the assessment*



within the time allowed in sub-section (13) of section 144C and initiate penalty proceedings, if any, and send a copy of the assessment order to the National Faceless Assessment Centre;

- (xxx) the National Faceless Assessment Centre shall, upon receipt of the assessment order referred to in clause (xxvi) or clause (xxix), as the case may be, serve a copy of such order and notice for initiating penalty proceedings, if any, on the assessee, along with the demand notice, specifying the sum payable by, or the amount of refund due to, the assessee on the basis of such assessment;*
- (xxxi) the National Faceless Assessment Centre shall, after completion of assessment, transfer all the electronic records of the case to the Assessing Officer having jurisdiction over the said case for such action as may be required under the provisions of this Act;*
- (xxxii) if at any stage of the proceedings before it, the assessment unit having regard to the nature and complexity of the accounts, volume of the accounts, doubts about the correctness of accounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee, and the interests of the revenue, is of the opinion that it is necessary to do so, it may, upon recording its reasons in writing, refer the case to the National Faceless Assessment Centre stating that the provisions of sub-section (2A) of section 142 may be invoked and such case shall be dealt with in accordance with the provisions of sub-section (7).*

(2) The faceless assessment under sub-section (1) shall be made in respect of such territorial area, or persons or class of persons, or incomes or class of incomes, or cases or class of cases, as may be specified by the Board.

(3) The Board may, for the purposes of faceless assessment, set up the following Centre and units and specify their functions and jurisdiction, namely:—

- (i) a National Faceless Assessment Centre to facilitate the conduct of faceless assessment proceedings in a centralised manner;*
- (ii) such assessment units, as it may deem necessary to conduct the faceless assessment, to perform the function of making assessment, which includes identification of points or issues material for the determination of any liability (including refund) under this Act, seeking information or clarification on points or issues so identified, analysis of the material furnished by the assessee or any other person, and such other functions as may be required for the purposes of making faceless assessment, and the*



term "assessment unit", wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board;

- (iii) such verification units, as it may deem necessary to facilitate the conduct of faceless assessment, to perform the function of verification, which includes enquiry, cross verification, examination of books of account, examination of witnesses and recording of statements, and such other functions as may be required for the purposes of verification and the term "verification unit", wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board:*

Provided *that the function of verification unit under this section may also be performed by a verification unit located in any other faceless centre set up under the provisions of this Act or under any scheme notified under the provisions of this Act; and the request for verification may also be assigned through the National Faceless Assessment Centre to such verification unit;*

- (iv) such technical units, as it may deem necessary to facilitate the conduct of faceless assessment, to perform the function of providing technical assistance which includes any assistance or advice on legal, accounting, forensic, information technology, valuation, transfer pricing, data analytics, management or any other technical matter under this Act or an agreement entered into under section 90 or 90A, which may be required in a particular case or a class of cases, under this section and the term "technical unit", wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board;*
- (v) such review units, as it may deem necessary to facilitate the conduct of faceless assessment, to perform the function of review of the income determination proposal assigned under sub-clause (b) of clause (xvi) of sub-section (1), which includes checking whether the relevant and material evidence has been brought on record, relevant points of fact and law have been duly incorporated, the issues requiring addition or disallowance have been incorporated and such other functions as may be required for the purposes of review and the term "review unit", wherever used in this section, shall refer to an Assessing Officer having powers so assigned by the Board.*

- (4) The assessment unit, verification unit, technical unit and the review unit shall have the following authorities, namely:—*



- (i) *Additional Commissioner or Additional Director or Joint Commissioner or Joint Director, as the case may be;*
 - (ii) *Deputy Commissioner or Deputy Director or Assistant Commissioner or Assistant Director, or Income-tax Officer, as the case may be;*
 - (iii) *such other income-tax authority, ministerial staff, executive or consultant, as may be considered necessary by the Board.*
- (5) *All communications,—*
 - (i) *among the assessment unit, review unit, verification unit or technical unit or with the assessee or any other person with respect to the information or documents or evidence or any other details, as may be necessary for the purposes of making a faceless assessment shall be through the National Faceless Assessment Centre;*
 - (ii) *between the National Faceless Assessment Centre and the assessee, or his authorised representative, or any other person shall be exchanged exclusively by electronic mode; and*
 - (iii) *between the National Faceless Assessment Centre and various units shall be exchanged exclusively by electronic mode:*

Provided *that the provisions of this sub-section shall not apply to the enquiry or verification conducted by the verification unit in the circumstances as may be specified by the Board in this behalf.*
- (6) *For the purposes of faceless assessment—*
 - (i) *An electronic record shall be authenticated by—*
 - (a) *The National Faceless Assessment Centre by way of an electronic communication;*
 - (b) *The assessment unit or verification unit or technical unit or review unit, as the case may be, by affixing digital signature;*
 - (c) *assessee or any other person, by affixing his digital signature or under electronic verification code, or by logging into his registered account in the designated portal;*
 - (ii) *Every notice or order or any other electronic communication shall be delivered to the addressee, being the assessee, by way of—*
 - (a) *placing an authenticated copy thereof in the registered account of the assessee;*
or



- (b) sending an authenticated copy thereof to the registered email address of the assessee or his authorised representative; or*
- (c) uploading an authenticated copy on the Mobile App of the assessee, and followed by a real time alert;*
- (iii) Every notice or order or any other electronic communication shall be delivered to the addressee, being any other person, by sending an authenticated copy thereof to the registered email address of such person, followed by a real time alert;*
- (iv) The assessee shall file his response to any notice or order or any other electronic communication, through his registered account, and once an acknowledgement is sent by the National Faceless Assessment Centre containing the hash result generated upon successful submission of response, the response shall be deemed to be authenticated;*
- (v) The time and place of dispatch and receipt of electronic record shall be determined in accordance with the provisions of section 13 of the Information Technology Act, 2000 (21 of 2000);*
- (vi) a person shall not be required to appear either personally or through authorised representative in connection with any proceedings before any unit set up under this section;*
- (vii) In a case where a variation is proposed in the income or loss determination proposal or the draft order, and an opportunity is provided to the assessee by serving a notice calling upon him to show cause as to why the assessment should not be completed as per such income or loss determination proposal, the assessee or his authorised representative, as the case may be, may request for personal hearing so as to make his oral submissions or present his case before the income-tax authority of the relevant unit;*
- (viii) Where the request for personal hearing has been received, the income-tax authority of relevant unit shall allow such hearing, through National Faceless Assessment Centre, which shall be conducted exclusively through video conferencing or video telephony, including use of any telecommunication application software which supports video conferencing or video telephony, to the extent technologically feasible, in accordance with the procedure laid down by the Board;*
- (ix) Subject to the proviso to sub-section (5), any examination or recording of the statement of the assessee or any other person (other than the statement recorded in the course of survey under section 133A) shall be conducted by an income-tax authority in the relevant unit, exclusively through video conferencing or video*



telephony, including use of any telecommunication application software which supports video conferencing or video telephony, to the extent technologically feasible, in accordance with the procedure laid down by the Board;

- (x) The Board shall establish suitable facilities for video conferencing or video telephony including telecommunication application software which supports video conferencing or video telephony at such locations as may be necessary, so as to ensure that the assessee, or his authorised representative, or any other person is not denied the benefit of faceless assessment merely on the consideration that such assessee or his authorised representative, or any other person does not have access to video conferencing or video telephony at his end;*
 - (xi) The Principal Chief Commissioner or the Principal Director General, as the case may be, in-charge of the National Faceless Assessment Centre shall, with the prior approval of the Board, lay down the standards, procedures and processes for effective functioning of the National Faceless Assessment Centre and the units set up, in an automated and mechanised environment.*
- (7) (a) The Principal Chief Commissioner or the Principal Director General, as the case may be, in-charge of the National Faceless Assessment Centre shall, in accordance with the procedure laid down by the Board in this regard, if he considers appropriate that the provisions of sub-section (2A) of section 142 may be invoked in the case,—*
- (i) Forward the reference received from an assessment unit under clause (xxxii) of sub-section (1) to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner having jurisdiction over such case, and inform the assessment unit accordingly;*
 - (ii) Transfer the case to the Assessing Officer having jurisdiction over such case in accordance with sub-section (8);*
- (b) where a reference has been received by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner under sub-clause (i) of clause (a), he shall direct the Assessing Officer, having jurisdiction over the case, to invoke the provisions of sub-section (2A) of section 142;*
- (c) Where a reference has not been forwarded to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, having jurisdiction over the case, in a case referred to in sub-clause (i) of clause (a), the assessment unit shall proceed to complete the assessment in accordance with the procedure laid down in this section.*



- (8) *Notwithstanding anything contained in sub-section (1) or sub-section (2), the Principal Chief Commissioner or the Principal Director General, as the case may be, in-charge of National Faceless Assessment Centre may, at any stage of the assessment, if considered necessary, transfer the case to the Assessing Officer having jurisdiction over such case, with the prior approval of the Board.]*
- (9) *[Omitted by the Finance Act, 2022, w.e.f. 1-4-2021.]*
- (10) *[Omitted by the Finance Act, 2022, w.e.f. 1-4-2022.]*

Explanation.—In this section, unless the context otherwise requires—

- (a) *"addressee" shall have the same meaning as assigned to it in clause (b) of sub-section (1) of section 2 of the Information Technology Act, 2000 (21 of 2000);*
- (b) *"authorised representative" shall have the same meaning as assigned to it in sub-section (2) of section 288;*
- (c) *"automated allocation system" means an algorithm for randomised allocation of cases, by using suitable technological tools, including artificial intelligence and machine learning, with a view to optimise the use of resources;*
- (d) *"automated examination tool" means an algorithm for standardised examination of draft orders, by using suitable technological tools, including artificial intelligence and machine learning, with a view to reduce the scope of discretion;*
- (e) *"computer resource" shall have the same meaning as assigned to it in clause (k) of sub-section (1) of section 2 of the Information Technology Act, 2000 (21 of 2000);*
- (f) *"computer system" shall have the same meaning as assigned to it in clause (l) of sub-section (1) of section 2 of the Information Technology Act, 2000 (21 of 2000);*
- (g) *"computer resource of assessee" shall include assessee's registered account in designated portal of the Income-tax Department, the Mobile App linked to the registered mobile number of the assessee, or the registered email address of the assessee with his email service provider;*
- (h) *"digital signature" shall have the same meaning as assigned to it in clause (p) of sub-section (1) of section 2 of the Information Technology Act, 2000 (21 of 2000);*
- (i) *"designated portal" means the web portal designated as such by the Principal Chief Commissioner or the Principal Director General, in charge of the National Faceless Assessment Centre;*
- (j) *"Dispute Resolution Panel" shall have the same meaning as assigned to it in clause (a) of sub-section (15) of section 144C;*



- (k) "faceless assessment" means the assessment proceedings conducted electronically in 'e-Proceeding' facility through assessee's registered account in designated portal;
- (l) "electronic record" shall have the same meaning as assigned to it in clause (t) of sub-section (1) of section 2 of the Information Technology Act, 2000 (21 of 2000);
2[(la) "electronic verification code" means a code generated for the purpose of electronic verification as per the data structure and standards specified by the Principal Director General or Director General, as the case may be, in-charge of information technology;]
- (m) "eligible assessee" shall have the same meaning as assigned to in clause (b) of sub-section (15) of section 144C;
- (n) "email" or "electronic mail" and "electronic mail message" means a message or information created or transmitted or received on a computer, computer system, computer resource or communication device including attachments in text, image, audio, video and any other electronic record, which may be transmitted with the message;
- (o) "hash function" and "hash result" shall have the same meaning as assigned to them in the Explanation to sub-section (2) of section 3 of the Information Technology Act, 2000 (21 of 2000);
- (p) "Mobile app" shall mean the application software of the Income-tax Department developed for mobile devices which is downloaded and installed on the registered mobile number of the assessee;
- (q) [***]
- (r) "real time alert" means any communication sent to the assessee, by way of Short Messaging Service on his registered mobile number, or by way of update on his Mobile App, or by way of an email at his registered email address, so as to alert him regarding delivery of an electronic communication;
- (s) "registered account" of the assessee means the electronic filing account registered by the assessee in designated portal;
- (t) "registered e-mail address" means the e-mail address at which an electronic communication may be delivered or transmitted to the addressee, including—
 - (i) The e-mail address available in the electronic filing account of the addressee registered in designated portal; or
 - (ii) The e-mail address available in the last income-tax return furnished by the addressee; or



- (iii) *The e-mail address available in the Permanent Account Number database relating to the addressee; or*
 - (iv) *In the case of addressee being an individual who possesses the Aadhaar number, the e-mail address of addressee available in the database of Unique Identification Authority of India; or*
 - (v) *In the case of addressee being a company, the e-mail address of the company as available on the official website of Ministry of Corporate Affairs; or*
 - (vi) *any e-mail address made available by the addressee to the income-tax authority or any person authorised by such authority;*
 - (u) *"registered mobile number" of the assessee means the mobile number of the assessee, or his authorised representative, appearing in the user profile of the electronic filing account registered by the assessee in designated portal;*
 - (v) *"video conferencing or video telephony" means the technological solutions for the reception and transmission of audio-video signals by users at different locations, for communication between people in real-time.*
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Income Escaping Assessment [Section 147]

2.10. Meaning of income escaped assessment: It means any income of the assessee chargeable to tax that has escaped assessment for any assessment year. The AO in such case may assess or reassess or re-compute the total income chargeable to tax. The following information available to the AO suggests that the income has escaped the assessment

- (i) any information of the assessee in accordance with the risk management strategy formulated by the Board from time to time
- (ii) any audit objection that the assessment has not been made in accordance to the provision of Income Tax Act, 1961
- (iii) any information received under section 90 or 90A of IT Act, 1961
- (iv) any information made available to the AO under the scheme notified under section 135A
- (v) any information which requires action in consequence of the order of a Tribunal or Court.



- (vi) any information collected or books of account, documents, assets requisitioned during the search or survey or any money, bullion, jewellery or other valuable article or thing seized during the raid, the AO shall be deemed to have information which suggest that the income chargeable to tax has escaped assessment.
- (vii) In search, survey or requisition cases initiated or made or conducted, on or after 1st April, 2021, it shall be deemed that the AO has information which suggests that the income has escaped assessment in the case of the assessee in the following cases:
- A search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A on or after 1st April, 2021
 - A survey is conducted under section 133A on or after 1st April, 2021 except where survey made for verifying whether the tax has been deducted or collected at source in accordance to section 133A(2A) or not.
 - The Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner, that any money, bullion, jewellery or other valuable article or thing, seized or requisitioned under section 132 or section 132A in case of any other person on or after the 1st day of April, 2021, belongs to the assessee; or
 - the Assessing Officer is satisfied, with the prior approval of Principal Commissioner or Commissioner, that any books of account or documents, seized or requisitioned under section 132 or section 132A in case of any other person on or after the 1st day of April, 2021, pertains or pertain to, or any information contained therein, relate to, the assessee,

Time limit: Notice (under section 148) for escaped assessment under section 147

- (i) To make an assessment or reassessment or re-computation in section 147, a notice is required to be issued to the assessee under section 148 with prior approval of the specified authority [section 151] requiring him to furnish a return of his income or the income of any other person in respect of which he is assessable under the Income tax Act, 1961. The assessee is required to furnish his income tax return within three months from the end of the month in which such notice is issued or such further period as may be allowed by the AO on the basis of an application made in this regard by the assessee.
- (ii) Notice under section 148 cannot be issued after the three years from the end of the relevant assessment year [Section 149]. For example, notice for the A.Y. 2023-24 cannot be issued after 31.03.2027 for assessment under section 147.



- (iii) In case where the AO has in his possession books of accounts or other documents or evidence which reveal that the income chargeable to tax, represented in the form of an asset, expenditure in respect of transaction or in relation to an event or occasion or an entry or entries in the books of accounts which has escaped assessment amount to Rs. 50 lakhs or more, notice can be issued beyond 3 years but not beyond the period of 10 years from the end of the relevant assessment year. For example, notice for the A.Y. 2023-24 cannot be issued after 31.03.2034
- (iv) Section 151: Specified authority
- For issuing notice under section 148 not beyond 3 years is Principal Commissioner or Principal Director or Commissioner or Director;
 - For issuing notice under section 148 beyond 3 years is Principal Chief Commissioner or Principal Director General or Chief Commissioner or Director General.
- (v) Notice under section 148 may be issued any time as per the provision under section 150 for the purpose of making an assessment or reassessment or re-computation required as consequence of an order passed by any authority in any proceedings under this Act by way of appeal, reference or revision or by a court in any proceedings under any other law.
- (vi) **Faceless assessment of income escaping assessment [Section 151A]:** The Central Government may make a scheme, by notification in the Official Gazette, for the purposes of assessment, reassessment or re-computation under section 147 or issuance of notice under section 148 [or conducting of enquiries or issuance of show-cause notice or passing of order under section 148A] or sanction for issue of such notice under section 151.

Income escaping assessment

147. *If any income chargeable to tax, in the case of an assessee, has escaped assessment for any assessment year, the Assessing Officer may, subject to the provisions of sections 148 to 153, assess or reassess such income or recompute the loss or the depreciation allowance or any other allowance or deduction for such assessment year (hereafter in this section and in sections 148 to 153 referred to as the relevant assessment year).*

Explanation.—For the purposes of assessment or reassessment or re-computation under this section, the Assessing Officer may assess or reassess the income in respect of any issue, which has escaped assessment, and such issue comes to his notice



subsequently in the course of the proceedings under this section, irrespective of the fact that the provisions of section 148A have not been complied with.

148. Before making the assessment, reassessment or recomputation under section 147, and subject to the provisions of section 148A, the Assessing Officer shall serve on the assessee a notice, along with a copy of the order passed, if required, under clause (d) of section 148A, requiring him to furnish within[a period of three months from the end of the month in which such notice is issued, or such further period as may be allowed by the Assessing Officer on the basis of an application made in this regard by the assessee], a return of his income or the income of any other person in respect of which he is assessable under this Act during the previous year corresponding to the relevant assessment year, in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed; and the provisions of this Act shall, so far as may be, apply accordingly as if such return were a return required to be furnished under section 139:

Provided that no notice under this section shall be issued unless there is information with the Assessing Officer which suggests that the income chargeable to tax has escaped assessment in the case of the assessee for the relevant assessment year and the Assessing Officer has obtained prior approval of the specified authority to issue such notice:

[Provided further that no such approval shall be required where the Assessing Officer, with the prior approval of the specified authority, has passed an order under clause (d) of section 148A to the effect that it is a fit case to issue a notice under this section:]

[Provided also that any return of income, required to be furnished by an assessee under this section and furnished beyond the period allowed shall not be deemed to be a return under section 139.]

Explanation 1.—For the purposes of this section and section 148A, the information with the Assessing Officer which suggests that the income chargeable to tax has escaped assessment means,—

- (i) any information in the case of the assessee for the relevant assessment year in accordance with the risk management strategy formulated by the Board from time to time; or
- (ii) any audit objection to the effect that the assessment in the case of the assessee for the relevant assessment year has not been made in accordance with the provisions of this Act; or



- (iii) any information received under an agreement referred to in section 90 or section 90A of the Act; or
- (iv) any information made available to the Assessing Officer under the scheme notified under section 135A; or
- (v) any information which requires action in consequence of the order of a Tribunal or a Court.]

Explanation 2.—For the purposes of this section, where,—

- (i) a search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A, on or after the 1st day of April, 2021, in the case of the assessee; or
- (ii) a survey is conducted under section 133A, other than under sub-section (2A) of that section, on or after the 1st day of April, 2021, in the case of the assessee; or
- (iii) the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner, that any money, bullion, jewellery or other valuable article or thing, seized or requisitioned under section 132 or section 132A in case of any other person on or after the 1st day of April, 2021, belongs to the assessee; or
- (iv) the Assessing Officer is satisfied, with the prior approval of Principal Commissioner or Commissioner, that any books of account or documents, seized or requisitioned under section 132 or section 132A in case of any other person on or after the 1st day of April, 2021, pertains or pertain to, or any information contained therein, relate to, the assessee,

the Assessing Officer shall be deemed to have information which suggests that the income chargeable to tax has escaped assessment in the case of the assessee [where] the search is initiated or books of account, other documents or any assets are requisitioned or survey is conducted in the case of the assessee or money, bullion, jewellery or other valuable article or thing or books of account or documents are seized or requisitioned in case of any other person.

Explanation 3.—For the purposes of this section, specified authority means the specified authority referred to in section 151.]

Conducting inquiry, providing opportunity before issue of notice under section 148

148A. The Assessing Officer shall, before issuing any notice under section 148,—



- (a) *conduct any enquiry, if required, with the prior approval of specified authority, with respect to the information which suggests that the income chargeable to tax has escaped assessment;*
- (b) *provide an opportunity of being heard to the assessee, by serving upon him a notice to show cause within such time, as may be specified in the notice, being not less than seven days and but not exceeding thirty days from the date on which such notice is issued, or such time, as may be extended by him on the basis of an application in this behalf, as to why a notice under section 148 should not be issued on the basis of information which suggests that income chargeable to tax has escaped assessment in his case for the relevant assessment year and results of enquiry conducted, if any, as per clause (a);*
- (c) *consider the reply of assessee furnished, if any, in response to the show-cause notice referred to in clause (b);*
- (d) *decide, on the basis of material available on record including reply of the assessee, whether or not it is a fit case to issue a notice under section 148, by passing an order, with the prior approval of specified authority, within one month from the end of the month in which the reply referred to in clause (c) is received by him, or where no such reply is furnished, within one month from the end of the month in which time or extended time allowed to furnish a reply as per clause (b) expires;*

Provided that the provisions of this section shall not apply in a case where,—

- (a) *a search is initiated under section 132 or books of account, other documents or any assets are requisitioned under section 132A in the case of the assessee on or after the 1st day of April, 2021; or*
- (b) *the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner that any money, bullion, jewellery or other valuable article or thing, seized in a search under section 132 or requisitioned under section 132A, in the case of any other person on or after the 1st day of April, 2021, belongs to the assessee; or*
- (c) *the Assessing Officer is satisfied, with the prior approval of the Principal Commissioner or Commissioner that any books of account or documents, seized in a search under section 132 or requisitioned under section 132A, in case of any other person on or after the 1st day of April, 2021, pertains*



or pertain to, or any information contained therein, [relate to, the assessee; or

- (d) the Assessing Officer has received any information under the scheme notified under section 135A pertaining to income chargeable to tax escaping assessment for any assessment year in the case of the assessee.]

Explanation.—For the purposes of this section, specified authority means the specified authority referred to in section 151.]

[Time limit for notice.

149. (1) No notice under section 148 shall be issued for the relevant assessment year,—

- (a) if three years have elapsed from the end of the relevant assessment year, unless the case falls under clause (b);

[(b) if three years, but not more than ten years, have elapsed from the end of the relevant assessment year unless the Assessing Officer has in his possession books of account or other documents or evidence which reveal that the income chargeable to tax, represented in the form of—

- (i) an asset;
- (ii) Expenditure in respect of a transaction or in relation to an event or occasion; or
- (iii) An entry or entries in the books of account,

Which has escaped assessment amounts to or is likely to amount to fifty lakh rupees or more:]

Provided that no notice under section 148 shall be issued at any time in a case for the relevant assessment year beginning on or before 1st day of April, 2021, if [a notice under section 148 or section 153A or section 153C could not have been issued at that time on account of being beyond the time limit specified under the provisions of clause (b) of sub-section (1) of this section or section 153A or section 153C, as the case may be], as they stood immediately before the commencement of the Finance Act, 2021:

Provided further that the provisions of this sub-section shall not apply in a case, where a notice under section 153A, or section 153C read with section 153A, is required to be issued in relation to a search initiated under section 132 or books of account, other documents or any assets requisitioned under section 132A, on or before the 31st day of March, 2021:



[Provided also that for cases referred to in clauses (i), (iii) and (iv) of Explanation 2 to section 148, where,—

- (a) a search is initiated under section 132; or*
- (b) a search under section 132 for which the last of authorisations is executed; or*
- (c) requisition is made under section 132A,*
after the 15th day of March of any financial year and the period for issue of notice under section 148 expires on the 31st day of March of such financial year, a period of fifteen days shall be excluded for the purpose of computing the period of limitation as per this section and the notice issued under section 148 in such case shall be deemed to have been issued on the 31st day of March of such financial year:

Provided also that where the information as referred to in Explanation 1 to section 148 emanates from a statement recorded or documents impounded under section 131 or section 133A, as the case may be, on or before the 31st day of March of a financial year, in consequence of,—

- (a) a search under section 132 which is initiated; or*
- (b) a search under section 132 for which the last of authorisations is executed; or*
- (c) a requisition made under section 132A,*
after the 15th day of March of such financial year, a period of fifteen days shall be excluded for the purpose of computing the period of limitation as per this section and the notice issued under clause (b) of section 148A in such case shall be deemed to have been issued on the 31st day of March of such financial year:]

Provided also that for the purposes of computing the period of limitation as per this section, the time or extended time allowed to the assessee, as per show-cause notice issued under clause (b) of section 148A or the period during which the proceeding under section 148A is stayed by an order or injunction of any court, shall be excluded:

Provided also that where immediately after the exclusion of the period referred to in the immediately preceding proviso, the period of limitation available to the Assessing Officer for passing an order under clause (d) of section 148A [does not exceed seven days], such remaining period shall be extended to seven days and the period of limitation under this sub-section shall be deemed to be extended accordingly.



Explanation.—For the purposes of clause (b) of this sub-section, "asset" shall include immovable property, being land or building or both, shares and securities, loans and advances, deposits in bank account.

[(1A) Notwithstanding anything contained in sub-section (1), where the income chargeable to tax represented in the form of an asset or expenditure in relation to an event or occasion of the value referred to in clause (b) of sub-section (1), has escaped the assessment and the investment in such asset or expenditure in relation to such event or occasion has been made or incurred, in more than one previous years relevant to the assessment years within the period referred to in clause (b) of sub-section (1), a notice under section 148 shall be issued for every such assessment year for assessment, reassessment or recomputation, as the case may be.]

(2) The provisions of sub-section (1) as to the issue of notice shall be subject to the provisions of section 151.]

Provision for cases where assessment is in pursuance of an order on appeal, etc.

150. *(1) Notwithstanding anything contained in section 149, the notice under section 148 may be issued at any time for the purpose of making an assessment or reassessment or recomputation in consequence of or to give effect to any finding or direction contained in an order passed by any authority in any proceeding under this Act by way of appeal, reference or revision or by a Court in any proceeding under any other law.*

(2) The provisions of sub-section (1) shall not apply in any case where any such assessment, reassessment or recomputation as is referred to in that sub-section relates to an assessment year in respect of which an assessment, reassessment or recomputation could not have been made at the time the order which was the subject-matter of the appeal, reference or revision, as the case may be, was made by reason of any other provision limiting the time within which any action for assessment, reassessment or recomputation may be taken.

[Sanction for issue of notice.

151. *Specified authority for the purposes of section 148 and section 148A shall be,—*

- (i) Principal Commissioner or Principal Director or Commissioner or Director, if three years or less than three years have elapsed from the end of the relevant assessment year;*
- (ii) Principal Chief Commissioner or Principal Director General or Chief Commissioner or Director General, if more than three years have elapsed from the end of the relevant assessment year:]*



[Provided that the period of three years for the purposes of clause (i) shall be computed after taking into account the period of limitation as excluded by the third or fourth or fifth provisos or extended by the sixth proviso to sub-section (1) of section 149.]

Faceless assessment of income escaping assessment.

151A.

(1) The Central Government may make a scheme, by notification in the Official Gazette, for the purposes of assessment, reassessment or recomputation under section 147 or issuance of notice under section 148[or conducting of enquiries or issuance of show-cause notice or passing of order under section 148A] or sanction for issue of such notice under section 151, so as to impart greater efficiency, transparency and accountability by—

- (a) Eliminating the interface between the income-tax authority and the assessee or any other person to the extent technologically feasible;
- (b) Optimising utilisation of the resources through economies of scale and functional specialisation;
- (c) Introducing a team-based assessment, reassessment, recomputation or issuance or sanction of notice with dynamic jurisdiction.

(2) The Central Government may, for the purpose of giving effect to the scheme made under sub-section (1), by notification in the Official Gazette, direct that any of the provisions of this Act shall not apply or shall apply with such exceptions, modifications and adaptations as may be specified in the notification:

Provided that no direction shall be issued after the 31st day of March, 2022.

(3) Every notification issued under sub-section (1) and sub-section (2) shall, as soon as may be after the notification is issued, be laid before each House of Parliament.

2.11. Time limit for completion of assessment, reassessment and recomputation [Section 153]

Assessment under Section	Assessment year in which the income was first assessable	Time limit to complete the assessment from the end of the A.Y in which income was first assessable
143 and 144	Up to 2017-18	Within 21 months
	2018-19	Within 18 months
	2019-20	Within 12 months
	2020-21	Within 18 months
	2021-22	Within 9 months
	2022-23	Within 12 months
Assessment order passed under section 143 or 144 for Updated		At any time before the end of 12 months from the end of the F.Y in which updated return was



return under section 8A		furnished
147	Up to F.Y. 2018-19	Within the end of 9 months from the end of the F.Y. in which the notice under section 148 was served
	From the F.Y. 2019-20	Within the end of 12 months from the end of the F.Y. in which the notice under section 148 was served
In case of search/requisition u/s 132 or 132A	From the F.Y. 2021-22	Within the end of 12 months from the end of the F.Y. in which the notice under section 132 or 132A was served

Inventory Valuation under section 142(2A)

2.12. Section 142 is a statutory provision which empowers the AO to make an enquiry, serve a notice to the assessee whether he has filed income tax return as per the provision under section 139 or 115WD of the IT Act, 1961 or not and in case where the assessee has not filed his income tax return allow him to file income tax return under section 142(1)(i) within the time period as mentioned in the notice. AO may direct the assessee to submit such information or full information in such format, accounts showing asset and liabilities, documents as he thinks it is necessary so as to complete the assessment under the section 143(3), 144, 147, 153A, 158BC as the case may be within the time as prescribed under section 153.

If the AO at any stage of the proceedings before him, feels it is necessary to do so and in the interest of the revenue due to following

- Nature and complexity of accounts of the assessee; or
- Volume of the accounts; or
- Doubts about the correctness of the accounts; or
- Multiplicity of transaction in accounts; or
- Specialised nature of business activity of the assessee

2.12.1 The AO with the prior approval of the Principal Chief Commissioner of Income Tax or Chief Commissioner of Income tax or Principal Commissioner of Income Tax or Commissioner of Income Tax may take assistance of a professional. In Finance Act, 2023 an amendment has been made in section 142(2A) which empowers the AO to take help of a practising Cost Accountant during the scrutiny of return and assessment procedure under Income tax Act and directs the assessee to get valuation of inventory done by a practising Cost Accountant as nominated by the PCCIT or CCIT or PCIT or CIT.



- To get the valuation of Inventory PCCIT or CCIT or PCIT or CIT shall maintain a panel out of the persons referred to in the explanation to section 142 i.e. Cost Accountant means he is the member of the Institute of Cost Accountants of India and have valid certificate of practice issued by the ICMAI;
[Explanation.--For the purposes of this section, "cost accountant" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of the said Act.] Quote: Section 2(1) of the Cost and Works Accountants Act, 1959 (23 of 1959). : - In this Act, unless the context otherwise requires, — (b) "cost accountant" means a person who is a member of the Institute; and Certificate of practice. 6. (1) No member of the Institute shall be entitled to practice, whether in India or elsewhere, unless he has obtained from the Council a certificate of practice.]
- The AO shall give an opportunity to the assessee before giving direction to him for inventory valuation to submit his grounds as to why valuation of inventory is not required;
- AO may direct the assessee to get inventory valuation done although his accounts have been audited under section 44AB or other provisions of IT Act, 1961 or under any other law for the time being in force like Financial Audit under section 139 and Cost audit under section 148 under Companies Act, 2013 or, Audit under Society or Trust Act etc.;
- Cost Accountant has to submit his report in Form 6D within the period of time as specified in the AO's notice or as extended, under his seal, signature and UDIN;
- The AO may extend the period to submit report under section 142(2A) either suo moto or on the basis of an application submitted by the assessee or for any justifiable reason as he thinks fit;
- The total period to submit the report shall not exceed more than 180 days from the date on which the direction under section 142(2A) for inventory valuation is received by the assessee;
- In case where the AO directs the assessee under section 142(2A) on or after 1st April, 2023 for getting inventory valuation done by a cost accountant, the PCCIT or CCIT or PCIT or CIT shall determine the expenses and incidental expenses for inventory valuation including the remuneration of the cost accountant, qualified assistant, semi-qualified assistant and other assistant who may be engaged by the cost accountant.
- The amount shall be in between Rs. 3750/- to Rs. 7500/- per hour of the period as specified by the AO under section 142(2C);
- The cost accountant is required to maintain time sheet and is required to submit it to the CCIT or CIT along with bill;



- The AO shall give an opportunity to the assessee to submit his comments on the report of inventory valuation as submitted by the Cost Accountant before utilizing for the assessment.

Consequence of default

- If the assessee fails to comply with the direction of the AO to get inventory valued by a practising Cost Accountant, following consequences may arise
 - The AO pass best judgment assessment order under section 144
 - Penalty shall be imposed to the assessee under section 271 [Rs. 10000/- for each such failure] and prosecution under section 276D [Punishment with rigorous imprisonment for a term which may extended to one year with fine].

Illustration of Time Sheet

Name and Address of Cost Accountant:

Name and Address of the Assessee:

PAN:

A.Y:

Details of Assessing Officer:

Reference of order for Inventory valuation u/s 142(2A) (ii):

Period of completion as allowed by the Assessing officer:

Actual period of completion:

Sl. No.	Name of persons engaged	Designation	Date	No. Of Hours worked	Total Hours worked	Remarks
1	CMA XXX	Partner	12/10/2023	6	6	
	Mr. Y	Senior Assistant	12/10/2023	4	4	
	Mr. Z	Assistant	12/10/2023	3	3	
	Total		12/10/2023	13	13	
2	CMA XXX	Partner	14/10/2023	5	5	
	Mr. Y	Senior Assistant	14/10/2023	8	8	
	Total		14/10/2023	13	13	

Section 142(2A) If, at any stage of the proceedings before him, the Assessing Officer, having regard to the nature and complexity of the accounts, volume of the accounts, doubts about the



correctness of the accounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee, and the interests of the revenue, is of the opinion that it is necessary so to do, he may, with the previous approval of the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner, direct the assessee to get either or both of the following, namely:—

- (i) to get the accounts audited by an accountant, as defined in the Explanation below sub-section (2) of section 288, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf and to furnish a report of such audit in the prescribed form duly signed and verified by such accountant and setting forth such particulars, as may be prescribed, and such other particulars as the Assessing Officer may require;
- (ii) to get the inventory valued by a cost accountant, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf and to furnish a report of such inventory valuation in the prescribed form duly signed and verified by such cost accountant and setting forth such particulars, as may be prescribed, and such other particulars as the Assessing Officer may require:

Provided that the Assessing Officer shall not direct the assessee to get the accounts so audited or inventory so valued unless the assessee has been given a reasonable opportunity of being heard.]

- (2B) The provisions of sub-section (2A) shall have effect notwithstanding that the accounts of the assessee have been audited under any other law for the time being in force or otherwise.
- (2C) every report under sub-section (2A) shall be furnished by the assessee to the Assessing Officer within such period as may be specified by the Assessing Officer:

Provided that the Assessing Officer may, suo moto, or on an application made in this behalf by the assessee and for any good and sufficient reason, extend the said period by such further period or periods as he thinks fit; so, however, that the aggregate of the period originally fixed and the period or periods so extended shall not, in any case, exceed one hundred and eighty days from the date on which the direction under sub-section (2A) is received by the assessee.

- (2D) The expenses of, and incidental to, any [audit or inventory valuation under sub-section (2A) (including the remuneration of the accountant or the cost accountant, as the case may be)] shall be determined by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner (which determination shall be final) and paid by the assessee and in default of such payment, shall be recoverable



from the assessee in the manner provided in Chapter XVII-D for the recovery of arrears of tax :

Provided that where any direction for audit [or inventory valuation] under sub-section (2A) is issued by the Assessing Officer on or after the 1st day of June, 2007, the expenses of, and incidental to, [such audit or inventory valuation (including the remuneration of the accountant or the cost accountant, as the case may be)] shall be determined by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in accordance with such guidelines as may be prescribed and the expenses so determined shall be paid by the Central Government.

- (3) The assessee shall, except where the assessment is made under section 144, be given an opportunity of being heard in respect of any material gathered on the basis of any inquiry under sub-section (2) or any audit [or inventory valuation] under sub-section (2A) and proposed to be utilised for the purposes of the assessment.
- (4) The provisions of this section as they stood immediately before their amendment by the Direct Tax Laws (Amendment) Act, 1987 (4 of 1988), shall apply to and in relation to any assessment for the assessment year commencing on the 1st day of April, 1988, or any earlier assessment year and references in this section to the other provisions of this Act shall be construed as references to those provisions as for the time being in force and applicable to the relevant assessment year.

[Explanation.--For the purposes of this section, "cost accountant" means a cost accountant as defined in clause (b) of sub-section (1) of section 2 of the Cost and Works Accountants Act, 1959 (23 of 1959) and who holds a valid certificate of practice under sub-section (1) of section 6 of the said Act.]

Rule 14B. (1) Every Chief Commissioner shall for the purposes of clause (i) and clause (ii) of sub-section (2A) of section 142 shall maintain a panel of –

- (i) accountants, out of the persons referred to in the Explanation to sub-section (2) of section 288; and
- (ii) cost accountants, out of the persons referred to in the Explanation to section 142.

(2) Where the Assessing Officer directs —

- (i) for audit under clause (i) of sub-section (2A) of section 142 on or after the 1st day of June, 2007; or
- (ii) for inventory valuation under clause (ii) of sub-section (2A) of section 142 on or after the 1st day of April, 2023,



the expenses of, and incidental to, audit or inventory valuation (including the remuneration of the Accountant or Cost Accountant, qualified Assistants, semi-qualified and other Assistants who may be engaged by such Accountant or Cost Accountant) shall not be less than three thousand seven hundred and fifty rupees and not more than seven thousand and five hundred rupees for every hour of the period as specified by the Assessing Officer under subsection (2C) of section 142.

- (3) The period referred to in sub-rule (2) shall be specified in terms of the number of hours required for completing the report.*
- (4) The Accountant or Cost Accountant referred to in clause (i) or clause (ii) of sub-section (2A) of section 142 shall maintain a time-sheet and shall submit it to the Chief Commissioner or Commissioner, along with the bill.*
- (5) The Chief Commissioner or the Commissioner shall ensure that the number of hours claimed for billing purposes is commensurate with the size and quality of the report submitted by the Accountant or Cost Accountant.]*

Failure to furnish returns, comply with notices, concealment of income, etc.

271. *(1) If the Assessing Officer or the [Joint Commissioner (Appeals) or the] Commissioner (Appeals) or the Principal Commissioner or Commissioner in the course of any proceedings under this Act, is satisfied that any person—*

- (a) [***]*
- (b) has failed to comply with a notice under sub-section (2) of section 115WD or under sub-section (2) of section 115WE or under sub-section (1) of section 142 or sub-section (2) of section 143 or fails to comply with a direction issued under sub-section (2A) of section 142, or*
- (c) has concealed the particulars of his income or furnished inaccurate particulars of such income, or*
- (d) has concealed the particulars of the fringe benefits or furnished inaccurate particulars of such fringe benefits,*

he may direct that such person shall pay by way of penalty,—

- (i) [***]*
- (ii) in the cases referred to in clause (b), in addition to tax, if any, payable by him, a sum of ten thousand rupees for each such failure;*
- (iii) in the cases referred to in clause (c) or clause (d), in addition to tax, if any, payable by him, a sum which shall not be less than, but which shall not exceed three times, the amount of tax sought to be evaded by reason of the concealment of particulars of his*



income or fringe benefits or the furnishing of inaccurate particulars of such income or fringe benefits.

Failure to produce accounts and documents.

276D. *If a person wilfully fails to produce, or cause to be produced, on or before the date specified in any notice served on him under sub-section (1) of section 142, such accounts and documents as are referred to in the notice or wilfully fails to comply with a direction issued to him under sub-section (2A) of that section, he shall be punishable with rigorous imprisonment for a term which may extend to one year and with fine.*

2.12.2 Applicability of the provision for Inventory valuation under section 142(2A) (ii)

- To make an assessment under section 143(3) or to make assessment or reassessment or recomputation under section 147 in the case when income escaped assessment or under the proceeding of search & seizure, requisition or survey under section 132 or 132A or 133A as the case may be to complete an assessment under section 147 w.e.f. 1st April, 2021, the AO has to initiate enquiry as per the provision of section 142.
- At any stage of enquiry under section 142 in order to conclude assessment or reassessment or recomputation under section 143(3) or 147, the AO may direct the assessee to get inventory valuation done by a practising cost accountant.
- Assessee may be any person viz; an Individual or a HUF (Hindu undivided family) or a Company or a Firm or an Association of Persons (AOP) or a Body of individuals (BOI) or a Local authority or every artificial judicial person having income or loss under the head “Income from business or profession” and/or “Income from other sources”.

Method of Accounting for Inventory Valuation under Income Tax Act, 1961

2.12.3 The Central Government may notify from time to time ICDS and prescribed method of accounting under section 145 of IT Act, 1961 which require to be followed by the assessee to compute chargeable income under the head “Profits and gains of business or profession” or “Income from other sources”.

- The assessee has to follow regularly either cash or mercantile system of accounting;
- Also require to compute profit or loss as per ICDS as notified under section 145(2).
- Where the AO is not satisfied about the correctness or completeness of the accounts of the assessee or where the method of accounting is not followed regularly by the assessee or income has not been computed in accordance with the ICDS as notified, the AO may pass best judgment assessment order under section 144.
- For the purpose of determining the income under the head “Profits and gains of business or profession”



- The valuation of inventory shall be made using lesser of the actual cost and net realizable value computed in accordance to ICDS;
- The valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fees actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation;
- The inventory in the form of securities not listed on a recognized stock exchange or listed but not quoted on a recognized stock exchange, is required to be valued at actual cost initially recognized in accordance with ICDS;
- The inventory in the form of securities listed on a recognized stock exchange is required to be valued at lesser of the actual cost and net realisable value in accordance with ICDS;
- At present total 10 numbers of ICDS have been notified by the Central Government under section 145(2) vide notification number S.O. 892(E) dated 31st March, 2015 w.e.f. the AY 2016-17.
 - i. ICDS-I: - Accounting Policies
 - ii. ICDS-II: - Valuation of Inventories
 - iii. ICDS-III: - Construction Contracts
 - iv. ICDS-IV: - Revenue Recognition
 - v. ICDS-V: - Tangible Fixed Assets
 - vi. ICDS-VI: - Effects of Changes in Foreign Exchange Rates
 - vii. ICDS-VII:- Government Grants
 - viii. ICDS-VIII: - Securities
 - ix. ICDS-IX: - Borrowing Costs
 - x. ICDS-X: - Provisions, Contingent Liabilities and Contingent Assets

Method of accounting

145. (1) *Income chargeable under the head "Profits and gains of business or profession" or "Income from other sources" shall, subject to the provisions of sub-section (2), be computed in accordance with either cash or mercantile system of accounting regularly employed by the assessee.*

(2) *The Central Government may notify in the Official Gazette from time to time income computation and disclosure standards to be followed by any class of assessee or in respect of any class of income.*



- (3) *Where the Assessing Officer is not satisfied about the correctness or completeness of the accounts of the assessee, or where the method of accounting provided in sub-section (1) has not been regularly followed by the assessee, or income has not been computed in accordance with the standards notified under sub-section (2), the Assessing Officer may make an assessment in the manner provided in section 144.*

Method of accounting in certain cases.

145A. *For the purpose of determining the income chargeable under the head "Profits and gains of business or profession",—*

- (i) *the valuation of inventory shall be made at lower of actual cost or net realisable value computed in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145;*
- (ii) *the valuation of purchase and sale of goods or services and of inventory shall be adjusted to include the amount of any tax, duty, cess or fee (by whatever name called) actually paid or incurred by the assessee to bring the goods or services to the place of its location and condition as on the date of valuation;*
- (iii) *the inventory being 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 in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145;*
- (iv) *the inventory being securities other than those referred to in clause (iii), shall be valued at lower of actual cost or net realisable value in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145;*

Provided that the inventory being securities held by a scheduled bank or public financial institution shall be valued in accordance with the income computation and disclosure standards notified under sub-section (2) of section 145 after taking into account the extant guidelines issued by the Reserve Bank of India in this regard:

Provided further that the comparison of actual cost and net realisable value of securities shall be made category-wise.

Explanation 1.—For the purposes of this section, any tax, duty, cess or fee (by whatever name called) under any law for the time being in force, shall include all such payment notwithstanding any right arising as a consequence to such payment.

Explanation 2.—For the purposes of this section,—



- (a) *"public financial institution" shall have the meaning assigned to it in clause (72) of section 2 of the Companies Act, 2013 (18 of 2013);*
- (b) *"recognised stock exchange" shall have the meaning assigned to it in clause (ii) of Explanation 1 to clause (5) of section 43;*
- (c) *"scheduled bank" shall have the meaning assigned to it in clause (ii) of the Explanation to clause (viia) of sub-section (1) of section 36.*



Chapter 3: Mode of Engagement and the Criteria for Empanelment of the PCMA's

Empanelment of Cost Accountants for this assignment is being done by the Principal Commissioners / Chief Commissioners / Commissioners of Income Tax across India or by the NFAs (National Faceless Assessment Centres).

As on date, many Commissionerates of Income Tax have issued empanelment notices wherein the criterion is prescribed mostly on the following lines with slight changes here and there:

- The applicant should be a reputed partnership firm or a proprietary concern or a Limited Liability Partnership (LLP), having its office in the area(s) falling within the territorial jurisdiction of Principal Chief Commissioner of Income Tax and primarily engaged in the profession of cost accountancy and cost auditing, having a staff strength of at least 5, including a minimum of 2 Cost Accountants who have been working continuously with the applicant for atleast last one year as on 31/03/2023;
- The applicant should have filed returns of income regularly upto AY 2023-24 and the Gross Professional Receipts of the applicant exclusively from professional services like cost consultancy/cost audits/internal audits/accountancy should not be less than Rs. 15 lakhs in any two out of the last five preceding financial years i.e from 2018-19 to 2022-23;
- The applicant should have cost accountancy/cost auditing/internal audit / insolvency professional experience of minimum period of 5 years as on 31/03/2023.
- The applicant should have audited cost records of atleast one business entity having turnover of Rs. 50 Cr or more in any two out of the last five preceding financial years i.e from 2018-19 to 2022-23;
- There should not be any proceedings related to income tax evasion / demand / penalty / prosecution pending against the applicant or any of the partners of the applicant cost accountancy Firm/LLP/Proprietary concern on the date of application or should not have been held guilty with regard to tax evasion/penalty/prosecution under the provisions of IT Act, 1961;
- The applicant should not have indulged/found indulged in any unethical professional practices; and also should not have been convicted and/or punished under any Central, State or other law;



- The applicant should not have indulged in any professional misconduct nor should have faced any complaint u/s 21 of the Cost and Work Accountants Act. 1959 for irregularity in cost accountancy before the Institute of Cost Accountants of India;

More such empanelment notices are expected in the near future.



Chapter-4: Introduction to ICDSs

4.1 The Central Government in order to exercise the power conferred by section 145(2) of the Income tax Act, 1961 has notified ICDS on 29th September, 2016 vide S.O. 3078(E) applicable w.e.f. A.Y 2017-18.

- These ICDS have to be followed by all assessee except an Individual or HUF who is not required to get his accounts of the previous year audited in accordance to the provision under section 44AB, following the mercantile system of accounting for the purpose of computation of income chargeable under the head “Profits or gains of business or profession” or “Income from the other sources”.
- The preamble of ICDS prescribes the usage only to compute income under the head “Profits or gains from business or profession” and “Income from other sources”. The provision of ICDS is not applicable for the maintenance of books of accounts. Assessee shall maintain books of accounts based on the prevailing Generally Accepted Accounting Principle, Accounting standards, Ind AS, Generally Accepted Cost Accounting Principle, Cost Accounting Standards etc. as the case may be.
- In the case of conflict between the provisions of the Income-tax Act, 1961 and this ICDS, the provisions of the Act shall prevail to that extent.

The Central Government has issued yet a total of 10 ICDS in chapter 3.

4.2 Inventory valuation under section 142(2A) is required to be carried out as per the provisions of IT Act, 1961. The assessee is required to maintain books of accounts relevant to inventory as prescribed under the IT Act. Further assessee has to follow method of accounting and standards as prescribed under the IT Act for valuation of inventory. PCMA has to strictly follow the relevant provisions of IT Act, 1961 in the course of deriving inventory valuation and may side by side use costing techniques in order to make it acceptable to the AO, assessee and most importantly it must be sustainable in the court of law at a later stage, as may be required in due course

The most relevant standards for the valuation of inventories under section 142(2A) are ICDS- II, III, VIII and IX.

4.3 ICDS-I Relating to Accounting Policies

The assessee is required to maintain books of accounts based on the fundamental accounting assumption.



- "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.
- "Consistency" refers to the assumption that accounting policies are consistent from one period to another
- "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.

The Accounting policies adopted by the assessee shall be such as to represent a true and fair view of the state of affairs and income of the business, profession or vocation. The accounting policies shall not be changed without reasonable cause.

4.4 ICDS-II Valuation of Inventories

Preamble

- This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Preamble clearly mentions to adhere to the guidelines prescribed under this standard to compute the value of inventory for being a part of computing income under the head "Profits and gains of Business or profession" or "Income from other sources".

4.4.1 Company and non-company assessee is required to follow AS, Ind AS to maintain financial accounts. In the case of companies to which provisions of section 148 of Companies Act, 2013 is applicable is required to follow CCRA Rules, 2014, read with Cost Accounting Standards to maintain cost records. While doing inventory valuation under section 142(2A) it must not be deviate from ICDS-II.

4.4.2 Explanation

As per the definition in ICDS-II inventories may be

- in the form of Finished goods (Manufactured or produced)
- Stock in trade
- Semi- finished goods/Intermediate products



- W.I.P
- Raw Materials, process materials, packing materials
- Stores and Consumables, chemicals, fuels
- Jigs, tools& tackle
- Joint products
- By-products
- Others(Specify if any)

4.5 Use of Cost Accounting Standards and CCRA Rules, 2014

While determining the valuation of inventory as per provisions of ICDS and other provisions of Income Tax Act, 1961 which may have impact on the inventory valuation needs to be taken care of. Apart from this, practising Cost Accountant may use the costing techniques, methods and his cost expertise with reference to CRA-1 as prescribed in Companies (Cost Records and Audit) Rules, 2014, Cost Accounting Standards, Generally Accepted Cost Accounting Principles which is in conformity with the relevant provisions of the Income Tax Act and ICDS notified thereunder.

4.5.1 Net Realisable Value: - It is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Inventories shall be written down to net realisable value on an item-by-item basis. NRV shall be based on the most reliable evidence available at the time of valuation. The estimates of NRV shall also take into consideration the purpose for which the inventory is held and also fluctuations of price or cost directly relating to events occurring after the end of the previous year.

4.5.2 Valuation of opening and closing stock of inventory of any previous year has to be carried out under section 142(2A) of the Income Tax Act, 1961 in any subsequent year. It may be after one year or two year and so on from the end of the relevant previous year as the case may be. PCMA is required to derive cost of inventory and estimated price of inventory. The estimated price is further required to be adjusted for any estimated cost incurred during the sales process. The word estimated is an important factor. Since actual sale is not going to happen in this case, it has to be presumed that if the assessee sells or disposes off the inventory what amount he could get and what amount he would require to spend to complete the sale of inventory. PCMA must give reference to the authenticated evidence and economical feasible base in order to derive estimated price and estimated costs to find out NRV of inventory.

4.5.3 The current price of inventory is required to discount with certain percentage to estimate the price of the inventory at the end of the relevant previous year with reference to price index



or cost index released by the government or statistical information available with statistics department of government or market factors may be considered to estimate the price at the end of previous year. Also some other factors may have to be considered like market demand, price fetching capacity, condition of inventory i.e. obsolete, damaged etc.; similarly estimated costs related to presumed sale is required to be determined. Selling and Distribution Costs and Overheads have to be considered to estimate the costs related to sale. It may be packing cost, transportation cost, employees cost, warehouse cost, storing cost, commission, advertising cost etc.; PCMA may refer CAS 15 on Selling and Distributing Overheads issued by the Institute of Cost Accountants of India.

4.5.4 NRV of W.I.P- W.I.P stands for work in progress. In manufacturing process W.I.P is a stage of completion at which material is under process and is in semi-finished goods state. It includes costs of direct and indirect materials consumed, employees, utilities, production overheads.

To determine NRV, QTV (Quantity, Time and Value) factors may be considered. Raw material put into the manufacturing process passes through different stages. There is a time interval between each stage and quantity produced at each stage. To authenticate the cost and net realisable value, the quantity of W.I.P produced or manufactured is required to be cross checked with the finished goods manufactured records.

Cost plus margin formulae may be followed for determination of NRV of W.I.P. In some industry there is a market demand of semi-finished goods which the company sale it to the other company to use as input inventory to make finished goods. In such case the current selling price discounted may be considered as NRV of W.I.P for the purpose of the valuation of inventory of WIP. For example in Steel industry Ingot, in bread industry flour, in automobile industry chips, engine, in textile industry yarn, in sugar industry molasses etc.; which the company use to manufacture the finished goods and also sale it to other company as semi-finished goods.

4.6 Costs of Inventories:

It shall comprise of all costs of purchase, costs of services, cost of conversion and other costs incurred in bringing the inventories to their present state. The description is exhaustive. It shall include all the direct and indirect costs and overheads allocated and apportioned relevant to the procurement, manufacturing, producing, and storing the inventories (in certain cases)

4.6.1 Costs of Purchase: It shall consist of purchase price including duties and taxes. Such duties and taxes on which a tax credit is available shall not be the part of purchase cost, like ITC



under GST Act, Duty drawback under Custom Act etc.; Other duties and taxes on which ITC or duty drawback or scheme framed under EOU, SEZ, DFAI, Advance authorization, Manufacture under bond etc.; is not available shall be the part of purchase cost. It may be custom duty, CVD, royalty, entry tax, cess, environmental tax, pollution control tax etc.; imposed under any law being in force. For example on purchase of wine, state excise duty paid, on purchase of coal royalty, cess, duty to NMET(National Mineral Exploration Trust), DMF(District Mineral Foundation Trust) paid etc.;

- 4.6.2** Freight inward shall be included to the cost of purchase. Due consideration should be given to the agreement of purchase in respect to inward freight with respect to FOB (freight on board), CIF (Cost, Insurance and freight) in the course of import/export. Other direct costs like loading and unloading charges, material/goods handling cost, cost of container, parcel cost, cartage cost, storage and issuing losses, custom clearing agent commission and others which are directly attributed to the purchase of products shall be included to the cost of purchase. Any trade discount, rebates and other similar items like bulk quantity discounts cash discounts etc.; shall be deducted from the purchase cost. The cost of non-returnable containers shall be added to the cost of purchase and any disposable amount shall be deducted from the factory overheads like sale of cement bags, oil drums etc.; Adjustment of cost of returnable containers shall be made for example if oxygen cylinder is not returned in good condition supplier may charge cost of new cylinder as per agreement of supply.
- 4.6.3** Cost of services like direct and indirect employee cost attribute to the procurement process and storing of goods (in certain cases) shall be included to the cost of purchase. For example, employee cost of purchase department, store, warehouse, weighbridge and other costs incurred in this department shall be included in the cost of purchase. CAS 6 on Material Cost, CAS 7 on Employee Cost, CAS 9 on Packing Material Cost, CAS 20 on Royalty and Technical Knowhow Fees may be referred for guidance for ensuring accurate computation of cost of purchase.
- 4.6.4 Costs of Conversion:** Conversion of materials into finished goods shall consist of material cost, labour cost, utilities cost, other production costs and production overheads costs. Direct and Indirect costs attributed to production cost centres shall be included in the conversion cost. It shall include direct and indirect material costs, direct and indirect employees cost, cost of utilities, repair and maintenance cost, cost of tools, jigs and fixtures, machines, depreciation and amortization costs, fixed and variable production overheads, quality control cost, research and development cost, other manufacturing or producing costs.



Appropriate references may be drawn for arriving at true and correct conversion cost from CAS 2 on Capacity Determination, CAS 3 on Production and Operation Overheads, CAS 5 on Average Equalised Transportation Cost, CAS 6 on Material Cost, CAS 7 on Employee Cost, CAS 8 on Cost of Utilities, CAS 10 on Direct Expenses, CAS 12 on Repairs and Maintenance Cost, CAS 16 on Depreciation and Amortization, CAS 18 on Research and Development Cost, CAS 19 on Joint Cost, CAS 21 on Quality Control Cost, CAS 22 on Manufacturing Cost, so long as these are not in contrast with the provisions of ICDS or where the ICDS is silent, as for the purpose of valuation of inventories under provisions of section 142(2A), ICDS provisions shall prevail. Sales realization from by-products, scrap or waste materials shall be deducted from the cost of finished goods.

4.6.5 Other costs: 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 locations and condition. There should be a clear and explainable linkage between such costs to the inventory being valued. Other costs may be quality control cost, Laboratories cost, research and development cost, warehouse cost, goods handling costs, transportation cost etc;

4.7 Exclusion from the Cost of Inventories

4.7.1 The following costs shall be excluded and recognized as expenses of the period in which they are incurred.

- Abnormal amounts of wasted materials, labour or other production costs;
- Storage costs, unless those costs are necessary in the production process prior to a further production stage; for example the refrigeration cost in the making of ice cream, pharmaceutical active ingredients/inputs for manufacturing of Drugs, which are to be stored at an ambient temperature to avoid their deterioration, etc.;
- Administrative overheads that do not contribute to bring the inventories to their present location and conditions;
- Selling costs.

4.7.2 The above cost shall not be included to the cost of inventory. These costs shall be shown separately in the profit and loss accounts as expenditure.

4.7.3 There may be loss of materials during transportation, loading and unloading, due to pilferage, evaporation, spoilage, shrinkage etc.; there is no specific quantification prescribed for indicating the percentage of loss to be treated as abnormal. As per general accounting principles loss or gain due any reason within the range of (+/-) 5 percent is treated as



normal. Loss of more than 5 percent may be treated as abnormal loss of material due to wastage.

4.7.4 Abnormal labour cost may arise due to strike, accident, lockout, fire, flood, climatic disaster, etc.

4.8 Cost Formulae

4.8.1 Specific Identification of cost: It means specific costs are attributed to the identified items of inventory. For the items of inventories which are not ordinarily interchangeable and goods or services produced and segregated for specific projects, the cost shall be assigned by specific identification of their individual costs. Under this method, purchase made for particular jobs are kept physically separate in the store rooms and store cards are made out for the individual purchases. When materials are issued for jobs, requisitions are priced at the exact cost as recorded on the appropriate stores card. For example, high value items, hazardous chemicals, a job order for fabrication of a structure with particular design and dimension to be used for special purposes like in power plant, defence project, space industry, transportation cost for CKD (Completely knocked down) or sub assembly parts of the boiler manufacturing company etc.;

4.8.2 The FIFO or weighted average method shall be used to deal with the cost of inventory of items which are ordinarily interchangeable.

4.8.2.1 FIFO (First in First Out) method assumes that items first received are the first to be issued and that the requisitions are priced at the cost at which these items were placed in stock. In FIFO method it doesn't mean that oldest materials are necessarily used first. It simply means that oldest costs are used first for cost booking.

4.8.2.2 Weighted average method: Under this method the weighted average price is used for valuation of stock at a particular date. Formulae is

$$\text{Weighted average price} = \frac{\text{Total cost of purchase}}{\text{Total quantity}}$$

For Example

Date	Receipt (Units)	Rate/Unit	Issue (Unit)
02.04.2022	1000	Rs. 5000	----
15.4.2022	2500	Rs. 5150	----
20.4.2022	-----	-----	850



30.4.2022

1580

Store Ledger under FIFO method

Date	Receipts			Issue			Balance		
	Qty.	Rate Rs.	Cost Rs.	Qty.	Rate Rs.	Cost Rs.	Qty.	Rate Rs.	Cost Rs.
02.04.2022	1000	5000	50,00,000	-	-	-	1000	5000	50,00,000
15.04.2022	2500	5150	1,28,75,000	-	-	-	1000	5000	50,00,000
							2500	5150	1,28,75,000
20.04.2022	-	-	-	850	5000	42,50,000	150	5000	7,50,000
							2500	5150	1,28,75,000
30.04.2022	-	-	-	150	5000	750000			
				1430	5150	73,64,500	1070	5150	55,10,500

* Pricing of issues shall be done at the rate of Rs. 5000/- (rate of the first lot received) each till the first lot of 1000 Nos. exhausts, followed by the rate of 5150/- (rate of the second lot received) till it exhausts, and so on.

Value of Inventory as on 30.04.2022 as per FIFO method shall be Rs. 55,10,500/-

Store Ledger under weighted average method

Date	Receipts			Issue			Balance		
	Qty.	Rate Rs.	Cost Rs.	Qty.	Rate Rs.	Cost Rs.	Qty.	Rate Rs.	Cost Rs.
02.04.2022	1000	5000	50,00,000	-	-	-	1000	5000	50,00,000
15.04.2022	2500	5150	1,28,75,000	-	-	-	3500	5107	1,78,74,500
20.04.2022	-	-	-	850	5107	43,40,950	2650	5107	1,35,33,550
30.04.2022	-	-	-	1580	5107	80,69,060	1070	5107	54,64,490

* Pricing of issues shall be done at the rate of Rs. 5107/- $\left(\frac{50000 + 12875000}{1000 + 2500} = 5107 \right)$ each till the first consolidated lot of 3500 Nos. exhausts, new rate will be applicable when new input batch comes in and the weighted average rate shall be recalculated and applied accordingly, and so on.

Please note : The weighted average rate quoted in the above example is not calculated to accurate to decimal places, to keep it the explanation simple, however in practice, it is to be done accordingly to ensure accuracy.

Value of Inventory as on 30.04.2022 as per weighted average method shall be Rs. 54,64,490/-

ICDS-III Relating to Construction Contracts



4.9 This ICDS deals with the computation of income from construction contract business. A contract agreement is created between the contractee and a contractor or group of contractors for construction of buildings, bridge, road, industry building, plant & machinery, ship, market complex etc.; A contract may be negotiated or created for the construction of a single asset or multiple assets which may or may not be interrelated subject to the design, dimension, technology etc.;

4.10 The construction contract may be a Fixed Price Cost or a Cost Plus Contract. In a fixed price contract, contractee agrees to pay a fixed price in lump sum for completion of the construction project. Whereas in cost plus contract, contractee agrees to pay a certain percentage over and above the actual costs incurred to the contractor as profit margin. Cost plus contract is generally undertaken when cost of executing a contract cannot be estimated in advance accurately due to absence of a precedent or complete details of work to be done. Sometimes unsuitable conditions also necessitate cost plus contract. Generally, cost plus contract is entered into a special type of work like construction work in war, manufacture of a special design of ship or aircraft etc.

4.11 Retention money: During the period of construction work to complete the assets or contract works, contractor raises running bills to the contractee based on the work completion certificate or measurement book issued by the surveyor or architect or site in-charge. The contractee does not pay the whole amount of running bill. He retains certain percentage of bill as retention money and pays after the completion of the contract as per the agreement of the contract. The retention money is kept back as security to ensure the completion of contract work within the time and guarantee or warrantee for the quality of assets build.

"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.

"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.

"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.



"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, if any, have been rectified.

"Progress billings" are amounts billed for the part of work performed on a contract whether or not they have been paid by the customer.

4.12 Combining and Segmenting Construction Contracts: Each construction contract shall be treated as a separate cost centre and revenue and cost shall be derived as per this ICDS. There may be a single asset contract or a group of assets contract. In case of numbers of contracts if a separate agreement is created for each asset, then each asset contract shall be treated as separate contract. Where a group contract is negotiated with one or more customers through a single negotiation contract then this shall be treated as a single separate construction contract. For example, a turnkey project. Where a customer wants additional work apart from the awarded construction contract, it shall be treated as a single construction contract if it is significantly different in terms of design, technology or functions from the assets covered under the original contract and a separate contract negotiation take place.

- The requirements of this ICDS shall be applied separately to each construction contract. For reflecting the substance of a contract or a group of contracts, where it is necessary, the Income Computation and Disclosure Standard should be applied to the separately identifiable components of a single contract or to a group of contracts together.
- 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.
- 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.



- 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.

4.13 Contract cost:

- 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 Income Computation and Disclosure 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.

- 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.
- 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.

- 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.



4.13.1 Contract costing or Job costing method may be followed to determine the construction contract cost. A separate contract number is assigned to each contract. Each contract shall be treated as a separate profit/cost centre. All direct and indirect costs which are attributed to that particular contract cost centre are required to be debited. In contract costing most of the expenses incurred are of the nature of direct expenses like material cost, labour cost, cost of special plant and equipment, tools and tackles, architect's fees, cost of designs, hiring cost of plants and equipment, sub contract cost etc.;. The value of plant and machinery transferred to other site are credited to the contract cost centre. Plant and equipment purchased exclusively for the particular contract is debited to the cost of that contract cost centre. The abnormal loss or gain are not debited or credited to the contract account. The total depreciation during the period is debited to the contract account on an hourly rate basis of use of plant and machinery for that particular contract cost centre.

4.13.2 Overheads: A contractor may have more than one contract to execute at the same time and thus expenditure common to more than one contract become indirect expenses or overhead for that particular contract. The indirect expenses mainly consist of office and administration cost, expenses relating to repair workshops and expenses of storeroom and store yards, salary of supervisor and storekeeper, salary of chief engineer etc.;. The indirect expenses are apportioned to different contracts on some reasonable basis such as labour hour basis or machine hour basis or on the basis of actual expenditure incurred on material, labour and expenses.

4.13.3 Work- in-progress: W.I.P in contract consists of:

- a) The cost of work complete. This may include work certified and work uncertified.
- b) The cost of work not completed.
- c) The amount of profit taken as credit.

Generally in balance sheet W.I.P is shown under two heads- certified and uncertified. Work certified means the work of contract approved by architect engineer or surveyor or site-in-charge etc.; of the contractee. It is possible that a part of the work done which has not been approved by the surveyor or contractee is referred to as work uncertified. It is valued at cost and debited to WIP.

4.13.4 Materials and stores at site: - At the end of accounting period if any materials and stores remain unutilized, the amount should be debited to "Material or Stores at site Account" and credited to Contract Account. In balance sheet "Material or Stores at site Account" is shown under the head inventory.



4.14 Recognition of Contract Revenue and Expenses

- Contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively with reference to the stage of completion of the contract activity on the date of reporting.
- The recognition of revenue and expenses with 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.
- The stage of completion of a contract shall be determined with reference to:
 - (a) the proportion of contract costs incurred for work performed upto the reporting date 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.

- When the stage of completion is determined with 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.
- 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.

4.15 Inventory valuation in construction industry shall be computed as per the provisions of ICDS-III to compute income under the head “Profits & gains from business or profession” or “Income from other sources”. So far maintenance of books of accounts is concerned the assessee shall follow the accounting policy, cost accounting policy, accounting standards and cost accounting standards as the case may be. It must be noted that for inventory valuation under section 142(2A) provisions of ICDS and Income tax Act is only required to be followed.

ICDS VIII- Relating to Securities

4.16 This ICDS deals with the valuation of securities held as stock in trade. This standard is divided into two parts. Part A deals with the valuation of stock in trade. Whereas part B deals with valuation of the securities held by a schedule bank or public financial institution formed



under Central or State Act or as declared under the companies Act, 1956 or Companies Act, 2013.

4.17 Part A

- 4.17.1** Securities means shares, scrips, stocks, bonds, debentures, debenture stock, derivatives or other marketable securities of a like nature in or of any incorporated company or other body corporate
- 4.17.2** Fair value means a fair market value of securities at which the securities may be sold or bought in open market between the willing prospective buyer and seller at arm's length. FMV is a price at which a property would sell in an open market. Prospective buyers and sellers are reasonably having knowledge about the property, behaving in their own interest, free from undue pressure to trade and given a reasonable time period to complete the transaction.
- 4.17.3** Acquisition cost of security: It shall be recognized at actual cost. The actual cost shall include purchase price of security paid and include acquisition costs like brokerage, commission, security transaction tax, cess, fees, duty etc.;
- 4.17.4** In case where a security is acquired in exchange of another security, the fair value of the security acquired at the time of acquisition shall be the cost of acquisition of acquired security. For example, issue of sweat equity, alteration of share etc;
- 4.17.5** In case where a security is acquired in exchange of another asset, the fair value of the security acquired at the time of acquisition shall be the cost of acquisition of acquired security. For example, conversion of debenture into equity shares or preference shares, share allotted to creditors, debt lenders etc;
- 4.17.6** In case 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. For example:- Central Govt. issued a bond carrying 9.15% payable on 15th May and 15th November in every year on 1st January 2022 of Rs. 40 lakhs. ABC Company purchased this bond on 1st June, 2022 at Rs. 42.33 lakhs. At the time of purchase the interest payable on 15th May, 2022 is accrued to the amount of Rs. 183000/-. The company will get next interest on 15th November, 2022 Rs. 183000/-. Here



pre- acquisition period interest is Rs. 1.98 lakhs and post-acquisition period Rs. 1.83 lakhs. So cost of acquisition in this case shall be Rs. 40.35 lakhs [Rs. 42.33-1.98].

4.17.7 The value of security held as stock-in-trade at the end of previous year shall be the lower of the Cost of Acquisition and Net realisable value.

➤ *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, namely:—*

- (a) *shares;*
- (b) *debt securities;*
- (c) *convertible securities; and*
- (d) *any other securities not covered above.*

➤ *The value of securities held as stock-in-trade of a business as on the beginning of the previous year shall be:*

- (a) *the cost of securities available, if any, on the day of the commencement of the business when the business has 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.*

4.17.8 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 recognized at the end of the previous year

4.17.9 Where the actual cost initially recognised cannot be ascertained with reference to specific identification, the cost of such security shall be determined on the basis of first-in-first-out method or weighted average cost formula.

- (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 Contracts (Regulation) Act, 1956 (42 of 1956) and shall include share of a company in which public are not substantially interested but shall not include derivatives referred to in sub-clause (ia) of that clause (h).

4.17.10 Security held as stock in trade shown in balance sheet



Stock exchange is a market place where trading of security takes place. In India two stock exchanges are in function. One is BSE (Bombay Stock Exchange) with Sensex index and another is NSE (National Stock Exchange) with Nifty index. SEBI is the regulatory body who regulate the functioning of stock exchange and depository. A company brought IPOs in primary market and after the subscription of security offered to the public, it is listed in the secondary market in stock exchange. In secondary market trading of security take place through dematerialized account managed by the depository. In India there are two main depository; NSDL and CDSL. The depository maintains the records related to buyer and seller, hold security in digital platform. On execution of a trade, the depository directly transfers the securities from the account of seller to the buyer. Stock broker acts as an intermediary person between the stock exchange and investor. For this broker charges some amount to the investor.

Investors may show the value of securities at the end of previous year either as investment or stock in trade under current assets in his balance sheet. It is the choice of investor. If investors purchase securities with intention to earn dividend on it and wants to hold the security for longer period then it will be treated as investment and consequent sale of securities shall be taxed as capital gain. On the other hand, if the intention of investor is of trading and he frequently purchases and sales the securities with an intention to earn profit within a short period, it will be treated as business and securities at the end of the previous year shown as stock in trade should be taken under inventory. There is no specific guideline to describe when the securities are to be treated as investment or as stock in trade. There are many court decisions on this matter. The Honourable High court in one case given direction as below:

While deciding whether the sale of shares is income from business or income from capital gain, one has to go by the following criteria, as held by the jurisdictional High Court in the case of PVS Raju v. Addl. CIT [2012] 340 ITR 75 / 18 taxmann.com 3 (AP)—

- a) The frequency of buying and selling of shares by the appellants were high;
- b) The period of holding was less;
- c) The quantum of turnover was on account of frequency of transactions, and not because of huge investment;
- d) The intention of the assessee to make quick profits on a huge turnover;
- e) No. of scrips shares held for fewer days;
- f) Whether engaged in dealing in the same scrips frequently;



- g) Intention of the assessee in buying shares is not to derive income by way of dividend on such shares, but to earn profits on the sale of the shares;
- h) Whether the assessee had indulged in multiple transactions of large quantities with high periodicity. These periodic transactions selecting the time of entry and exit in each scrip, called for regular direction and management which would indicate that it was in the nature of trade;
- i) Repeated transactions, coupled with the subsequent conduct of the assessee to re-enter the same scrip or some other scrip, in order to take advantage of market fluctuations lent the flavour of trade to such transactions;
- j) The assessee was purchasing and selling the same scrips repeatedly, and were switching from one scrip to another;
- k) Mere classification of these share transactions as investment in the assessee's books of accounts was not conclusive;
- l) The intention of the assessee at the time of purchase was only to sell the shares immediately after purchase;
- m) Frequency of purchase and sale of shares showed that the assessee never intended to keep these shares as investment; and
- n) It is only for the purpose of claiming benefit of lower rate of tax, under Section 111A of the Act, that they had claimed certain shares to be investment, though these transactions were only in the nature of trade.

On considering various opinion between the AO and the assessee, CBDT came out with a circular No. 6/2016 dated 29/02/2016 in which describe the situation and provisions when securities be treated as investment or held as stock in trade.

*Circular No.6/2016
Government of India
Ministry of Finance
Department of Revenue
Central Board of Direct Taxes
North Block, New Delhi, the 29th of February, 2016*

Sub: Issue of taxability of surplus on sale of shares and securities - Capital Gains or Business Income - Instructions in order to reduce litigation - reg.-

Sub-section (14) of Section 2 of the Income-tax Act, 1961 ('Act') defines the term "capital asset" to include property of any kind held by an assessee, whether or not connected with his



business or profession, but does not include any stock-in-trade or personal assets subject to certain exceptions. As regards shares and other securities, the same can be held either as capital assets or stock-in-trade/ trading assets or both. Determination of the character of a particular investment in shares or other securities, whether the same is in the nature of a capital asset or stock-in-trade, is essentially a fact-specific determination and has led to a lot of uncertainty and litigation in the past.

- 2. Over the years, the courts have laid down different parameters to distinguish the shares held as investments from the shares held as stock-in-trade. The Central Board of Direct Taxes ('CBDT') has also, through Instruction No. 1827, dated August 31, 1989 and Circular No.4 of 2007 dated June 15, 2007, summarized the said principles for guidance of the field formations.*
- 3. Disputes, however, continue to exist on the application of these principles to the facts of an individual case since the taxpayers find it difficult to prove the intention in acquiring such shares/securities. In this background, while recognizing that no universal principal in absolute terms can be laid down to decide the character of income from sale of shares and securities (Le. Whether the same is in the nature of capital gain or business income), CBDT realizing that major part of shares/securities transactions takes place in respect of the listed ones and with a view to reduce litigation and uncertainty in the matter, in partial modification to the aforesaid Circulars, further instructs that the Assessing Officers in holding whether the surplus generated from sale of listed shares or other securities would be treated as Capital Gain or Business Income, shall take into account the following)*
 - a) Where the assessee itself, irrespective of the period of holding the listed shares and securities, opts to treat them as stock-in-trade, the income arising from transfer of such shares/securities would be treated as its business income,*
 - b) In respect of listed shares and securities held for a period of more than 12 months immediately preceding the date of its transfer, if the assessee desires to treat the income arising from the transfer thereof as Capital Gain, the same shall not be put to dispute by the Assessing Officer. However, this stand, once taken by the assessee in a particular Assessment Year, shall remain applicable in subsequent Assessment Years also and the taxpayers shall not be allowed to adopt a different/contrary stand in this regard in subsequent years;*
 - c) In all other cases, the nature of transaction (i.e. whether the same is in the nature of capital gain or business income) shall continue to be decided keeping in view the aforesaid Circulars issued by the CBDT.*
- 4. It is, however, clarified that the above shall not apply in respect of such transactions in shares/securities where the genuineness of the transaction itself is questionable, such as bogus claims of Long-term Capital Gain / Short Term Capital Loss or any other sham transactions.*



5. *It is reiterated that the above principles have been formulated with the sole objective of reducing litigation and maintaining consistency in approach on the issue of treatment of income derived from transfer of shares and securities. All the relevant provisions of the Act shall continue to apply on the transactions involving transfer of shares and securities.*

(Rohit Garg)
Deputy Secretary Government of India

4.18 Part B

4.18.1 This part of Income Computation and Disclosure Standard deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so declared under the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013).

4.18.2

- (a) "**Scheduled Bank**" shall have the meaning assigned to it in clause (ii) of the *Explanation* to clause (viii) of sub-section (1) of section 36 of the Act.
- (b) "**Securities**" shall have the meaning assigned to it in clause (h) of section 2 of the Securities Contract (Regulation) Act, 1956 (42 of 1956) and shall include share of a company in which public are not substantially interested;

4.18.3 Securities shall be classified, recognised and measured in accordance with the extant guidelines issued by the Reserve Bank of India (*Master Circular – Prudential norms for Classification, Valuation and Operation of Investment Portfolio by Bank, issued on 1st July 2013 vide RBI/2013-14/109, DBOD No BP.BC. 8 /21.04.141/2013-14*) and any claim for deduction in excess of the said guidelines shall not be taken into account.



Chapter 5 Explanation to Form 6D

The Central Board of Direct Taxes has notified Form 6D vide G.S.R. 697(E) on 27th September, 2023 for reporting the inventory valuation conducted under clause (ii) of sub section 2A of section 142 of Income Tax Act, 1961. Inventory valuation under section 142(2A) (ii) read with Rule 14A is to be carried out by a practicing Cost Accountant under his seal and signature, membership number with UDIN.

5.1 The Form 6D contains inventory valuation report part consisting of particulars, observation and qualification with annexure showing particulars of the assessee, details of inventory with quantity and valuation as per ICDS-II, III and VIII.

5.2 **Explanation to the inventory valuation report part.**

1. * I/We have examined the books of account and other documents with respect to inventory and inventory valuation of _____ [name and address of the assessee] Permanent Account No. _____ for the assessment year _____ as at _____

5.2.1 In para 1 detail of books of accounts and other documents are required to be mentioned. Apart from this, name, address and PAN of the assessee are required to be mentioned. Section 2(12A) of IT Act defines books and books of accounts as "books or books of accounts" includes ledgers, day-books, cash books, account-books and other books, whether kept [in the written form or in electronic form or in digital form or as print-outs of data stored in such electronic form or in digital form or in] a floppy, disc, tape or any other form of electro-magnetic data storage device;

Section 44AA read with Rule 6F makes it compulsory to the person to maintain books of account in case his turnover or income exceeds the prescribed amount. Rule 6F requires maintenance of cash book, a journal in case of mercantile accounting, a ledger, original bills, carbon copies of bills etc.;

Maintenance of accounts by certain persons carrying on profession or business

44AA (1) Every person carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or any other profession as is notified by the Board in the Official Gazette shall keep and maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of this Act.



- (2) Every person carrying on business or profession [not being a profession referred to in sub-section (1)] shall,—
- (i) if his income from business or profession exceeds one lakh twenty thousand rupees or his total sales, turnover or gross receipts, as the case may be, in business or profession exceed or exceeds ten lakh rupees in any one of the three years immediately preceding the previous year; or
 - (ii) where the business or profession is newly set up in any previous year, if his income from business or profession is likely to exceed one lakh twenty thousand rupees or his total sales, turnover or gross receipts, as the case may be, in business or profession are or is likely to exceed ten lakh rupees, during such previous year; or
 - (iii) where the profits and gains from the business are deemed to be the profits and gains of the assessee under section 44AE or section 44BB or section 44BBB, as the case may be, and the assessee has claimed his income to be lower than the profits or gains so deemed to be the profits and gains of his business, as the case may be, during such previous year; or
 - (iv) where the provisions of sub-section (4) of section 44AD are applicable in his case and his income exceeds the maximum amount which is not chargeable to income-tax in any previous year, keep and maintain such books of account and other documents as may enable the Assessing Officer to compute his total income in accordance with the provisions of this Act:

Provided that in the case of a person being an individual or a Hindu undivided family, the provisions of clause (i) and clause (ii) shall have effect, as if for the words "one lakh twenty thousand rupees", the words "two lakh fifty thousand rupees" had been substituted :

Provided further that in the case of a person being an individual or a Hindu undivided family, the provisions of clause (i) and clause (ii) shall have effect, as if for the words "ten lakh rupees", the words "twenty-five lakh rupees" had been substituted.

- (3) The Board may, having regard to the nature of the business or profession carried on by any class of persons, prescribe, by rules, the books of account and other documents (including inventories, wherever necessary) to be kept and maintained under sub-section (1) or sub-section (2), the particulars to be contained therein and the form and the manner in which and the place at which they shall be kept and maintained.



- (4) Without prejudice to the provisions of sub-section (3), the Board may prescribe, by rules, the period for which the books of account and other documents to be kept and maintained under sub-section (1) or sub-section (2) shall be retained.

Books of account and other documents to be kept and maintained under section 44AA (3) by persons carrying on certain professions

- 6F. (1) Every person carrying on legal, medical, engineering or architectural profession or the profession of accountancy or technical consultancy or interior decoration or authorised representative or film artist shall keep and maintain the books of account and other documents specified in sub-rule (2) :

[Provided that nothing in this sub-rule shall apply in relation to any previous year in the case of any person if his total gross receipts in the profession do not exceed one lakh fifty thousand rupees in any one of the three years immediately preceding the previous year, or, where the profession has been newly set up in the previous year, his total gross receipts in the profession for that year are not likely to exceed the said amount.]

- (2) The books of account and other documents referred to in sub-rule (1) shall be the following, namely:—

(i)	<i>a cash book;</i>
(ii)	<i>a journal, if the accounts are maintained according to the mercantile system of accounting;</i>
(iii)	<i>a ledger;</i>
[(iv)	<i>carbon copies of bills, whether machine numbered or otherwise serially numbered, wherever such bills are issued by the person, and carbon copies or counterfoils of machine numbered or otherwise serially numbered receipts issued by him:</i>
	<i>Provided</i> that nothing in this clause shall apply in relation to sums not exceeding twenty-five rupees;]
(v)	<i>original bills wherever issued to the person and receipts in respect of expenditure incurred by the person or, where such bills and receipts are not issued and the expenditure incurred does not exceed fifty rupees, payment vouchers prepared and signed by the person:</i>
	<i>[Provided</i> that the requirements as to the preparation and signing of payment vouchers shall not apply in a case where the cash book maintained by the person contains adequate particulars in respect of the expenditure incurred by him.]

Explanation: In this rule,—



(a)	<i>“authorised representative” means a person who represents any other person, on payment of any fee or remuneration before any Tribunal or authority constituted or appointed by or under any law for the time being in force, but does not include an employee of the person so represented or a person carrying on legal profession or a person carrying on the profession of accountancy;</i>
(b)	<i>“cash book” means a record of all cash receipts and payments, kept and maintained from day-to-day and giving the cash balance in hand at the end of each day or at the end of a specified period not exceeding a [month];</i>
(c)	<i>“film artist” means any person engaged in his professional capacity in the production of a cinematograph film whether produced by him or by any other person, as—</i>
(i)	<i>an actor;</i>
(ii)	<i>a cameraman;</i>
(iii)	<i>a director, including an assistant director;</i>
(iv)	<i>a music director, including an assistant music director;</i>
(v)	<i>an art director, including an assistant art director;</i>
(vi)	<i>a dance director, including an assistant dance director;</i>
(vii)	<i>an editor;</i>
(viii)	<i>a singer;</i>
(ix)	<i>a lyricist;</i>
(x)	<i>a story writer;</i>
(xi)	<i>a screen-play writer;</i>
(xii)	<i>a dialogue writer; and</i>
(xiii)	<i>a dress designer.</i>

(3) *A person carrying on medical profession shall, in addition to the books of account and other documents specified in sub-rule (2), keep and maintain the following, namely :—*

(i)	<i>a daily case register in Form No. 3C;</i>
(ii)	<i>an inventory [under broad heads,] as on the first and the last day of the previous year, of the stock of drugs, medicines and other consumable accessories used for the purpose of his profession.</i>

(4) *The books of account and other documents specified in sub-rule (2) and sub-rule (3) [other than those relating to a previous year which has come to an end] shall be kept and maintained by the person at the place where he is carrying on the profession or, where the profession is carried on in more places than one, at the principal place of his profession:*



Provided that where the person keeps and maintains separate books of account in respect of each place where the profession is carried on, such books of account and other documents may be kept and maintained at the respective places at which the profession is carried on.

- (5) The books of account and other documents specified in sub-rule (2) and sub-rule (3) shall be kept and maintained for a period of [six] year from the end of the relevant assessment year:

Provided that where the assessment in relation to any assessment year has been reopened under section 147 of the Act within the period specified in section 149 of the Act, all the books of account and other documents which were kept and maintained at the time of reopening of the assessment shall continue to be so kept and maintained till the assessment so reopened has been completed.]

- [(6) Notwithstanding anything contained in sub-rules (1) to (3), it shall not be necessary for any person carrying on any of the professions specified in sub-rule (1) to keep and maintain the books of account and other documents specified in sub-rule (2) or sub-rule (3) in relation to any previous year commencing before the [first day of March, 1983].]

The company registered under the Companies Act is required to maintain books of account as per the provision under section 128 of the Companies Act, 2013. Section 2(13) of Companies Act, 2013 define books of account as “books of account” includes records maintained in respect of—

- (i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;
- (ii) all sales and purchases of goods and services by the company;
- (iii) the assets and liabilities of the company; and
- (iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section;

The company to whom maintenance of cost records and cost audit under section 148 of the Companies Act, 2013 is applicable, is required to maintain:

- Proper records showing separately all receipts, issues and balances both in quantities and cost of each item of raw material required for the production of goods or rendering of services under reference.
- Proper Records for each item of by-product, if any, produced showing the receipt, issues and balances, both in quantity and value.



- Quantitative records of all finished goods (packed or unpacked) or services rendered showing production, issues for sales and balances of different type of the goods or services under reference.
- Quantitative details of production of goods or services rendered for self-produced, third party on job work, loan license basis etc.
- Separate details of sales for domestic sales at control price, domestic sales at market price, export sales under advance license, export sales under other obligations, export sales at market price, and sales to related party or inter unit transfer. In case of services, details of domestic delivery or sales at control price, domestic delivery or sales at market price, export delivery or sales under advance license, export delivery or sales under other obligations, export delivery or sales under market price, and delivery or sales to related party or inter unit transfer. Such details shall be maintained separately for each plant or unit wise or service centre wise for total as well as per unit sales realization.
- Cost statements (monthly, quarterly and annually) showing quantitative information in respect of each goods or service under reference showing details of available capacity, actual production, production as per excise records, production as per GST records, capacity utilisation (in-house), stock purchased for trading, stock and other adjustments, quantity available for sale, wastage and actual sale, total quantity of outward supplies as per cost records and total outward supplies as per GST records during current financial year and previous year.
- Records for physical verification in respect of all items held in the stock such as raw material, process materials, packing materials, consumables, stores, machinery spares, chemicals, fuels, finished goods and fixed assets etc. Reasons for shortages or surplus arising out of such verifications and the method followed for adjusting the same in the cost of the goods or services shall be indicated in the records.

The provisions relating to books and books of account of Income Tax Act, 1961 & Rules and Companies Act are exhaustive. Books relevant to inventory such as store ledger, bin card, store card, GRN (Goods received note), SRN (Store received note), raw material and store requisition receipt, GSTR 2A and 2B, bills, production records, finished goods register, store audit report, physical verification report etc.; as maintained and kept by the assessee is required to be examined in depth in order to authenticate the quantity and value of inventories reported under section 142(2A) (ii). A separate sheet consisting detail of books of accounts and documents in respect to inventory as maintained by the assessee and examined should be attached with the inventory valuation report.



2.*I/We have conducted Inventory Valuation in compliance with the requirements under the relevant provisions of Income-tax Act 1961 and Income-tax Rules 1962. As per the Inventory Valuation carried out by *me/ us, the opening inventory has been valued at Rs_____ (in words_____) and the closing inventory has been valued at Rs. _____ (in words_____) for the relevant period _____ to _____.

5.2.2 In para 2 it is required to mention the value of opening and closing inventory for the period as determined. A separate summary sheet should be given containing category wise valuation of inventory as opening and closing stock suggested to be given in following format

Sl. No.	Particulars of Inventory	Value of opening inventory (INR) as on 01-04-	Value of closing inventory (INR) as on 31-03-
1	Finished goods(With name)		
2	Stock in trade(With name)		
3	Raw Materials(With name, may bifurcate in to indigenous and imported)		
4	Work in Progress		
5	Stores & Consumables, Chemicals, High value items		
6	Tools &tackles, jigs etc.;		
7	Others(Specify)		

3. * I/ We have obtained all the information and explanations which to the best of * my/our knowledge and belief were necessary for the purposes of the Inventory Valuation.

5.2.3 Para 3 refers to the declaration that PCMA has got all information and explanation to complete his inventory valuation. In case if he has not get all or partial information and explanation as the case may be he should mention in his report under this para.

4. In * my/our opinion, from *my/ our examination of the books of account and other documents, it appears that proper books of account and other documents with respect to inventory have been kept by the head office, other premises and the branches of the assessee visited by * me/us, and proper data adequate for the purposes of inventory



valuation have been received from branches not visited by * me/us subject to the comments given below:

(a)

(b)

.....

- 5.2.4 Under para 4 it is required to commented by the cost accountant, whether the assessee has maintained proper books of account in respect to inventory or not. In case the cost accountant opines that such books of account are maintained, then he has to further elaborate whether such books & accounts are adequate to derive inventory valuation or not.

He is also required to mention the place where such books of account are maintained by the assessee. The cost accountant should give his observations after having conducted the detailed examination of books of account and other documents relevant to the inventory valuation. For example if physical verification of inventory has not been done, he should report this aspect clearly, no action is not taken after any observations were made in the store audit conducted, should be reported, any discrepancy between the material purchased record and GSTR 2A should reported, etc.,

5. **In * my/our opinion and to the best of * my/our information and according to explanations given to * me/us, the Inventory Valuation presented herein below in * my/our report is true and correct subject to comments given below:**

(a)

(b)

5.2.5 Under this para PCMA is required to give an assurance that, as per his opinion, the valuation derived and presented by him is true and correct based on the information and explanation received from the assessee. He should elaborately mention any comments, reservations, assumptions, basis or methodology followed for inventory valuation. If he believes that it is necessary to disclose with proper justification, he should mention about the evidences, information, documents and other information relevant to the valuation of inventory, received from the assessee, relied upon and used by him in his working.

6. **The prescribed particulars and such other particulars as were required by the Assessing Officer by order No. _____ dated _____ are annexed hereto. In * my/our opinion and to the best of *my/our information and according to explanations given to * me/us, these are true and correct.**



5.2.6 In para 6 PCMA is required to verify such particulars as setting forth in the order of the AO for inventory valuation under clause ii of sub section 2A of section 2 issued to the PCMA. AO's order may contain together the inventory valuation and particulars which he wants to get verify from PCMA. PCMA should verify setting forth such particulars and gather information and explanation from the assessee and others and give statement that particulars given by the AO are true and correct. Such particulars may be the information available with the AO to proceed for assessment under section 143(3), escaped assessment under section 147, have sufficient information available due to search, seizure, survey, requisitioned of accounts as the case may be under section 132, 132A, 133A.

7. Any variations observed in the Inventory Valuation Report compared to the disclosures made in Form No.3CD (or if no Form No. 3CD has been furnished, then value as per audited accounts) have been adequately explained along with the reasons and justifications thereof.

5.2.7 Under para 7 PCMA has to report any variance in respect to inventory valuation derived by him from the inventory valuation reported by the assessee and audited by an accountant as explained under section 288 in form 3CD or in case where audit is not required under section 44AB, the audited accounts under any law.

5.2.8 In Form 3CD under the following para information relevant to inventory valuation is required. If there is any variation from these para, PCMA is required to set forth details with proper justification with evidence on which he rely.

5.2.9 While filling the Form 3CD in para number 35 & 40 quantity & value respectively of total inventory is to be filled because there is no option to add row to show value of inventory category wise. Therefore PCMA should refer the audited balance sheet and cross check with the total quantity and value as shown in Form 3CD.

Para of Form 3CD

Para 11.

(a) *Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.*

.....

(b) *List of books of account maintained and the address at which the books of account are kept.....*



(In case books of account are maintained in a computer system, mention the books of account generated by such computer system. If the books of account are not kept at one location, please furnish the addresses of locations along with the details of books of account maintained at each location.)

(c) *List of books of account and nature of relevant documents examined.*

Para 13.

(a) *Method of accounting employed in the previous year.....*

(b) *Whether there had been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.*

(c) *If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.*

(d) *Whether any adjustment is required to be made to the profits or loss for complying with the provisions of income computation and disclosure standards notified under section 145(2)*

(e) *if answer to (d) above is in the affirmative, give details of such adjustments:*

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

ICDS I Accounting Policies

ICDS II Valuation of Inventories

ICDS III Construction Contracts

ICDS IV Revenue Recognition

ICDS V Tangible Fixed Assets

ICDS VI Changes in Foreign Exchange Rates

ICDS VII Governments Grants

ICDS VIII Securities

ICDS IX Borrowing Costs

*ICDS X Provisions, Contingent Liabilities and
Contingent Assets*

Total

(f) *Disclosure as per ICDS:*

(i) *ICDS I - Accounting Policies*

(ii) *ICDS II - Valuation of Inventories*

(iii) *ICDS III - Construction Contracts*



- (iv) ICDS IV - Revenue Recognition
- (v) ICDS V - Tangible Fixed Assets
- (vi) ICDS VII - Governments Grants
- (vii) ICDS IX - Borrowing Costs
- (viii) ICDS X - Provisions, Contingent Liabilities and Contingent Assets.

Para 14.

- (a) Method of valuation of closing stock employed in the previous year.
- (b) In case of deviation from the method of valuation prescribed under section 145A and the effect thereof on the profit or loss, please furnish:

Serial number	Particulars	Increase in profit (Rs.)	Decrease in profit (Rs.)

Para 15. Give the following particulars of the capital asset converted into stock-in-trade:—

- (a) Description of capital asset;
- (b) Date of acquisition;
- (c) Cost of acquisition;
- (d) Amount at which the asset is converted into stock-in-trade.

Para 35. (a) In the case of a trading concern, give quantitative details of principal items of goods traded :

- (i) Opening Stock;
- (ii) purchases during the previous year;
- (iii) sales during the previous year;
- (iv) closing stock;
- (v) shortage/excess, if any

(b) In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished products and by-products :

A. Raw Materials :

- (i) opening stock;
- (ii) purchases during the previous year;
- (iii) consumption during the previous year;
- (iv) sales during the previous year;



- (v) closing stock;
- (vi) yield of finished products;
- (vii) percentage of yield;
- (viii) shortage/excess, if any.

B. Finished products/by-products :

- (i) opening stock;
- (ii) purchases during the previous year;
- (iii) quantity manufactured during the previous year;
- (iv) sales during the previous year;
- (v) closing stock;
- (vi) shortage/excess, if any.

Para 37. Whether any cost audit was carried out, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the cost auditor.....

Para 38. Whether any audit was conducted under the Central Excise Act, 1944, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.

Para 39. Whether any audit was conducted under section 72A of the Finance Act, 1994 in relation to valuation of taxable services, if yes, give the details, if any, of disqualification or disagreement on any matter/item/value/quantity as may be reported/identified by the auditor.

Para 40. Details regarding turnover, gross profit, etc., for the previous year and preceding previous year:

<i>Sl</i>	<i>Particulars</i>	<i>Previous year</i>	<i>Preceding previous year</i>
<i>1</i>	<i>Total turnover of the assessee</i>		
<i>2</i>	<i>Gross profit/turnover</i>		
<i>3</i>	<i>Gross profit/turnover</i>		
<i>4</i>	<i>Stock-in-trade/turnover</i>		
<i>5</i>	<i>Material consumed/finished goods Produced</i>		



(The details required to be furnished for principal items of goods traded or manufactured or services rendered)

5.3 Explanation to Annexure of Inventory Valuation Report

Sl.	Particulars	Remarks / Guidance to PCMA
1	Information of the Assessee Address (Head Office / other premises and branches)	Basic information is required to provided
2	Date of incorporation/Date of formation	Date of incorporation/Date of formation is to be provided- in case assessee is a company or firm or BOI/AOP/Local authority/Artificial judicial person. - Date of birth- In case the assessee is an Individual or a HUF, is to be provided
3	Nature of business activity	Brief nature of business activity is required to given. This may be manufacturing, mining, trading (wholesale or retailer), refinery, construction etc.;
4	Details of principal products / services	Brief about the principal products/services is required to mentioned. HSN/SAC code should mentioned against each product or services, as the case may be.
5	Details of books of account and other documents maintained with respect to inventory	PCMA should mention details of books of account and documents in respect of inventory maintained by the assessee which he has examined.
6	(i) Method of accounting employed with respect to inventory maintained. Indicate whether there is any change from the method of accounting employed with respect to inventory maintained in the immediately two preceding previous years: PCMA should report about the method of	PCMA should report about the method of accounting followed by the assessee. It may be either Cash or mercantile basis. He is also required to report whether such method is followed regularly or not. He is to comment whether there is any change in the accounting policy in preceding two previous years relevant to the previous year.



Sl.	Particulars	Remarks / Guidance to PCMA
	accounting followed by the assessee. It may be either Cash or mercantile basis	
	(ii) Is there any inventory management system software in place? If so, details of the same.	PCMA is required to give brief about the software or electronic inventory system used by the assessee. For example ERP/SAP module for inventory management, Tally, any other software especially developed and designed for inventory management.
7	i) Method of valuation of opening and closing stock of following inventory items used by the Assessee: a) Finished Goods (manufactured) b) Stock-in-trade c) Work-in-progress (WIP) d) Raw materials e) By-products f) Intermediate Products g) Jigs, Tools, and Dies h) Stores, Spares and Consumables i) Scrap j) Any other item	PCMA is required to mention about the valuation method followed by the assessee. It may be FIFO / LIFO / Average method / Weighted average method etc.;
	(ii) State whether there is any change in the method of valuation of any of the aforesaid items as compared to the method employed in the immediately two preceding previous years	PCMA should refer the accounting policy of the assessee and audit report and make comment.
	(iii) If the answer to (ii) above is in the affirmative, specify the amount by which the profit or loss for the relevant period has been affected by such change	PCMA should refer the audit report and make comment.
	(iv) During the relevant period, has there been any insurance claim	PCMA should refer the insurance claim(s) settlement report submitted by the



Sl.	Particulars	Remarks / Guidance to PCMA
	relating to inventory due to fire or accident or any other reason. If so, give details.	surveyor relevant to the period of review. He may also refer the inventory report and other document to make his comments on the loss of inventory due to fire, accident, theft etc.; and insurance claim status, as the case may be
8	Details of Financial Results (as per the Audited Accounts of the Assessee)	PCMA should collect audit report of reporting year and immediate preceding two previous years and provide the financial information as require under point 8
9 In respect of items manufactured, full quantitative details of raw materials and finished products as indicated below (consolidated at entity level):		

(i) Details of Raw Material (RM) for the relevant period under reporting –

Sl	Details	Raw Material description	Unit of Measurement (UOM)	Opening stock	Purchases during the relevant period	Consumption of Raw Material during the relevant period	Raw Material sold during the relevant period	Closing stock	Other adjustments
1	Name of Raw material	Brief about the RM along with whether indigenous, imported, hazardous etc.;	In kg, quintal, pcs, bags, ton, M ton, Litre, Kl etc.;	In Quantity	In Quantity	In Quantity	In Quantity	In Quantity	In Quantity

Notes:

1. Inventory of all such raw materials that constitute top 80% of the total inventory value of raw materials should be reported item-wise separately. Inventory of all other raw materials constituting balance may be clubbed under “Others”.
2. Add number of rows depending on the number of raw materials
3. Other adjustments include Shortage/ Wastages / Rejects, etc.



5.3.1 Under this table quantity information about inventory of raw material is required to be reported. For the quantitative information, PCMA should examine the materials receipt register, cross check this with GRN/SRV, e-way bill, invoices, weigh bridge register, internal audit report in respect of raw material, quality inspection report etc.;

Adjustment in quantity as per Weigh Bridge in factory or due to any other reason may be theft, fire, raining etc.; during the transit of materials, stores, variance between gross weight and tear weight of vehicles more than +/- 5% should be identified and differential quantity should be reported.

(ii) (a) Quantitative details in respect of items manufactured / traded by the Assessee for the relevant period under reporting –

S	Finish ed produ cts/ Work- in- Progr ess	Descrip tion	Ite m Co de	Unit of Meas ure ment (UOM)	Open ing Stock	Quantity (Qty) manufac tured during the relevant period	Quant ity purcha sed during the releva nt period	Quan tity sold durin g the relev ant perio d	Quan tity reject ed durin g the relev ant perio d	Quantita tive adjustm ents, if any * (add reasons)	Closi ng stock at the end of the relev ant perio d	Open ing Work -in- Progr ess	Closi ng Work -in- Progr ess

***(ii)(b) Quantitative adjustments –**

S. No.	Finished products / Work-in-Progress	If there are quantitative adjustments in (ii)(a), furnish the detailed reasons for quantitative adjustments

Notes:

1. Add number of rows depending on the number of items
2. Separate quantitative details on the above lines should be given in respect of by-products, if any.
3. Where the assessee is trading in goods, quantitative details on the above lines should be given in respect of the goods traded in.
4. Inventory of all such manufactured goods / traded goods / work-in-progress items that constitute top 80% of the value of total manufactured goods / traded goods / work-in-progress items respectively should be reported item-wise separately. Inventory of all other manufactured



goods / traded goods / work-in-progress items constituting balance may be clubbed under "Others"

- 5.3.2 PCMA to report the quantitative details of manufactured or produced or traded items should cross check the production register, sales register, w.i.p. register purchase register maintained by the assessee with the relevant documents like in case of trading, purchase bills, GSTR 2A, in case of manufacturing, production schedule, input- output register or ledger. For w.i.p manufacturing cycle and input-output at each stage of manufacturing process should be considered and take input at last stage just before the final stage wherein finished goods come out as w.i.p.
- 5.3.3 Quantitative adjustments: PCMA is required to give elaborate reason for quantitative adjustments done, if any. Quantitative adjustments may be required due to theft, pilferage, loss on storage, evaporation, internal consumption, stock transfer etc.,. There may be two situations either the assessee itself has made a quantitative adjustment or during the valuation process the PCMA considers it is necessary to make adjustments, which the assessee might not have made himself, in both the cases the PCMA should justify the quantitative adjustments with proper reasoning and justification. Also the PCMA should have sufficient and appropriate & convincing audit evidence available.

10	(i) Has the assessee conducted physical verification of raw materials, stores and finished products, etc. or traded goods mentioned above?	
	(ii) Details of discrepancies, if any	

- 5.3.4 PCMA is required to collect physical verification report of inventory from the assessee for the previous year for which valuation is required and earlier two immediate previous years, if carried out by the assessee either himself or got done from any third agencies may be a Cost or Chartered Accountant. Based on the valuation report, PCMA should check whether the adjustments have been made for any discrepancies, if any, by the assessee or not. In case no adjustments were made then the PCMA should make necessary adjustments for valuation, as he thinks are relevant and necessary in the case.

11	(i) Whether valuation is in conformity with the Income Computation and Disclosure Standards (ICDS) notified under sub-section (2) of section 145 of the Income-tax Act, 1961?	
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(ii) Details of discrepancies, if any

5.3.5 PCMA should thoroughly check the inventory valuation done by the assessee and cross checks the valuation method adopted by the assessee with regard to the relevant provisions of ICDS. If there is any deviation, it should be reported by the PCMA in the valuation report Form 6D.

For example as per ICDS-II inventory valuation shall be done either by FIFO or Weighted average method. But PCMA found that LIFO method has been followed by the assessee, this aspect should be reported by him with impact on inventory valuation.

12. Details of inventory valuation for the relevant period under reporting by the Cost Accountant (wherever ICDS II is applicable) –

(i)(a) Valuation of Finished Goods

Sl.	Description	Item Code	UOM	Opening Stock					Closing Stock				
				Qty	COP/ PV (Rs.)	NRV (Rs.)	Lower of (6) or (7)	Value (5) x (8) (Rs.)	Qty	COP/ PV (Rs.)	NRV (Rs.)	Lower of (11) or (12)	Value (10) x (13) (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Product 1												
2	Product 1												
	Total												

(i)(b) Valuation of Stock-in-trade

Sl.	Description	Item Code	UOM	Opening Stock					Closing Stock				
				Qty	COP/ PV (Rs.)	NRV (Rs.)	Lower of (6) or (7)	Value (5) x (8) (Rs.)	Qty	COP/ PV (Rs.)	NRV (Rs.)	Lower of (11) or (12)	Value (10) x (13) (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Product 1												
2	Product 1												
	Total												

COP: Cost of Production

PV: Purchase Value

NRV: Net Realisable Value

Notes: Add or delete rows as per the number of finished products



- 5.3.6 PCMA is required to compute the cost of production of finished goods manufactured or produced as per ICDS- II by using other relevant costing techniques and method which are in conformity with the ICDS-II such as CCRA Rule 2014, CAS and GACAP.
- 5.3.7 In case of a trading firm, cost of purchase is required to be determined in accordance with the provisions ICDS-II.
- 5.3.8 It is possible that the assessee may have both manufactured & produced goods as well as trading goods. In such a case the PCMA should separately show each of the case accordingly.
- 5.3.9 NRV should be determine as per ICDS-II and relevant assumptions made by PCMA should be described as footnotes in respect of estimated sales price and estimated adjustments of completion cost to sales.

(ii) Valuation of Work-in-Progress (WIP)

Sl.	Description	Item Code	UOM	Opening Stock					Closing Stock				
				Qty	COP/ (Rs.)	NRV (Rs.)	Lower of (6) or (7)	Value (5) x (8) (Rs.)	Qty	COP/ (Rs.)	NRV (Rs.)	Lower of (11) or (12)	Value (10) x (13) (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	WIP 1												
2	WIP 2												
	Total												

COP: Cost of Production

Notes:

1. Add or delete rows as per the number
2. NRV here means NRV of relevant finished product less estimated completion cost.

- 5.3.10 WIP quantities may pass several production or manufacture stages. Cost accumulated up to final stage just before the output stage of finished goods should be taken as cost of production of WIP.
- 5.3.11 NRV for WIP shall be NRV of finished goods after the adjustment of estimated cost of completion of sale of finished goods.

(iii) Valuation of Raw Materials

Sl	Descripti on	Ite m	U O	Opening Stock					Closing Stock				
----	-----------------	----------	--------	---------------	--	--	--	--	---------------	--	--	--	--



		Cod e	M										
				Qty	Purcha se cost (Rs.)	Replac ement rate (Rs.)	Lower of (6) or (7)	Value (5) x (8) (Rs.)	Qty	Purcha se cost (Rs.)	Replac ement rate (Rs.)	Lower of (11) or (12)	Value (10) x (13) (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	RM 1												
2	RM 2												
	Total												

Note: Add or delete rows as per the number of Raw Material items

5.3.12 Purchase cost of raw materials shall be determined as per ICDS-II and relevant cost techniques should be applied in conformity with the ICDS-II

5.3.13 Replacement rate is not defined in Income tax Ac. In general it means the rate at which the existing materials may be replaced with the new materials.

(iv) Valuation of By-Products

Sl.	Description	Item Code	UOM	Opening Stock			Closing Stock		
				Quantity	NRV (Rs.)	Value (5)x(6) (Rs.)	Quantity	NRV (Rs.)	Value (8)x(9) (Rs.)
1	2	3	4	5	6	7	8	9	10
1	By-Product 1								
2	By-Product 2								
	Total								

NRV: Net Realisable Value

Note: Add/Delete Rows as per the number of By-Products.

5.3.14 By-product is a secondary product produced from the same raw material and same process operations. By-products are generally produced in process industries. By-products may have some economic value and it may also have demand in the market.

5.3.15 Market price at which by-products may be sold shall be the NRV of by-products. For example in Steel industry slag, naptha, sulphur, ammonia, in soap industry glycerine, molasses in



sugar industry etc.; have market and PCMA should determine the appropriate price of by-products.

(v) Valuation of Intermediate Products (IMP)

Sr.	Description	Item Code	UOM	Opening Stock					Closing Stock				
				Qty	COP (Rs.)	NRV (Rs.)	Lower of (6) or (7) (Rs.)	Value (5) x (8) (Rs.)	Qty	COP (Rs.)	NRV (Rs.)	Lower of (11) Or (12) (Rs.)	Value (10) x (13) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	IMP1												
2	IMP2												
3	IMP3												
												
	Total												

Note:

1. Add/Delete Rows as per the number of Intermediate Products
2. Intermediate products include only such products which are at intermediate stage and not include elsewhere.

5.3.16 Intermediate product is a semi-finished product, produced by the manufacturing company to captively use it for manufacturing of other finished goods or alternatively, sell it to the other manufacturing companies to either produce other intermediate goods or use in manufacturing of finished goods by them.

Intermediate product could be a saleable product in demand in the market and an input material for other industries. For example wheat produced by the farmer used as intermediate products by the miller for making wheat flour, further wheat flour used by bread making industry for making bread, In Urea manufacturing, Ammonia is to be first produced as an intermediate product, Ammonia, as such, can also be sold to other industries for making Urea or other final products.

5.3.17 PCMA is required to find out cost of production and NRV. PCMA should determine the cost of production as per ICDS-II and apply CCRA Rule, 2014, CAS and GACAP as applicable or relevant so long as these are in uniformity with ICDS-II.



5.3.18 NRV of intermediate product is generally depending upon its captive use as input for manufacturing of other goods. PCMA should consider degree or intensity of its demand in industries as an important factor in estimating its sale price. In most of the cases intermediate products has fixed market and are in continuous demand and supply, the prevailing market price should be considered as NRV subject to adjustment of incidental expenses for making sale.

(vi) Valuation of Others

Description	Opening Value(Rs.)	Closing Value(Rs.)
Jigs, Tools, and Dies		
Stores, Spares and Consumables		
Scrap		
Others		
Total		

5.3.19 Generally stores items, jigs, tools and dies are purchased by the assessee. Purchase cost and other incidental expenses of purchase should be included to the cost of stores items and others. In case where the assessee itself manufactured some items then cost of production may be taken as cost of purchase.

(vii) Summary of Inventory Valuation as on _____

Sl.	Particulars	Value as per Form No. 3CD(Rs.) (If Form No. 3CD not furnished, then value as per audited accounts)		Value as per Cost Accountant (Rs.)		Variation if any(Rs.)	
		Opening	Closing	Opening	Closing	Opening	Closing
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						(5) - (3)	(6) - (4)
1	Finished Goods						
2	Stock-in-Trade						



3	Work-in-Progress						
4	Raw Material						
5	By-Products						
6	Intermediate products						
7	Jigs, Tools and Dies						
8	Stores, Spares and Consumables						
9	Scrap						
10	Others						
11	Total						
12	Impact on Profit or Loss						
13	Impact on Income Tax						

5.3.20 While filling the Form 3CD in para number 40, value of total inventory is to be filled because there is no option to add row to show value of inventory category wise. Therefore, the PCMA should refer the audited balance sheet of the assessee and cross check it with the total quantity and value as shown in the Form 3CD and put value category wise of inventory in the above table. PCMA should also mention this aspect in his report as a foot note.

5.3.21 In case of variation with the Form 3CD PCMA should prescribe the relevant justification in sufficient details, as the reason for the variance.

(viii) Details of inventory valuation carried out by the Cost Accountant

	Inventory Items	Method of valuation used by the Cost Accountant		In case of variation in the method adopted by the assessee, state reasons for variations in quantity, rates and value along with method adopted by the Cost Accountant for various items of inventory giving full justification.
		Opening stock	Closing stock	



a.	Finished Goods(manufactured)			
b.	Stock-in-trade			
c.	Work-in-progress(WIP)			
d.	Raw materials			
e.	By-products			
f.	Intermediate Products			
g.	Jigs, Tools and Dies			
h.	Stores, Spares and Consumables			
i.	Scrap			
j.	Any other item			

5.3.22 PCMA should give a separate note with full justification based on which method and cost techniques he has derived the value of opening and closing inventory and whether it is the same as adopted by the assessee or is there any difference.

(ix) Any other relevant comment, observation or qualification of the Cost Accountant

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Notes:

- 1. The item level details shall be maintained by the Assessee and the Cost Accountant and produced if required by the Assessing Officer.*
- 2. Income Computation and Disclosure Standard-II 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 Income Computation and Disclosure Standard on construction contracts;*
 - (b) Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;*
 - (c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;*
 - (d) Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value;*



5.3.23 PCMA should report under this para his observation, findings and qualification if any with proper justification, evidence.

13. Details of inventory valuation for the relevant period under reporting by the Cost Accountant (wherever ICDS II is not applicable) –

A. Inventory valuation for Assessee engaged in the Construction Contracts which are dealt with by the ICDS III

(i) Valuation of Completed Units Ready for Sale

Sl.	Description	Type of Completed units	Subtype if any	Closing Stock				Opening Stock			
				Qty	Cost of the unit for each type (Rs.)	NRV (Rs.)	Value [(5)X lesser of ((6) or (7))] (Rs.)	Qty	Cost of the unit for each type (Rs.)	NRV (Rs.)	Value [(9) X lesser of ((10) Or (11))] (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Project1										
2	Project2										
3	Project3										
										
	Total										

Notes:

1. Type means BHK size/ Affordable/ Premium/ Commercial etc. which is identifiable as different sale unit
2. Completed Units mean Plots/ Flats/ commercial units/ Villas/ Floors which are ready for sale and have been included in inventory as such
3. The valuation of Land (Shown separately in Inventory Valuation in financials) and Development Rights can be shown here, if required.

5.3.24 Builder or Construction Company showing cost of completed build unit which is ready to sell or give possession to the purchaser who has booked under inventory in the balance sheet. In case of residential unit it may be furnished or unfurnished. The construction company may take out the construction its self for sale latter on or may construct after getting contract order. PCMA should go through the contract order and agreement.



- 5.3.25** PCMA should take completion certificate issued by the architect or site engineer or the competent authority to ensure the completion of unit as per design, build area etc.; and derived cost considering the design, built area, furnished materials.
- 5.3.26** PCMA should thoroughly check the contract account of each project or build unit and supporting bills and documents.
- 5.3.27** PCMA should take valuation certificate of land, registration papers of land and other relevant documents to find out the proportionate value of land attached included with flats, floor etc.,.
- 5.3.28** For NRV of the completed unit PCMA should consider the selling price of comparable built units offered by the other builder(s) or construction companies in the same market, or price fixed by the government agency like municipal valuation etc., in order to fetch the reasonable or comparable selling price;

(ii) Valuation of Construction Work-in-progress

Sl.	Description	Closing Stock				Opening Stock			
		%age Completion	Total to-date construction cost (Rs.)	Cost as per recognised revenue (Rs.)	Value of Work-in-progress [(4)-(5)] (Rs.)	%age Completion	Total to-date construction cost (Rs.)	Cost as per recognised revenue (Rs.)	Value of Work-in-progress [(8)-(9)] (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1	Project1								
2	Project2								
3	Project3								
								
	Total								

Note: Add number of rows depending on the number of Projects

- 5.3.29** PCMA should refer the completion certificate issued by the surveyor, architect or other competent authority.
- 5.3.30** PCMA should determine the progressive cost up to the total percentage of completion as per the work completion certificate issued by the surveyor, architect or any other competent authority, as on the date of valuation.
- 5.3.31** PCMA should determine the cost as per recognized revenue method for the work completed



upto the date of valuation. For example as on 31.03.2022 total 75% of work is completed and certified and total cost is Rs. 10 lakhs and the contractor received 80% of work certified as per contract agreement i.e. Rs. 8 lakhs then W.I.P shall be Rs. 2 lakhs at the end of the previous year. Similarly the work completed as on 01.04.2021 was 40% and total cost up to that was Rs. 5 lakhs and revenue received was Rs. 4 lakhs then W.I.P as on 01.04.2021 shall be Rs. 1 lakhs.

(iii) Valuation of construction materials

Sl.	Description	Item Code	UOM	Opening Stock					Closing Stock				
				Qty	Purchase cost (Rs.)	Replacement rate (Rs.)	Lower of (6) or (7) (Rs.)	Value (5) x (8) (Rs.)	Qty	Purchase cost (Rs.)	Replacement rate (Rs.)	Lower of (11) or (12) (Rs.)	Value (10) x (13) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	Material1												
2	Material2												
3	Material3												
												
	Total												

Note: Add number of rows depending on the number of Construction Materials

5.3.32 Purchase cost of materials should be derived as per the provisions of ICDS and relevant cost method, CAS, CCRA Rules, 2014 and GACAP in uniformity to the ICDS.

5.3.33 Replacement rate is not defined in Income Tax Act, 1961. In general it means the rate at which the existing materials may be replaced with the new materials.

(iv) Valuation of construction fittings, supporting equipment and others

Sl.	Description	Item Code	UOM	Opening Stock					Closing Stock				
				Qty	Purchase cost (Rs.)	Replacement rate (Rs.)	Lower of (6) Or (7) (Rs.)	Value (5) x (8) (Rs.)	Qty	Purchase cost (Rs.)	Replacement rate (Rs.)	Lower of (11) Or (12) (Rs.)	Value (10) x (13) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	Item1												



2	Item2												
3	Item3												
												
	Total												

Note: Add number of rows depending on the number of Items

(v) Summary of Inventory Valuation for Construction Contracts as on

Sl.	Particulars	Value as per Form No.3CD (If Form No.3CD not furnished, then value as per audited accounts) (Rs.)		Value as per Cost Accountant (Rs.)		Variation if any (Rs.)	
		Opening	Closing	Opening	Closing	Opening	Closing
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						(5)-(3)	(6)-(4)
1	Completed units ready for sale						
2	Construction Work-in-progress						
3	Construction Materials						
4	Construction Fittings, supporting equipment and Others						
	Total						
	Impact on Profit or Loss						
	Impact on Income Tax						

Note: Specify the amount by which profit or loss would be affected by the changed valuation.

5.3.34 While filling the Form 3CD in para number 40 value of total inventory is to be fill because there is no option to add row to show value of inventory category wise. Therefore PCMA should refer the audited balance sheet and cross check with the total quantity and value as shown in Form 3CD and put value category wise of inventory in the above table. PCMA also should mention this aspect in his report as footnote.

5.3.35 In case of variation with the Form 3CD PCMA should prescribe the justification in details the reason for variance.

(vi) Details of inventory valuation carried out by the Cost Accountant



	Inventory Items	Method of valuation used by the Cost Accountant		In case of variation in the method adopted by the assessee, state reasons for variations in quantity, rates and value along with method adopted by the Cost Accountant for various items of inventory giving full justification.
		Opening stock	Closing stock	
a.	Completed units ready for sale			
b.	Construction Work-in-progress			
c.	Construction Materials			
d.	Construction Fittings, supporting equipment and Others			

Note: Specify the method used to determine the stage of completion of contracts in progress

5.3.36 The PCMA should give a separate note with full details and justification based on which method and cost techniques he has derived the value of opening and closing inventory and whether it is the same as adopted by the assessee or is there any difference.

(vii) Any other relevant comment, observation or qualification of the Cost Accountant

5.3.37 PCMA should give his observation, comments or qualification if any with proper justification and evidence.

B Inventory valuation for Assessee engaged in the trading of Securities which are dealt with by the ICDSVIII.

(i)(a) Valuation of Listed Shares held as Stock-in-trade

Sr.	Description	Opening Stock					Closing Stock				
		Qty	AC (Rs.)	NRV (Rs.)	Lower of (4) or (5) (Rs.)	Value (3) X (6) (Rs.)	Qty	AC (Rs.)	NRV (Rs.)	Lower of (9) or (10) (Rs.)	Value (8) X (11) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Share1										
2	Share2										
3	Share3										



.....											
Total											

AC: Actual Cost

NRV: Net Realisable Value

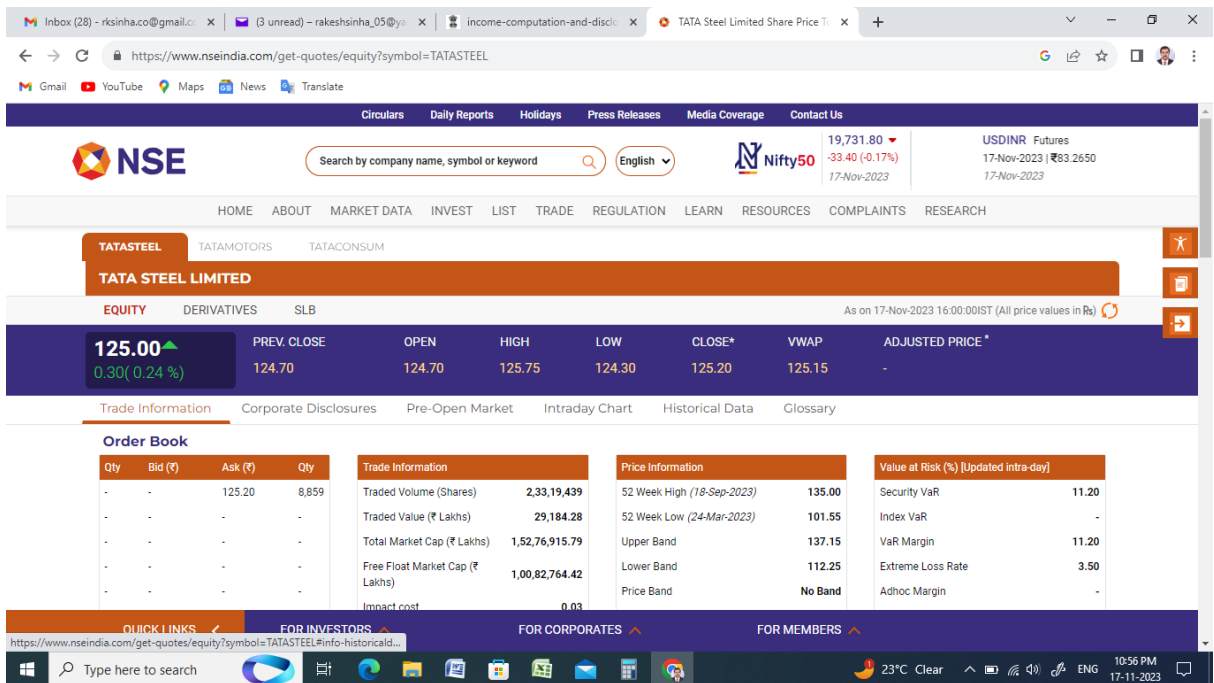
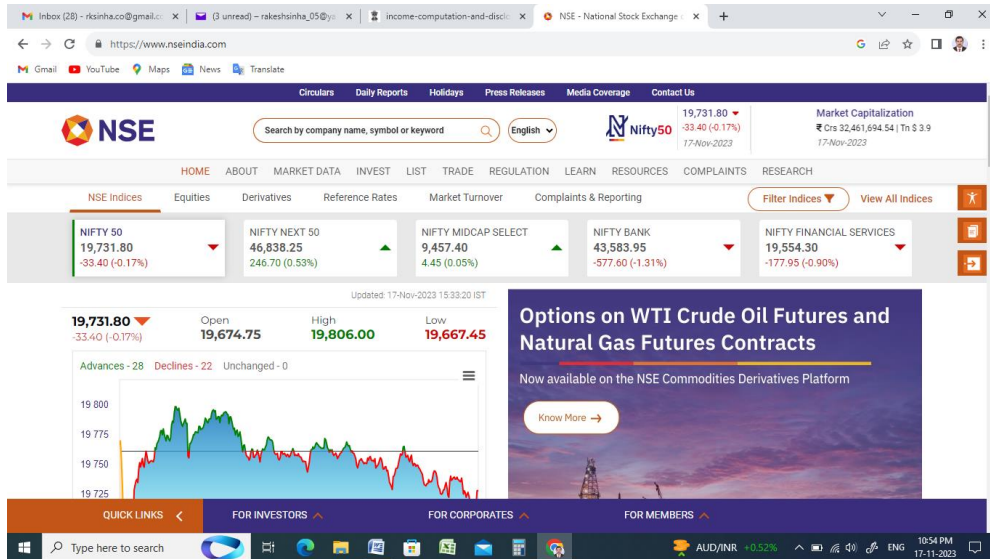
Note: Add number of rows depending on the number of shares

5.3.38 Type of share: Share may be Ordinary equity shares, Voting & nonvoting share, Sweat equity shares, Bonus shares, Right shares, Redeemable or Irredeemable preference shares, Convertible & nonconvertible preference shares, Participating & nonparticipating preference shares, Cumulative & noncumulative preference shares etc., PCMA should report category wise shares.

5.3.39 NRV shall be the market value at the end of the previous year or as on the valuation date. PCMA should determine the NRV after the adjustment of incidental expenses pertaining to the sale of share like brokerage charges, duty, security transaction tax, fees, cess or any other charges. PCMA may find the trading market value of shares at any particular date in NSE and BSE website. For Example the market price of shares of TATA steel as on 31.03.2022 may be find out as per the following path.

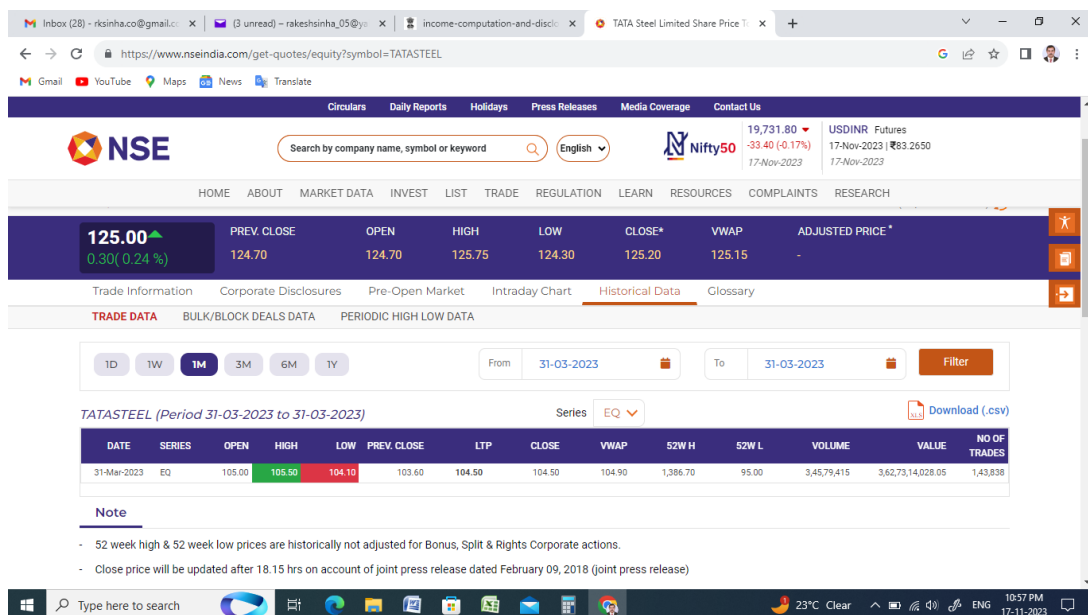
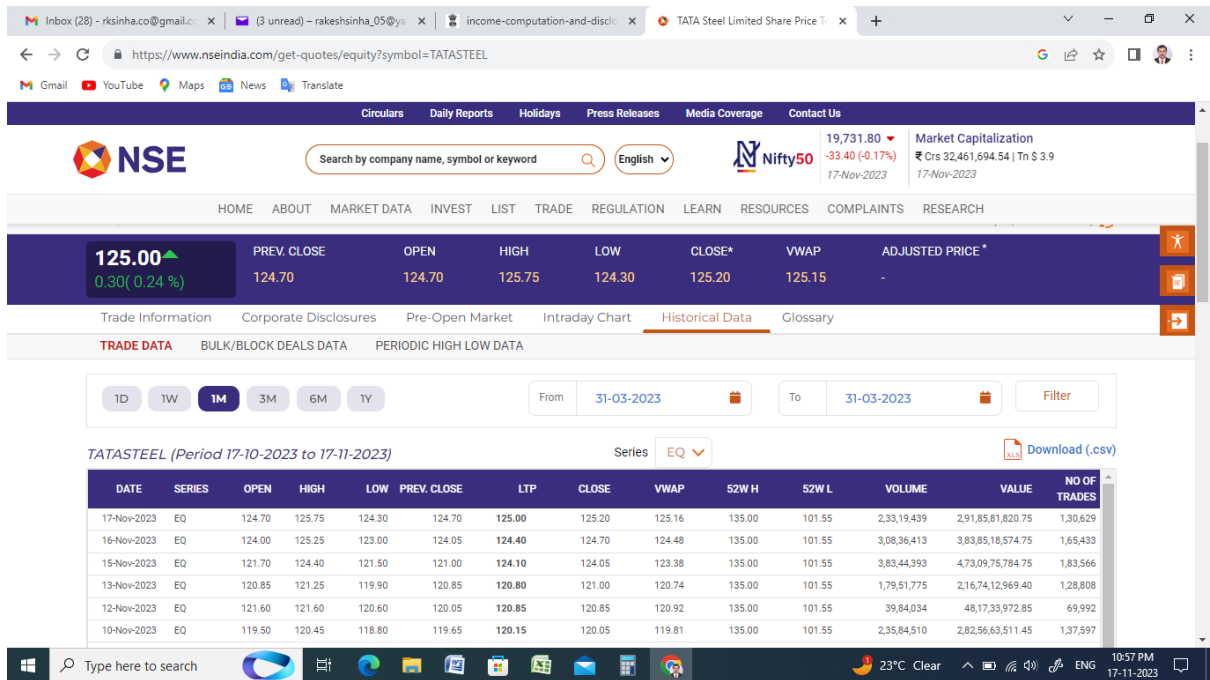
<https://www.nseindia.com>-search by company name, symbol or key word-inter Tata steel-Historical data-range of date i.e. 31.03.2022 to 31.03.2022-Filter. PCMA will find the MV as on 31.03.2022 of shares of Tata Steel Ltd.

<https://www.bseindia.com>- Get Quote- Inter name of company (Tata steel Ltd.)- 1D/5D/ inter date range-submit- put curser on highlighted point in graph- note down MV

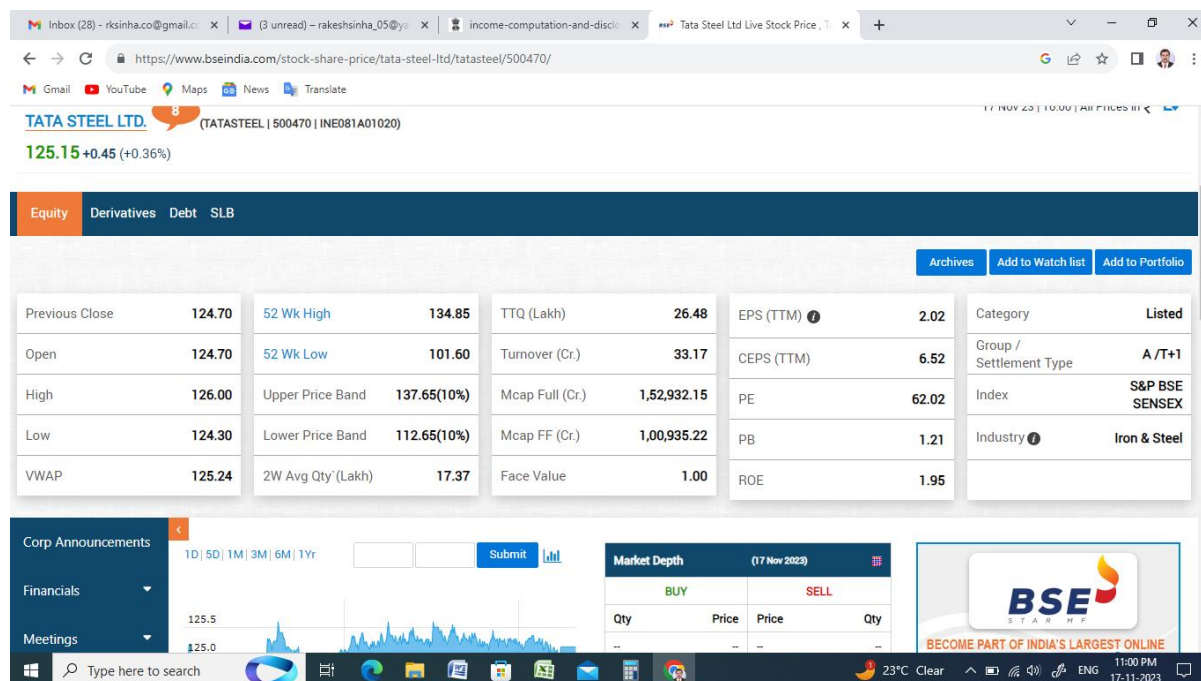
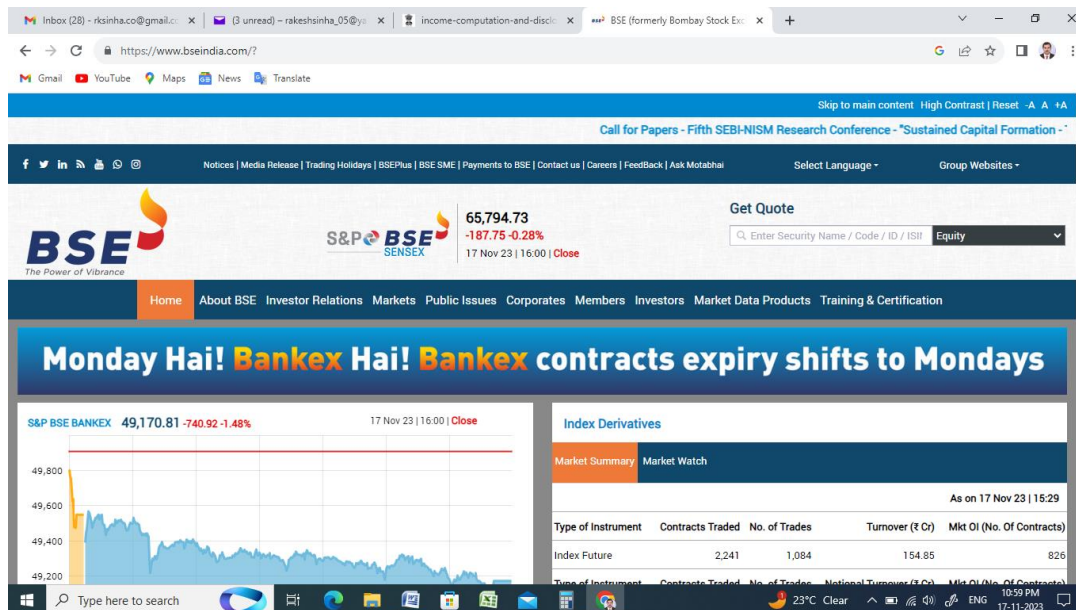




Cost Accounting Standards Board

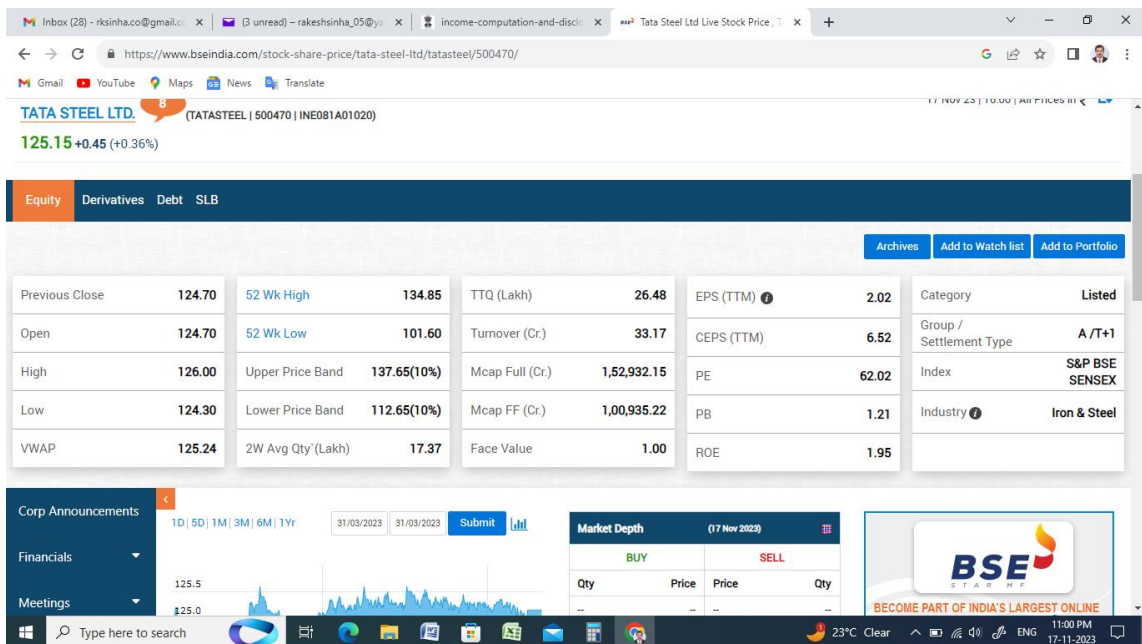
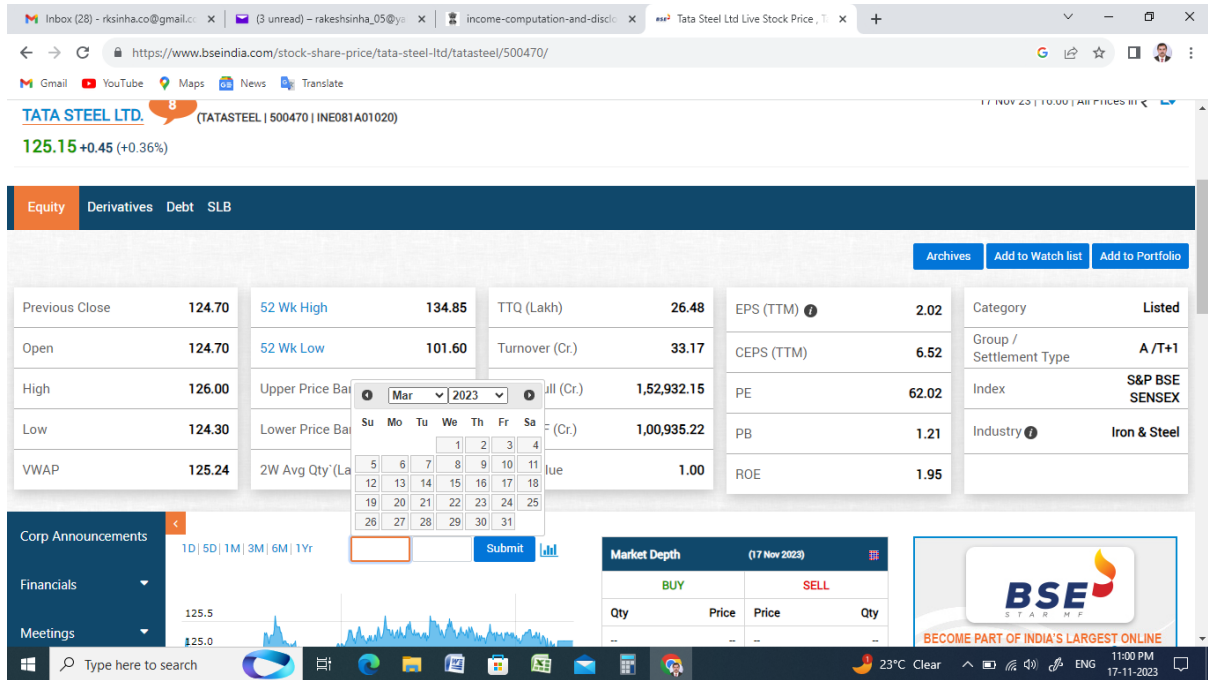


Market Value of one equity share of Tata Steel Limited on 31.03.2023 was Rs. 104.50 in listed NSE.



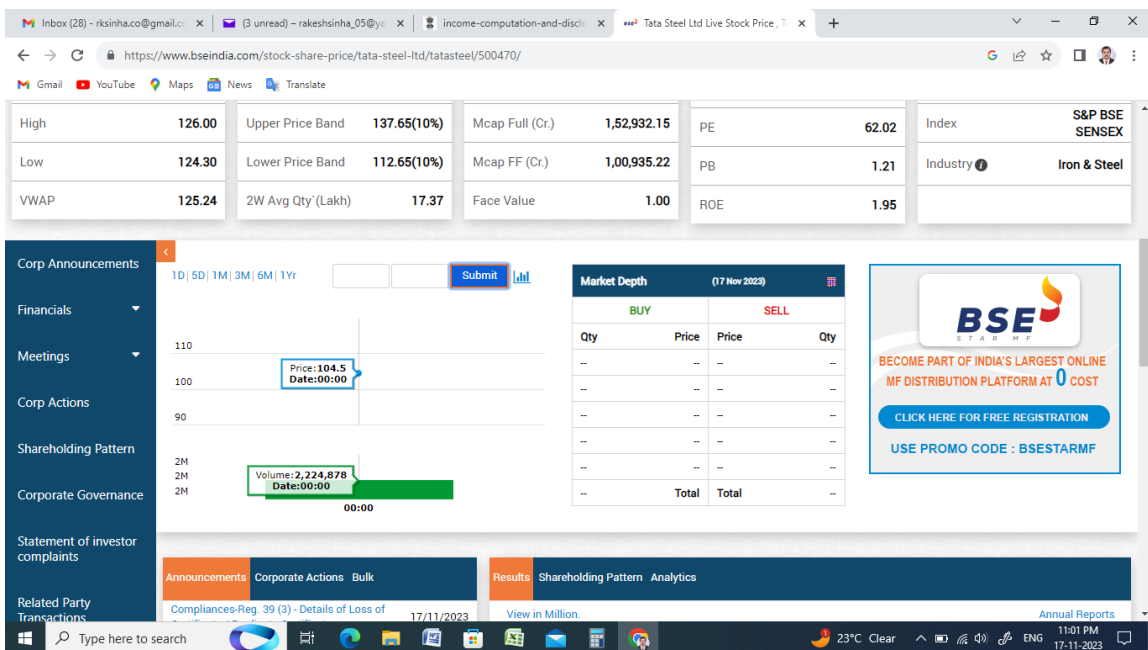
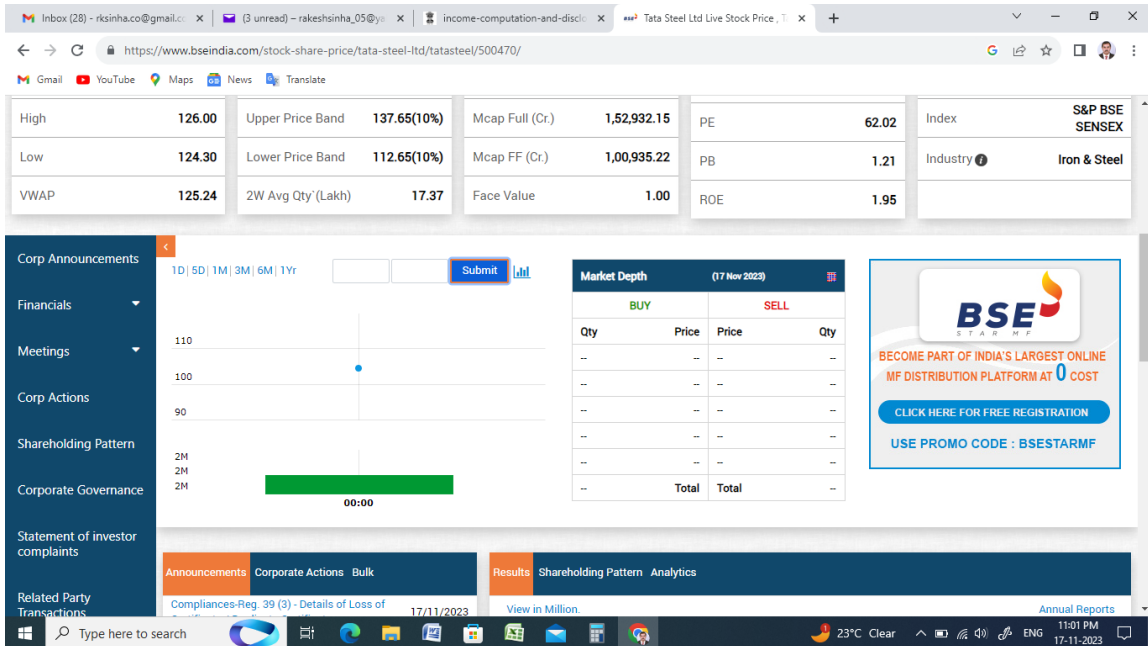


Cost Accounting Standards Board





Cost Accounting Standards Board



MV of one share of Tata Steel Ltd. As on 31.03.2023 was Rs. 104.50 in BSE.



PCMA should deduct brokerage charges, security transaction tax, fee, cess etc.; from the MV to derive NRV. STT @ 0.1%- Rs. 0.01, Brokerage Rs. 20 or 2.5% whichever is lower- Rs. 2.61, GST on brokerage Rs. 0.47, other charges like stock exchange charges, SEBI charges, Equity inter day charges etc.; Rs.0.5. Total Rs.3.59. NRV per share Rs. 104.50-3.59= Rs. Rs. 100.91

- 5.3.40 Actual cost of acquisition should be derived as per ICDS-VIII i.e. purchase price of share inclusive of incidental charges such as brokerage charges, fees, tax, duty or cess etc.; where a security is acquired in exchange for other securities, the fair value of the security so acquired shall be its actual cost. Where a security is acquired in exchange for another asset, the fair value of the security so acquired shall be its actual cost.

(i) (b) Valuation of Unlisted Shares held as Stock-in-trade

Sr.	Description	Opening Stock					Closing Stock				
		Qty	AC (Rs)	NRV (Rs)	Lower of (4) or (5) (Rs)	Value (3)X (6) (Rs.)	Qty	AC (Rs)	NRV (Rs)	Lower of (10) or (11) (Rs)	Value (8)X (11) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Share 1										
2	Share 2										
3	Share 3										
	Total										

AC: Actual Cost

NRV: Net Realisable Value

Note: Add number of rows depending on the number of shares

- 5.3.41 Actual cost of share not listed in stock exchange shall be initially recognized and find out on the basis of FIFO or Weighted average method cost formula.

(ii) Valuation of Debt Securities held as Stock-in-trade

Sl.	Description	Opening	Closing Stock
-----	-------------	---------	---------------



		Stock									
		Qty	AC (Rs.)	NRV (Rs)	Lower of (4) or (5) (Rs.)	Value (3)X(6) (Rs.)	Qty	AC (Rs.)	NRV (Rs.)	Lower of (9) or (10) (Rs.)	Value (8) X (11) (Rs.)
1	2	3	4	5	6	7	8	9	10	11	12
1	DebtSecurity1										
2	DebtSecurity2										
3	DebtSecurity3										
										
	Total										

AC: Actual Cost

NRV: Net Realisable Value

Note: Add number of rows depending on the number of Debt securities

- 5.3.42 A debt security is a debt instrument that can be bought or sold between two parties and has basic terms defined, such as the notional amount (the amount borrowed), interest rate, and maturity and renewal date. Debt security may be kept till the date of maturity or it may be sale in between before the maturity date.

Examples of debt securities are government bond, corporate bond, certificate of deposit (CD), municipal bond, or preferred stock, debenture, commercial papers, bills of exchange. Debt securities can also come in the form of collateralized securities, such as collateralized debt obligations (CDOs), collateralized mortgage obligations (CMOs), mortgage-backed securities (MBSs) issued by the Government National Mortgage Association (GNMA), and zero-coupon securities.

- 5.3.43 PCMA should go through the terms and conditions of purchase and sale of debt security in order to derive actual cost and NRV. In some cases debt security may be purchased with premium, this should be included to the cost of purchase. In some case discount is given on purchase of debt security. This should be deducted from the purchase cost.

(iii) Valuation of Convertible Securities held as Stock-in-trade

Sl	Description	Opening Stock	Closing Stock
----	-------------	---------------	---------------



		Qty	AC (Rs.)	NRV (Rs.)	Lower of (4) or (5) (Rs.)	Value (3) X (6) (Rs.)	Qty	AC (Rs.)	NRV (Rs.)	Lower of (9) or (10) (Rs.)	Value (8)X(11) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	Convertible Security1										
2	Convertible Security2										
3	Convertible Security3										
										
	Total										

AC: Actual Cost

NRV: Net Realisable Value

Note: Add number of rows depending on the number of Convertible Securities

5.3.44 Convertible security is a security that can be converted into a different security generally to shares of the company's common stock. It is a financial instrument that can be change from one form to another form. It can be converted to the equity shares at the time of maturity. The holder of debt security has the option to convert it or not at the time of maturity. Convertible security pays less interest in compare to non-convertible security.

5.3.45 Types: It may be Convertible bonds, Convertible preference shares etc.;

5.3.46 PCMA should go through the debt issue documents to derive actual cost and NRV.

(iv) Valuation of Any other security held as Stock-in-trade

Sl.	Description	Opening Stock					Closing Stock				
		Qty	AC (Rs.)	NRV (Rs.)	Lower of (4) or (5) (Rs.)	Value (3) X (6) (Rs.)	Qty	AC (Rs.)	NRV (Rs.)	Lower of (9)or(10) (Rs.)	Value (8)X(11) (Rs.)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1	AnyotherSecurity1										
2	AnyotherSecurity2										
3	AnyotherSecurity3										
										
	Total										



AC: Actual Cost

NRV: Net Realisable Value

Note: Add number of rows depending on the number of Convertible Securities

(v) Summary of Inventory Valuation for Shares, Debentures and other Financial Instruments held as stock-in-trade as on_____

Sl.	Category	Value as per Form No. 3CD (If Form No. 3CD not furnished, then value as per audited accounts) (Rs.)		Value as per Cost Accountant (Rs.)		Variation if any (Rs.)	
		Opening	Closing	Opening	Closing	Opening	Closing
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						(5) – (3)	(6) – (4)
1	Listed Shares						
2	Unlisted Shares						
3	Debt Securities						
4	Convertible Securities						
5	Any other Security						
	Total						
	Impact on Profit or Loss						
	Impact on Income Tax						

Note: Specify the amount by which profit or loss would be affected by the changed valuation.

(vi) Details of inventory valuation carried out by the Cost Accountant

Sl.	Inventory Items	Method of valuation used by the Cost Accountant		In case of variation in the method adopted by the assessee, state reasons for variations in quantity, rates and value along with method adopted by the Cost Accountant for various items of inventory giving full justification.
		Opening stock	Closing stock	
a.	Listed Shares			
b.	Unlisted Shares			
c.	Debt Securities			



d.	Convertible Securities			
e.	Any other Security			

Note: Specify the method used to determine the Actual Cost and Net Realisable Value for each category of financial instruments.

(vii) Any other relevant comment, observation or qualification of the Cost Accountant

Note: 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.

C. Inventory valuation of livestock, agriculture and forest products, mineral oils, ores and gases, except those held by the trader of such inventories

(i) Valuation of Inventory of Livestock

Sl.	Description	UOM	Closing Stock			Opening Stock		
			Quantity	NRV (Rs.)	Value (Rs.) (4)X(5)	Quantity	NRV (Rs.)	Value (Rs.) (7)X(8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Livestock1							
2	Livestock2							
3	Livestock3							
							
	Total							

NRV: Net Realisable Value

Note: Add number of rows depending on the number of Livestock

(ii) Valuation of Inventory of Agriculture and Forest Produce

Sl.	Description	UOM	Closing Stock			Opening Stock		
			Quantity	NRV (Rs.)	Value (Rs.) (4)X(5)	Quantity	NRV (Rs.)	Value (Rs.) (7)X(8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Produce1							



2	Produce2							
3	Produce3							

	Total							

NRV: Net Realisable Value

Note: Add number of rows depending on the number of produce

(iii) Valuation of Inventory of Mineral Oils, Ores and Gases

Sl.	Description	UOM	Closing Stock			Opening Stock		
			Quantity	NRV (Rs.)	Value (Rs.) (4)X(5)	Quantity	NRV (Rs.)	Value (Rs.) (7)X(8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Product1							
2	Product2							
3	Product3							

	Total							

NRV: Net Realisable Value

Note: Add number of rows depending on the number of Products

iv. Summary of Comparison as on _____

Sr.	Category (Drop down to be provided)	Value as per Form 3CD (If Form 3CD not furnished, then value as per audited accounts) (Rs)		Value as per Cost Accountant (Rs)		Variation if any (Rs)	
		Opening	Closing	Opening	Closing	Opening	Closing
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						(5) - (3)	(6) - (4)
1	Livestock						
2	Agriculture & Forest Produce						
3	Mineral oils, Ores and Gases						
	Total						
	Impact on Profit or Loss						
	Impact on Income Tax						



Note: Specify the amount by which profit or loss would be affected by the changed valuation.

(v) Details of inventory valuation carried out by the Cost Accountant

Sl.	Inventory Items	Method of valuation used by the Cost Accountant		In case of variation in the method adopted by the assessee, state reasons for variations in quantity, rates and value along with method adopted by the Cost Accountant for Various items of inventory giving full justification.
		Opening stock	Closing stock	
a.	Livestock			
b.	Agriculture and Forest Produce			
c.	Mineral oils, Ores and Gases			

(vi) Any other relevant comment, observation or qualification of the Cost Accountant

5.3.47 In case of Live stocks, Agricultural and forest produce, Mineral oils, ores and Gases inventory valuation is require to be done based on NRV only. In these cases the basic formula lower of cost or NRV is not prescribed under IT Act, 1961. So PCMA should derive NRV at the end of previous year. In determining the NRV, PCMA should carefully find out the estimated open market price and give adjustment of estimated incidental cost to give effect of sale. PCMA should go through the selling agreement with another company. As per the government guidelines there may a linkage sale to another company. For example CIL has to supply coal to the power company on preferential basis or linkage agreement like NTPC, DVC.

5.3.48 Although inventory valuation in the case of Agricultural and forest produce, Mineral oils, ores and Gases is require to be carried out on NRV basis, PCMA may also derive the cost of production and derive the inventory valuation based on the method cost or NRV whichever is lower and prepare a separate comparable statement impact of this on the revenue to the Income tax department based on NRV only as prescribed and based on the lower of cost of production or NRV.



Chapter 6: Checklist and Requirement from the Assessee

- 6.1. PCMA may get an appointment letter from the Assessing officer for valuation of inventory of any person. The letter shall contain the details about the assessee and the year for which inventory valuation has to be done. Apart from assessee's basic information like name, address, PAN, A.Y etc.; other requirement may also be contained in the letter like information about some queries, period of time upto which valuation report is required to be submitted.
- 6.2. PCMA should go through the appointment letter and terms & conditions therein very carefully. After getting the appointment letter, PCMA should gather the information about the assessee such as nature of the business activities of the assessee, its business size, turnover, existence of the business of the assessee, type of inventories etc.;. Based on the information, assess the time to complete the assignment. If he feels time prescribed in the AO's letter is not sufficient based on the nature and size of the business of the assessee, he may submit an application before the AO with sufficient reason to increase the time period to submit the inventory valuation by him.
- 6.3. At first PCMA should make inventory valuation schedule and plan. Make a competent team consisting of senior partner, qualified CMA, semi- qualified Cost Accountant and other associates based on the size and complexity of nature of business of the assessee.
- 6.4. Visit the business site, plant, mines, stores, site stores, yards, warehouse of the assessee and understand the business nature and activities, manufacturing process, construction etc.,.
- 6.5. PCMA should make a checklist, questionnaire relevant to the inventory valuation and get answer from the assessee. The prospective questionnaire and checklist may be;
 - 6.5.1 What is nature of business activities whether manufacturing, producing, construction, mining, trader, service etc.; about head office and branches, if any and principal products and services;
 - 6.5.2 Books of accounts in respect to inventory maintained by the assessee;
 - 6.5.3 Method of inventory valuation followed by the assessee. Is there any change in valuation method during the period covered and its impact on profit or loss;
 - 6.5.4 Whether assessee has regularly followed ICDS as prescribed under section 145 of IT Act, 1961;
 - 6.5.5 Details of raw material used with bifurcation between indigenous and imported materials;



- 6.5.6 List of high value raw materials, hazardous materials;
- 6.5.7 List of high value store items, chemicals etc.;
- 6.5.8 List of tools and tackles, moulds , jigs & fixtures, specially especially designed;
- 6.5.9 Type and list of semi-finished goods, finished goods, joint products, by-products;
- 6.5.10 Manufacturing or production process with detailed flow chart;
- 6.5.11 List and age wise analysis of non-moving store items, obsolete store items;
- 6.5.12 Scraped raw materials, stores & consumables;
- 6.5.13 Whether physical verification has been done or not;
- 6.5.14 Whether store audit has been done or not;
- 6.5.15 Whether store record, production record, is maintained manually or in electronic mode like in ERP/SAP;
- 6.5.16 Was there any labor strike or any other reason (such as due to fire, evaporation, leakage, theft etc.) of loss of materials, store items, finished goods and has received insurance claim;
- 6.5.17 Whether Maintenance of Cost records and Cost audit is applicable or not under section 148 of the Companies Act, 2013, etc.
- 6.6. Collect basic documents and information like
 - 6.6.1 Balance sheet and Profit & Loss account;
 - 6.6.2 Audit report under the Income tax Act and form 3CD, Audit report under any other Act if any such as Financial audit report, Cost audit report;
 - 6.6.3 Copy of PAN card, Incorporation certificate, Registration certificate of assessee;
 - 6.6.3 Physical verification report of raw materials, stores, finished goods, traded goods, by products, Intermediate products etc.; Store audit report, Internal audit report;
 - 6.6.4 Production flow chart;
 - 6.6.5 Store ledger, Bin card, store card, GRN, SRV, weighbridge register;
 - 6.6.6 Purchase bills, Purchase register and purchase return register showing quantitative details;
 - 6.6.7 Sale bills, sales register and sales return register showing quantitative details;
 - 6.6.8 Lab test report of raw materials, finished goods, and semi-finished goods;
 - 6.6.9 GST return, GSTR 2A, Excise return, VAT return;



- 6.6.10 Security trading account and statement, demat account;
- 6.6.11 Contract agreement;
- 6.6.12 Machine log book;
- 6.6.13 Captive or internal consumption;
- 6.6.14 Trade or any other discounts received and provided etc.
- 6.6.15 Cost records;
- 6.6.16 Finished goods production register showing quantitative details;
- 6.6.17 W.I.P register showing quantitative details;
- 6.6.18 Stock in trade register;
- 6.6.19 Dispatch register showing quantitative details;
- 6.6.20 Details of construction site or projects carried out by the construction company;
- 6.6.21 Construction completion certificate of each and every construction projects/sites;
- 6.6.22 In construction company quantitative details of units completed ready to sale or to handover for possession;
- 6.6.23 Details of construction projects are in W.I.P stages and its completion percentage;
- 6.6.24 Construction materials, stores, plant and machinery, equipment, fittings register with quantitative information;
- 6.6.25 Details of manpower such as labor, supervisor, engineer, architecture, etc;
- 6.6.26 Security, debt security purchase documents;
- 6.6.27 Insurance paper covered finished goods, raw materials, stores such as fire insurance, theft insurance, in transit insurance of materials etc.;
- 6.7. Prospective procedure to be adopted and followed by the PCMA.
- 6.7.1 After getting all the relevant information and documents, PCMA should make detailed plan with respect to how to start and decide stages with time schedule. PCMA should maintain separate time sheet for personnel deployed for the inventory valuation;
- 6.7.2 PCMA should apply cost techniques, cost expertise and may refer to Cost accounting standards (CAS), Generally accepted cost accounting principle (GACAP), CRA 1 as prescribed under CCRA Rules, 2014 subject to the provisions of relevant ICDS in respect to inventory valuation.



- 6.7.3 PCMA should maintain professional dignity, diligence and scepticism in order to exercise professional judgment in planning and performing the assignment for inventory valuation.
- 6.7.4 PCMA should collect sufficient information and documents, maintain records and evidence in order to mitigate the inventory valuation risk due to material misstatement and risk assessment.
- 6.7.5 Risk Assessment: PCMA should perform inventory valuation in such a way to obtain an understanding of the entity and its environment, including the entity's internal control, to identify and assess the risks of material misstatement, whether due to fraud or error, at the overall inventory management level and at the assertion level including items of cost, cost heads and disclosure thereof.
- 6.7.6 PCMA should obtain an understanding of internal controls relevant to the inventory.
- 6.7.7 PCMA should perform inventory valuation as independent of the company in accordance with the code of Ethics issued by the Institute of Cost Accountants of India together with the ethical requirements that are relevant to the professional assignment under the provisions of Income tax Act, 1961 and rule made there under and have fulfilled other ethical responsibilities in accordance with these requirements and the Institute of Cost Accountants of India's code of ethics.
- 6.8 PCMA should also apply his expertise as an auditor and perform audit while doing inventory valuation. He may find manipulation in inventory valuation done by the assessee with an intention to effect profit or loss by under or over valuation of inventory. Some practical examples are being shared here which may guide the PCMA to apply audit techniques and approach. PCMA should thoroughly audit all the transactions related to inventory in the month of March of the year of reporting.
- In a mining industry stores items were being purchased centrally and stored in central store. From central store, store items were transferred to the regional store. From regional store, store items issued to the unit store. From unit store items were issued to the site store or charged off store at the various departments like excavation, mining, electrical, safety etc.,. The store item when issued from the unit store it is charged to cost as store consumed. The balance at central store, regional store and unit store at the end of the year was shown as closing inventory in the balance sheet. During the cost audit it



was observed that at the end of the year there was a significant amount of store items lying in the site store as unconsumed. This caused increase in cost of production. On audit objection the value of unconsumed store items lying at the site store or charged off store was removed from the cost and taken it into the profit reconciliation statement of cost audit annexure.

In this practical example the value of the closing stock increased while PCMA was doing inventory valuation and found such manipulation.

- In a company the inventory valuation was done based on the lower of cost or NRV. At the end of the year the company has a significant amount of non-moving items lying in the store for more than 10 years. The company has shown this under inventory at cost. Since it was non-moving for more than 10 year NRV may be less than the cost of purchase or even nil.

In such situation inventory valuation of non-moving items should be nil or below the cost of purchase.

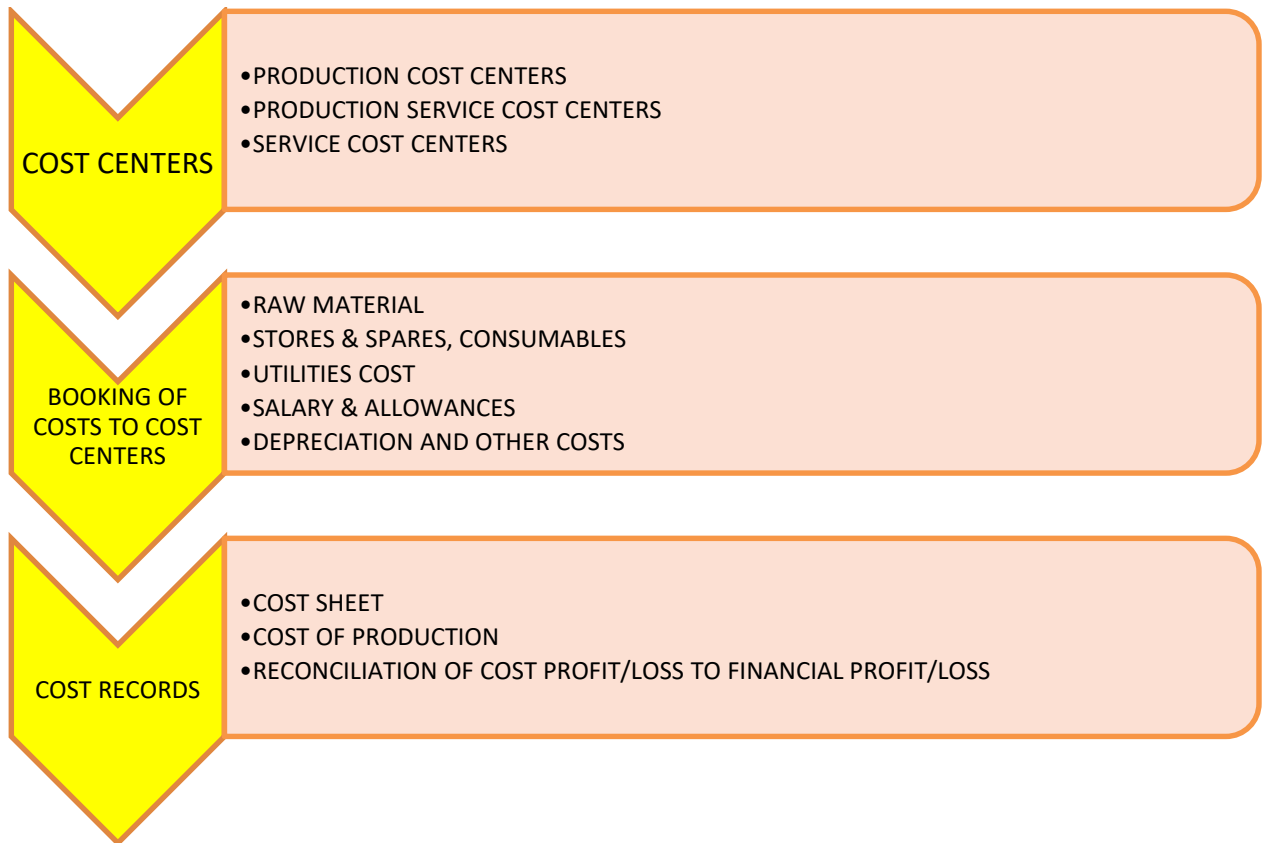
- In a club there was a provision to serve snacks, cigarette, match box, water on demand to the member while selling wine in a bar. The members paid in total for wine and other items. In accounts department this was segregated between sale of wine and sale of other items. During audit it was found that during the previous year the total amount was not segregated between the sale of wine and other items. The whole amount was booked as sale of wine. Consequently, in books of accounts stock of wine was down but physically stock of wine was lying as unsold in proportionate to the sale of other items.

Due to this mistake in balance sheet stock of wine was undervalued.

Practical Example How to derive opening and closing W.I.P in a Refractory Industry

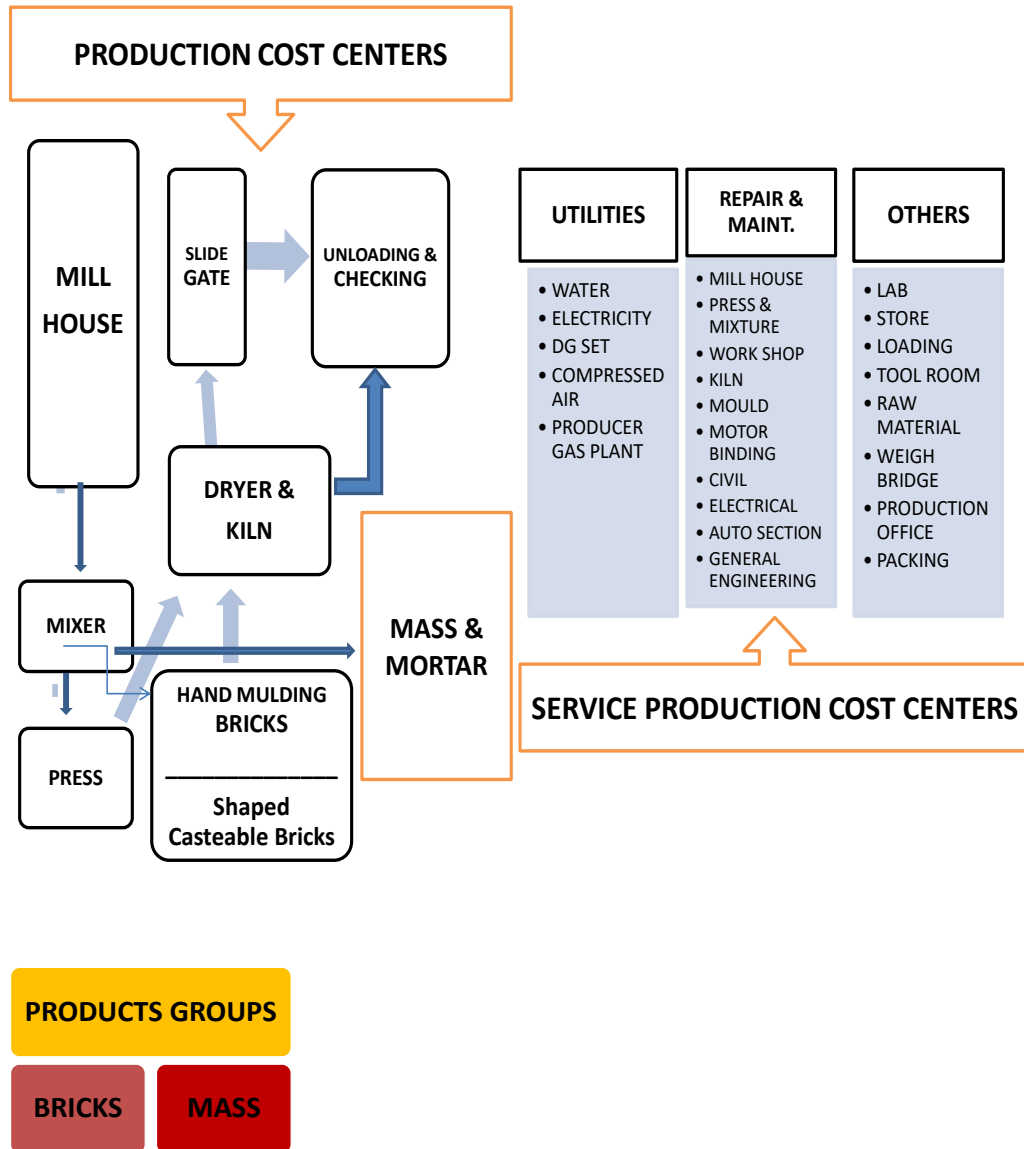
- Step-I Determine Production and Service Cost centre
- Step-II Draw or get a flow chart of production
- Step- III Get quantitative information at each cost centre of input and output of products
- Step-IV Compute cost of production at each production cost centre
- Step-V Get W.I.P value by multiplying quantity and cost of production at each production cost centre.

STEPS



COST CENTERS

- PRODUCTION COST CENTERS
- SERVICE PRODUCTION COST CENTERS
(PROVIDE SERVICES DIRECTLY TO PRODUCTION COST CENTERS)
- SERVICE COST CENTERS
(PROVIDE SERVICES INDIRECTLY TO PRODUCTION COST CENTERS)

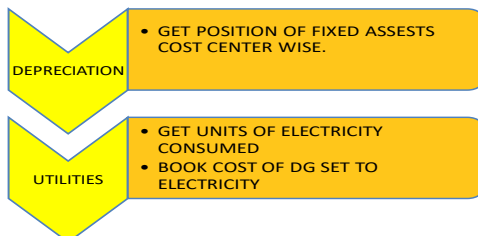




STEPS TO GATHER COST DATA



8



9



Stage of W.I.P

From Press section green bricks come out as semi-finished goods. In next process green bricks passes through the dryer process and after certain hours the dried green bricks push into the Tunnel Kiln where green bricks passes through the high temperature and at the end point of tunnel Finished goods i.e. refractory bricks come out. In this process refractory bricks are in W.I.P in the production floor as green bricks and in Dryer and tunnel kiln.

Closing WIP AS ON 31.03.2023	BRICKS1		BRICKS2		BRICKS3		MASS		TOTAL	
	QTY	COST	QTY	COST	QTY	COST	QTY	COST	QTY	COST
TUNNEL KILN	165.15	925887	36.76	124170	1.28	36374	0.00	-	203.19	1086431
DRYER	164.43		6.93		0.00		0.00		171.36	
STANDING CAR	0.00	-	0.00	-	0.00	-	0.00	-	0.00	-
GREEN BRICK ON FLOOR	71.79	141309	20.40	394424	0.00	-	0.00	-	92.19	535733
TOTAL	401.37	1067196	64.09	518594	1.28	36,374	0.0	-	466.888	1622164
Opening WIP AS ON 01.04.2022	BRICKS1		BRICKS2		BRICK S3	MASS		TOTAL		
	QTY	COST	QTY	COST	QTY	COST	QTY	COST	QTY	COST
TUNNEL KILN	304.92	983574	92.60	266941	0.00	-	0.00	-	397.52	1250515
DRYER	69.93		9.14		0.00		0.00		79.07	
STANDING CAR	0.00	-	0.00	-	0.00	-	0.00	-	0.00	1088267
GREEN BRICK ON FLOOR	44.34	728243	69.50	117643	16.86	242381	0.00	-	130.70	
TOTAL	419.19	1711817	171.24	384584	16.86	242381	0.00	0	607.29	2338782



Chapter 7 Relevant Case Laws

Case laws for Valuation of Inventories

1. **Chainrup Sampatram v. CIT, [1953] 24 ITR 481 (SC):** valuation of unsold stock at the close of an accounting period is a necessary part of the process of determining the trading results of that period, and can in no sense be regarded as the "source" of such profits. Nor can the place where such valuation is made be regarded as the "situs of their accrual". The source of the profits and gains of a business is indubitably the business, and the place of their accrual is where the business is carried on. As such profits can be correctly ascertained according to the method adopted by an assessee only after bringing into the trading account his closing stock wherever it may exist, the whole of the profits must be taken to accrue or arise at the place of carrying on the business.

On the finding of the Income-tax authorities that the 582 bars of silver lying at Bikaner had not been really sold but remained part of the unsold stock of the firm's business at the end of the accounting year, the whole of the profits of that year must be taken to have accrued or arisen at Calcutta where the business was carried on, no part of that business having admittedly been transacted at Bikaner.

2. **Kikabhai Premchand v. CIT, [1953] 24 ITR 506 (SC):** Even if the partition be not treated as a sale it was a transfer of property, the property of the firm being transferred to the individual partners thereof and each partner obtaining an absolute interest in the shares thus transferred to him by the firm to the exclusion of the other partners therein. **So far as the firm was concerned it was certainly a transfer of the property to the individual partners and even as regards the partners themselves it was a transfer of the interest of the partners inter se in the shares respectively transferred absolutely to each of them.**
3. **ALA Firm v. CIT, [1991] 189 ITR 285 (SC):** There can be no manner of doubt that, in taking accounts for purposes of dissolution, the firm and the partners, being commercial men, would value the assets only on a real basis and not at cost or at their other value appearing in the books. A short passage from Pickles on Accountancy (Third Edn), p. 650 will make this clear: "In the event of the accounts being drawn up to the date of death or retirement, no departure from the normal procedure arises, but it will be necessary to see that every revaluation required by the terms of the partnership agreement is made. It has been laid down judicially that, in the absence of contrary agreement, all assets and liabilities must be taken at a "fair value," not merely a "book value" basis, thus involving recording entries for both appreciation and depreciation of assets and liabilities. This rule is applicable,



notwithstanding the omission of a particular item from the books, e.g. investments, goodwill (Cruikshank v. Sutherland). Obviously, the net effect of the revaluation will be a profit or loss divisible in the agreed profit-or loss-sharing ratios."

The real rights of the partners cannot be mutually adjusted on any other basis. This is what happened in Ramachari. Indeed, this is exactly what the partners in this case have done and, having done so, it is untenable for them to contend that the valuation should be on some other basis.

Once this principle is applied and the stock-in- trade is valued at market price, the surplus, if any, has to get reflected as the profits of the firm and has to be charged to tax. The view taken by the High Court has held the field for about thirty years now and we see no reason to disagree even if a different view were possible. For these reasons, we agree with the answer given by the High Court to the second question as well.

4. **Sakthi Trading v. CIT, [2001] 250 ITR 871 (SC):** This Court while dismissing the appeal of the assessee found substance in this consideration that prevailed with the High Court. From the above, it is evident that in A.L.A. Firm's case this Court was considering the question of valuation of closing stock at market value in a case where there was dissolution and also discontinuance of the business of the firm. In that case after dissolution, two groups were carrying on separate business with the assets and liabilities which fell to their shares from the dissolution of the firm. In the present case, however, though there was dissolution on account of the death of one of the partner, but there was no discontinuance of the business. The unchallenged finding recorded by the Tribunal is that there was no discontinuance of business. Even as per principles laid down in A.L.A. Firm's case in such a case the closing stock is to be valued at the cost or market price, whichever is lower. That is an established rule of commercial practice and accountancy. The High Court was clearly in error in relying upon the decision of the Madras High Court in the cases of Ramachari and A.L.A. Firm for coming to the conclusion that assets had to be valued at market value.

As already noticed, in the present case, there has no cessation of business and, therefore, the closing stock could not be directed to be valued at the market rate. For the aforesaid reasons, we answer the question in negative, i.e., in favour of the assessee and against the Revenue.

5. **Navnitlal C. Javeri v. K. K. Sen, AAC, [1965] 56 ITR 198 (SC):** If any enactment provides that certain profits of the company, though not distributed as dividend, be treated as used for the payment of dividends it should necessarily follow that a particular shareholder be deemed to have received a proportionate amount of such profits. It would be unreasonable to



provide that a particular shareholder should be deemed to have received an amount in excess of his proportionate share as dividend.

It is unreasonable that a particular shareholder who receives a loan or advance from a company be deemed to have received that entire amount as dividend when his proportionate share would be much less.

6. **Tata Tea Ltd. v. State of W.B, [1988] 173 ITR 18:** In view of what we have discussed above, it appears to us that although the Explanation to Section 2(a)(2) of the Kerala Agricultural Income-tax Act, 1950 has been deleted by the Amendment Act of 1980, the result would still be the same, namely, that the Kerala State Legislature can impose tax only in respect of 60 per cent of the income derived by an assessee who sells tea grown and manufactured by him in India and such income has to be computed in the manner laid down in the Act of 1922 and thereafter in the Act of 1961 for computation of business income. The same is the position in respect of the powers of the legislature of the State of West Bengal in spite of the amendments made by the said legislature by the Amendment Act of 1980 and earlier under the amending Act of 1979 which was in force only for one year as we have stated before. **It is not necessary to strike down the said amendments because they do not directly conflict with the definition of the term "agricultural income" under the Constitution as we have pointed out earlier, but we may make it clear that they do not confer any wider power on the State Legislature to impose taxes on agricultural income than what we have set out earlier.**
7. **The Chamber of Tax Consultants v UOI, W.P. (C) 5595/2017:** However, in the present case there are no guiding principles in Section 145 (2) of the Act for the scope and ambit of the delegated power of the central government. As explained by the Madras High Court in CIT v. Standard Triumph Motor Co. Limited (1979) 119 ITR 573 (Mad) Section 145 (1) is only an enabling provision to effectuate the statute. When the rules framed under an Act have to conform to the Act [See Bimal Chandra v. State (1971) 81 ITR 105 (SC), Director of Inspection v. Pooranmall (1974) 96 ITR 390 (SC), CIT v. Taj Mahal Hotel (1971) 82 ITR 44 (SC)] a mere notification under Section 119 of the Act cannot go beyond the provision of the Act so as to bring to tax any income not so envisaged by the Act. That a tax cannot be levied by way of an executive action is a settled position (See State of Kerala v. Joseph AIR 1958 SC 296). **Tax cannot also be levied by way of administrative instructions as observed by the Supreme Court in Harivanshlal Mehra v. State of Maharashtra AIR 1971 SC 1130. In order to preserve its constitutionality, Section 145 (2) of the Act as amended is required to and is hereby read down to restrict power of the Central Government to notify ICDS that do not seek to override binding judicial proceedings or provisions of the Act.**



8. **Commissioner of Income Tax, Calcutta v. British Paints India Ltd. (SC) [Date of Judgment – 13.12.1990]:** It is a well-recognised principle of commercial accounting to enter in the profit and loss account the value of the stock-in-trade at the beginning and at the end of the accounting year at cost or market price, whichever is the lower. *Whimster & Co. v. The Commissioners of Inland Revenue*, [191726] 12 Tax Cases, 813, 823 referred to. (9) Where the market value has fallen before the date of valuation and at that date the market value of the article is less than its actual cost, the assessee is entitled to value the articles at market value and thus anticipate the loss which he will probably incur at the time of the sale of goods. Valuation of the stock-in-trade at cost or market value, whichever is the lower, is a matter entirely within the discretion of the assessee, but whichever method he adopts, it should disclose a true picture of his profits and gains. **If, on the other hand, he adopts a system which does not disclose the true state of affairs for the determination of tax, even if it is ideally suited for other purposes of his business, such as the creation of a reserve, declaration of dividends, planning and the like, it is the duty of the Assessing Officer to adopt any such computation as he deems appropriate for proper determination of the true income of the assessee. [534E-F] this is not only a right, but a duty that is placed on the Officer, in terms of the first proviso to section 145 which concerns a correct & complete account but which in the opinion of the Officer does not disclose a true and proper income.**
9. **State of Madras v. Ganon Dunkerley & Co Ltd. (1953) 9 STC 353 (SC):** It is possible that the parties might enter into distinct and separate contracts, one for the transfer of materials for money consideration, and the other for payment of remuneration for services and for work done. **In such a case, there are really two agreements, though there is a single instrument embodying them, and the power of the State to separate the agreement to sell, from the agreement to do work and render service and to impose a tax thereon cannot be questioned, and will stand untouched by the present judgment.**
10. **Commissioner of Income Tax v. Veerdip Rollers Pvt. Ltd. (Gujarat High Court – 11.10.2007):** In the present case in hand, it is not disputed by the Revenue that in order to avail of cash credit facility against hypothecation of stock to the bank, the assessee has submitted the inflated stock and not the actual stock. **Whether the value of stock shown in the books of account is genuine or not has been considered by the Tribunal and considering the facts discussed by the Tribunal referred to above, we see no reason to hold that the finding of the Tribunal is perverse.**
11. **Commissioner of Income Tax v. Mopeds India Limited (Andhra Pradesh High Court – 03.03.1988):** While thus recording a finding that the assessee did not change its method of valuation of closing stock for any ulterior purpose or for reducing income for income tax



purpose, the Commissioner directed that the opening stock of the relevant accounting year should also be valued on the same “work cost” basis and the difference reckoned after the opening stock revalued should be added.

12. **Commissioner of Income Tax, Gujarat v. Artex Manufacturing Co. (SC) – 08.07.1997:** Since we are of the view that the income was chargeable to income tax under Section 41(2) the decision of the High Court that it was chargeable to tax as capital gain cannot be upheld. But the liability under Section 41(2) is limited to the amount of surplus to the extent of difference between the written down value and the actual cost. **If the amount of surplus exceeds the difference between the written down value and the actual cost then the surplus amount to the extent of such excess will have to be treated as capital gain for the purpose of taxation.**
13. **G.L. Sultania and Ors. Vs The Securities and Exchange Board of India and Ors. (2007) (SC) Civil Appeal No. 1672 of 2006:** This Regulation applies to infrequently traded shares of a company and lays down the parameters that must be considered in arriving at the valuation. But it must be understood that the parameters laid down are by no means exhaustive. There are many other considerations which may be factored into any valuation process. It is not mandatory to derive the valuation of shares on the basis of consolidated financial statement. **As per normal accounting practices, for determining the value of shares as a going concern only individual financial statements are considered because parent company is entitled to dividend only and has no right whatsoever in the assets of subsidiary and associate companies.**
14. **Renuka Datla Vs Solvay Pharmaceutical B.V. and Ors. (2003) SLP No. 18035 of 2000:** The Valuer had arrived at market-based valuation in addition to the other modes of valuation and observed that the recommended value is the higher of the intrinsic value or the market based value. Thus, the petitioners had the benefit of higher valuation. The first principle laid down in the above decision has been kept in view. Moreover, the profit earning method which has been referred to in the above decisions in the context of valuation of shares of a private limited company has also been applied, though future earnings-based valuation has not been done in the absence of reliable figures. **As observed by us earlier, the profit earning capacity of the company has not been excluded from consideration, Thus, the Valuer's mode of valuation does not in any way infringe the principles laid down in the case of Commissioner of Gift Tax, Bombay v. Smt. Kusumben D. Mahadevia to the extent they are applicable.**
15. **IT Transactions of purchase of shares with high volume, frequency and regularity of activity carried on in systematic manner would amount to business activity rather**



than investment in shares. Assistant Commissioner of Income-tax, Circle 10(1), Hyderabadv. Anil Kumar Jain*

Section 28(i), read with section 45, of the Income tax Act, 1961 - Business income - chargeable as - Share dealing - Assessment year 2007-08 - Whether where assessee has made several transactions of purchase of shares during year under consideration, and if there is high volume, frequency and regularity of activity carried on by assessee in a systematic manner, it would partake character of business activities carried on by assessee in shares, - Held, yes [Para 12] [In favour of assessee]

Facts

- The Assessing Officer, while completing the assessment, treated the income of the assessee arising out of sale of shares as business income, rejecting the assessee's claim for taxing the same as short term capital gains.
- The Commissioner (Appeals) upheld the assessee's claim.

Revenue's submission

- The assessee had been carrying on the business in shares continuously in a systematic manner and there was high volume of business. Being so, it had to be considered as business activity of the assessee.

HELD

Test is to determine whether shares are a fixed asset or stock-in-trade

- The question is when the assessee classified the shares in the books as investments, whether really they are 'investment' or 'stock-in-trade'.
- One of the relevant tests for determining whether it is in the nature of fixed asset or constitutes stock-in-trade of the assessee's business. Fixed asset is what the owner turns to profit keeping the asset in his own possession; stock-in-trade is what he makes profit of by parting with it and letting it change masters. If the expenditure is made for acquiring or bringing into existence an asset or advantage for the enduring benefit of the business it is properly attributable to capital. If, on the other hand, it is made not for running the business of working it with a view to produce profits it is relatable to stock-in-trade [Para 9].

Intention is relevant

- In determining the question whether after acquiring the shares, the assessee dealt with it as an investor or carried on business with it treating it as its stock-in-trade or



as a trading asset, what is relevant is that, if the case falls within the former category, receipts by way of sale of such shares will be capital receipt but if it falls within the latter the receipt will be trading receipt and profits therefrom business income. The intention with which such operation is carried on is relevant.

- If an owner of an investment realizes it and obtained a greater price for it than the price at which he originally acquired, the enhanced value obtained from the realization or conversion of securities may be profit from business.
- The distinction whether the investment transaction is a mere realization of the investment or an act done for making profit depends on the question whether excess was an enhancement of the value for realizing the shares by a gain in an operation of making profit. If the transaction is in the ordinary line of the assessee's business, there would hardly be any difficulty in concluding it to be a trading transaction, but where it is not, the fact must be properly assessed to determine whether it is in the nature of trade. The surplus realized on the sale of share would be capital, if the assessee, an ordinary investor, realises his holding, but it would be revenue if he deals with them as a trader. If the assessee is an ordinary investor, the income arising out of sale of shares is capital gain. On the other hand, if he trades in shares in regular manner, it is income from business.
- If an individual invests in shares for the purposes of earning dividend, he is not carrying on a business. If the assessee is holding shares as investment and sold it due to change of circumstances and earns profits, that profit is nothing but capital gain. Whether a purchase is made with an intention of resale and gain to earn profit, such income has to be treated as income from business. [Para 9]

Assessee's activity in dealing with shares is business activity

- In the instant case assessees have made several transactions of purchase of shares during the relevant year under consideration, and if there is high volume, frequency and regularity of the activity carried on by the assessees in a systematic manner, it would partake the character of business activities carried on by the assessee in shares, and it cannot be said that the assessees have merely made investments in shares. [Para 11]

ORDER

Chandra Poojari, Accountant Member - These two appeals filed by the Revenue are directed against similar but separate orders of the CIT (A)-VI, Hyderabad dated 29.10.2010



for the assessment year 2007-08. Since only a common issue is involved, these appeals are being disposed of with this common order for the sake of convenience.

2. The only issue involved in these appeals is with regard to the direction of the CIT (A) to treat the income on sale of shares as capital gains.
3. The facts involved in both these case are similar. Hence, we may note in detail the facts relating to Shri Anil Kumar Jain, and based on the same; proceed to dispose of these appeals, in common.
4. Assessee Shri Anil Kumar Jain, an individual, filed return of income on 20.2.2008 admitting an income of Rs.1,35,83,637 consisting of share of profit from partnership firm, salary income, short term capital gains and income from other sources like interest, dividend, etc. The assessing officer while completing the assessment treated the income of the assessee arising out of sale of shares as business income, rejecting the assessee's claim for taxing the same as short term capital gains. Against this finding of the assessing officer, assessee went in appeal before the CIT (A), who gave a finding that the income arising out of sale of shares has to be considered as income from short term capital gains, and thus allowed the appeal of the assessee.
5. Aggrieved by the above findings of the CIT (A), which are similar even in the order of the first appellate authority impugned in the appeal concerning Shri Rupender Jain as well, Revenue preferred the present appeals before us.
6. Learned Departmental Representative submitted that the assessee's have been carrying on the business in shares continuously in a systematic manner and there is high volume of business. Some shares on regular basis. Being so, it has to be considered as business activity of the assessee. The treatment given by the assessee in their books of account cannot be considered as conclusive for determining the real intention of the assessee has to be seen to find out whether it is business activity or investment activity. He also that the assessee have consistently engaged themselves in the business of buying and selling of shares and therefore, it cannot be said that the assessee have only made investments in shares and have not carried any business. He relied on the decision of the Tribunal in the case of Spectra Shares & Scrips v. Dy. CIT [2011] 142 TTJ 483 Hyderabad in ITA No748/Hyd/2011 for the assessment year 2006-07 dated 5th August, 2011 wherein it has been held as under-

"Assessee company, having carried on the activity of buying and selling of shares in a systematic and regular manner with high frequency and volumes, repetitive purchases and sales of the same scrips throughout the year, it has to be held that it was engaged in trading in shares to earn profits and not buying shares for the purpose of investments and, therefore, income



earned by the assessee falls under the head 'profit and gains of business or profession' and not 'capital gains'."

7. On the other hand, the learned Authorised Representative for the assessee, reiterating the contentions urged before the lower authorities, strongly supported the order of the CIT (A). He submitted that the assessing officer was not justified in treating the short term capital gains derived by the assessee on sale of shares as business profits. He submitted that frequency in transactions and high volume does not alter the nature of income from short term capital gains into income from business. In this behalf, reliance is placed on the decision of the Mumbai Bench of the Tribunal in the case of Janak S. Rangwala v. Asstt. CIT [2007] 11 SOT 627. He further submitted that there is no intra-day trading in shares, as the sales were made from out of the earlier purchases only. In support of this contention, he invited our attention to the tabulation furnished before the CIT (A), which has been extracted by the CIT (A) on pages 12 and 13 of the impugned order. He submitted that the assessing officer misunderstood the meaning of day trading, as the assessee never purchased the shares on a particular day and sold the same on the same day. Learned Authorised Representative disputing the findings of the assessing officer further submitted that after the demat procedure has set in, the question of the assessee's taking over physical delivery of shares does not arise, as the shares stand automatically credited into the demat account of the assessee, the moment they are purchased. It was pointed out that the assessing officer took demat account as base for recording the purchase and sale transactions which is not correct, as instead, he should have taken the contract note which gives the details of actual purchase and sale. It was stated by the assessee that the chart was prepared by the assessing officer from the demat account only which shows that the assessee did not indulge in day trading where the delivery of the purchases is credited and sale is debited. He further submitted that the investment in shares at the end of the year is valued at purchase price only and not at cost or market value as it is in the case of stock in trade. The assessee recorded in the balance sheet on the asset side the purchase of shares as investment and never held the shares as stock in trade. It was further submitted that in respect of shares, the maximum period of holding is 12 months from the date of purchase for the purpose of short term capital gains. There is no minimum period for holding shares specified in the Act. He further submitted that the assessing officer has committed many arithmetic mistakes, while preparing the chart from the Demat account. He also distinguished the decision of the Apex Court in the case of Juggilal Kamlapath v. CIT [1970] 75 ITR 186 relied upon by the assessing officer in the impugned assessment order. With these submissions, the learned



Authorised Representative for the assessee strongly supported the orders of the CIT(A) and submitted that the same may be confirmed. Further, the learned Authorised Representative relied on the order and judgment of the Gujarat High Court dated 27.6.2012, in the case of CIT v. Vaibhav J. Shah (HUF) (Tax Appeal No. 77 of 2010 with Tax Appeal No. 78 of 2010), duly filing a copy thereof before us, wherein the Hon'ble Gujarat High Court has held as follows:

- "9. *In view of the aforesaid decisions of the Apex Court as well as this Court, it is clear that where number of transactions of sale and purchase of shares takes place, the most important test is the volume, frequency, continuity and regularity of transactions of purchase and sale of shares. However, where there is repetition and continuity, coupled with magnitude of the transactions, bearing reasonable proportion to the strength of holding, then an inference can be drawn that activity is in the nature of business. Learned counsel for the revenue from the records could not demonstrate that there were large numbers of transactions which had frequency, volume, continuity and regularity and fell within the tests laid down by the division Bench of this Court.*
10. *For the aforesaid reasons, we are of the considered opinion that the income earned by the assessee from trading in the shares under the head long term capital gains/short term capital gain was correctly shown."*

He also placed reliance on the judgement of Bombay High Court in the case of CIT v. Gopal Purohit [2011] 336 ITR 287 / [2010] 188 Taxman 140 (Bom). Further, the Learned counsel for the assessee has also placed reliance on the circular of the CBDT No. 4/2007 dated 15.6.2007, which reads as follows-

"INCOME TAX CIRCULAR NO. 4/2007, DATED 15-6-2007

- 1. The Income Tax Act, 1961 makes a distinction between a capital asset and a trading asset.*
- 2. Capital asset is defined in Section 2(14) of the Act. Long-term capital assets and gains are dealt with under Section 2(29A) and Section 2(29B). Short-term capital assets and gains are dealt with under Section 2(42A) and Section 2(42B).*
- 3. Trading asset is dealt with under Section 28 of the Act.*
- 4. The Central Board of Direct Taxes (CBDT) through Instruction No. 1827 dated August 31, 1989 had brought to the notice of the assessing officers that there is a distinction between shares held as investment (capital asset) and shares held as stock-in-trade (trading asset). In the light of a number of judicial decisions pronounced after the issue*



of the above instructions, it is proposed to update the above instructions for the information of assesses as well as for guidance of the assessing officers.

5. *In the case of Commissioner of Income Tax (Central), Calcutta v. Associated Industrial Development Company (P.) Ltd. (82 ITR 586), the Supreme Court observed that:*

Whether a particular holding of shares is by way of investment or forms part of the stock-in-trade is a matter which is within the knowledge of the assessee who holds the shares and it should, in normal circumstances, be in a position to produce evidence from its records as to whether it has maintained any distinction between those shares which are its stock-in-trade and those which are held by way of investment.

6. *In the case of Commissioner of Income Tax, Bombay v. H. Holck Larsen (160 ITR 67), the Supreme Court observed:*

The High Court, in our opinion, made a mistake in observing whether transactions of sale and purchase of shares were trading transactions or whether these were in the nature of investment was a question of law. This was a mixed question of law and fact.

7. *The principles laid down by the Supreme Court in the above two cases afford adequate guidance to the assessing officers.*
8. *The Authority for Advance Rulings (AAR) (288 ITR 641), referring to the decisions of the Supreme Court in several cases, has culled out the following principles:-*

- (i) Where a company purchases and sells shares, it must be shown that they were held as stock-in-trade and that existence of the power to purchase and sell shares in the memorandum of association is not decisive of the nature of transaction;*
- (ii) the substantial nature of transactions, the manner of maintaining books of accounts, the magnitude of purchases and sales and the ratio between purchases and sales and the holding would furnish a good guide to determine the nature of transactions;*
- (iii) ordinarily the purchase and sale of shares with the motive of earning a profit, would result in the transaction being in the nature of trade/adventure in the nature of trade; but where the object of the investment in shares of a company is to derive income byway of dividend etc. then the profits accruing by change in such investment (by sale of shares) will yield capital gain and not revenue receipt.*



9. *Dealing with the above three principles, the AAR has observed in the case of Fidelity groups under:-*

We shall revert to the aforementioned principles. The first principle requires us to ascertain whether the purchase of shares by a FII in exercise of the power in the memorandum of association/trust deed was as stock-in-trade as the mere existence of the power to purchase and sell shares will not by itself be decisive of the nature of transaction. We have to verify as to how the shares were valued/held in the books of account i.e. whether they were valued as stock-in-trade at the end of the financial year for the purpose of arriving at business income or held as investment in capital assets. The second principle furnishes a guide for determining the nature of transaction by verifying whether there are substantial transactions, their magnitude, etc., maintenance of books of account and finding the ratio between purchases and sales. It will not be out of place to mention that regulation 18 of the SEBI Regulations enjoins upon every FII to keep and maintain books of account containing true and fair accounts relating to remittance of initial corpus of buying and selling and realizing capital gains on investments and accounts of remittance to India for investment in India and realizing capital gains on investment from such remittances. The third principle suggests that ordinarily purchases and sales of shares with the motive of realizing profit would lead to inference of trade/adventure in the nature of trade; where the object of the investment in shares of companies is to derive income by way of dividends etc., the transactions of purchases and sales of shares would yield capital gains and not business profits.

10. *CBDT also wishes to emphasise that it is possible for a tax payer to have two portfolios, i.e., an investment portfolio comprising of securities which are to be treated as capital assets and a trading portfolio comprising of stock-in-trade which are to be treated as trading assets. Where an assessee has two portfolios, the assessee may have income under both heads i.e., capital gains as well as business income.*
11. *Assessing officers are advised that the above principles should guide them in determining whether, in a given case, the shares are held by the assessee as investment (and therefore giving rise to capital gains) or as stock-in-trade (and therefore giving rise to business profits). The assessing officers are further advised that no single principle would be decisive and the total effect of all the principles should be considered to determine whether, in a given case, the shares are held by the assessee as investment or stock-in-trade.*
12. *These instructions shall supplement the earlier Instruction no. 1827 dated August 31, 1989. (F.No.149/287/2005-TPL)"*



8. We heard both the parties and perused materials on record. The contention of the assessee is that it always treated the shares as investment, and there is no business activity whatsoever carried on by the assessee with reference to shares.
9. Now the question before us is not whether the assessee has carried on the investment activity or business activity. On the other hand, the question is when the assessee classified the shares in the books as investments, whether really they are 'investment' or 'stock in trade'. One of the relevant tests for determining whether it is in the nature of fixed asset or constitutes stock-in-trade of the assessee's business. Fixed asset is what the owner turns to profit keeping the asset in his own possession, stock in trade is what he makes profit of by parting with it and letting it change masters. If the expenditure is made for acquiring or bringing into existence an asset or advantage for the enduring benefit of the business it is properly attributable to capital.

If, on the other hand, it is made not for running the business of working it with a view to produce profits it is relatable to stock in trade. In determining the question whether after acquiring the shares, the assessee dealt with it as an investor or carried on business with it treating it as its stock-in trade or as a trading asset, what is relevant is that, if the case falls within the former category, receipts by way of sale of such shares will be capital receipts but if it falls within the latter the receipts will be trading receipts and profits therefrom business income. The intention with which such operation is carried on is relevant. If an owner of an investment realizes it and obtained a greater price for it than the price at which he originally acquired, if the enhanced value obtained from the realisation or conversion of securities may be profit from business. The distinction whether the investment transaction is a mere realization of the investment or an act done for making profit depends on the question whether excess was an enhancement of the value for realising the shares by a gain in an operation of making profit. If the transaction is in the ordinarily lien of the assessee's business, there would hardly be any difficulty in concluding it to be a trading transaction, but where it is not, the fact must be properly assessed to determine whether it is in the nature of trade. The surplus realized on the sale of share would be capital, if the assessee an ordinary investor realising his holding, but it would be revenue if he deals with them as a trader. If the assessee is an ordinary investor, the income arising out of sale of shares is capital gain. On the other hand, if he trades in shares in regular manner, it is income from business. If an individual invests in shares for the purposes of earning dividend, he is not carrying on a business. If the assessee is holding shares as investment and sold it due to change of circumstances and earns profits, that profit is nothing but capital gain. Whether a purchase is made with an intention of resale and gain to earn profit, such income has to be treated as income from business.



10. While deciding whether the sale of shares is income from business or income from capital gain, one has to go by the following criteria, as held by the jurisdictional High Court in the case of PVS Raju v. Addl. CIT [2012] 340 ITR 75 / 18 taxmann.com 3 (AP)—

- (a) The frequency of buying and selling of shares by the appellants were high;
- (b) The period of holding was less;
- (c) The quantum of turnover was on account of frequency of transactions, and not because of huge investment;
- (d) The intention of the assessee to make quick profits on a huge turnover;
- (e) No. of scrips shares held for fewer days;
- (f) Whether engaged in dealing in the same scrips frequently;
- (g) Intention of the assessee in buying shares is not to derive income by way of dividend on such shares, but to earn profits on the sale of the shares;
- (h) Whether the assessee had indulged in multiple transactions of large quantities with high periodicity. These periodic transactions selecting the time of entry and exit in each scrip, called for regular direction and management which would indicate that it was in the nature of trade;
- (i) Repeated transactions, coupled with the subsequent conduct of the assessee to re-enter the same scrip or some other scrip, in order to take advantage of market fluctuations lent the flavour of trade to such transactions;
- (j) The assessee were purchasing and selling the same scrips repeatedly, and were switching from one scrip to another;
- (k) Mere classification of these share transactions as investment in the assessee's books of Accounts were not conclusive;
- (l) The intention of the assessee at the time of purchase was only to sell the shares immediately after purchase;
- (m) Frequency of purchase and sale of shares showed that the assessee never intended to keep these shares as investment; and
- (o) It is only for the purpose of claiming benefit of lower rate of tax, under Section 111A of the Act, that they had claimed certain shares to be investment, though these transactions were only in the nature of trade.



11. In the light of the above parameters and the decision of the jurisdictional High Court, on perusal of the statements incorporated by the assessing officer in the assessment order we find that the assessee has made several transactions of purchase of shares during the relevant year under consideration, and if there high volume, frequency and regularity of the activity carried on by the assessee in a systematic manner, it would partake the character of business activities carried on by the assessee in shares, and it cannot be said that the assessee has merely made investments in shares. In our opinion the findings of the CIT (A) cannot be sustained in the eyes of law, as he has not considered relevant facts to decide the issue. Accordingly, we reverse the order of the CIT (A) and restore the order of the Assessing Officer.

12. In the result, both the appeals of the Revenue are allowed in favour of assessee.



Chapter 8 Appendices

Appendix I

Abbreviation

- ACT: The Cost and Works Accountants Act, 1959
- AO: Assessing Officer as explain in Income tax Act u/s 2(7A)
- AY: Assessment Year
- AS: Accounting Standards
- AOP: Association of Persons
- BOI: Body of Individuals
- CMA: Cost and Management Accountant
- Co. Act: Companies Act, 2013
- CAS: Cost Accounting Standards
- CCRA Rules: Companies (Cost Records and Audit) Rule, 2014
- CCIT: Chief Commissioner of Income Tax
- CIT: Commissioner of Income Tax
- CARO: Companies (Auditor's Report) Order, 2020
- CBDT: Central Board of Direct Taxes
- CASS: Computer Aided Scrutiny Selection
- CVD: Countervailing Duty
- DIN: Document Identification Number
- FIFO: First in First Out
- FA: Faceless Assessment
- GACAP: Generally Accepted Cost Accounting Principles
- GST: Goods and Service Tax Act, 2017
- HUF: Hindu Undivided Family
- ICMAI: The Institute of Cost Accountants of India
- IT Act: Income Tax Act, 1961
- IT Rules: Income Tax Rules, 1962
- ICDS: Income Computation and Disclosure Standards
- Ind As: Indian Accounting Standards
- IAS: International Accounting Standards
- ITR: Income Tax Return
- LIFO: Last in First Out
- MV: Market value



- NFAs: National Faceless Assessment Centres
- NRV: Net Realisable Value
- PY: Previous Year
- PCCIT: Principal Chief Commissioner of Income Tax
- PCIT: Principal Commissioner of Income Tax
- PCMA: Practicing Cost and Management Accountant
- SCA: Standards on Cost Auditing (Cost Auditing Standards)
- WAM: Weighted average method
- WIP: Work in progress



The Glorious History of Formation of the Institute of Cost Accountants of India and Expectation from the Cost and Management Accountancy Profession

At present the Cost Accountancy profession enriched many fold up gradation after the completion of more than 104 years glory full journey since 1919 when in UK the British government established the Institute of Cost and Works Accountants (ICWA). Cost Accounting principles were found in application as early as 14th century. At the same time, the current cost accounting procedure was established at the end of 19th century. However, the cost accounting principles got importance and developed just before the end of the Second World War. The traditional financial accounting fails to furnish all kinds of information that are necessary for effective functioning of business. Thus, a new accounting system is emerged and developed i.e. **Cost Accounting as a branch of Financial Accounting**. This branch of accounting has been rapidly expanding with its developing techniques and procedures in the field of its application.

After the Second World War economy of whole world became very stumpy. Millions of soldiers and civil people were died. Large numbers of industries, buildings and other infrastructure across the world destroyed due to war. World War II changed the political alignment and social structure of the globe. At the end of the war II economic gradually started up wards. New technologies and business advancement were used in the industries. Large number of military man after the end of war needed jobs. Major developed countries had a perfect blueprint for how to use this newly available workforce. Construction and manufacturing process started at mass level across the world. Advance techniques of cost accountancy were used for maximum utilization of available resources in terms of materials and labor. At that time large numbers of professional Cost Accountants were in demand across the globe. In India at that time there was a dearth of professional cost accountants. To cater the demand a private Cost accounting institute was established in India in the year 1944 under the companies Act, 1913, known as the Institute of Cost and Works Accountants of India. The ICWAI was a public company limited by guarantee. The objective was to impart training, and conduct cost accountancy examination in India. The ICWAI followed the basics of ICWA established in UK. The then British government in India sponsored the ICWAI and afforded full support.

In post-independence, Government of India at first passed Chartered Accountants Act, 1949 and established the Institute of Chartered Accountants of India in 1949 in order to contribute general accounting. Before independence Chartered Accountants were known as Registered Accountants. Later on in late 1950 Government of India felt that without a sound system of cost accounting, the evaluation of the progress of the working and development of industries in the public sector, where the ordinary forces of competition may not always operate effectively, is considerably hampered. The



Tariff Commission also had repeatedly emphasized the need for a proper system of costing so far as the protected industries are concerned.

The Estimates Committee in their Ninth Report on Administrative, Financial and Other Reforms, have recommended Government should take early steps to set up an Institute of Costs and Works Accountants and to educate sufficient number of men in this line with the modern and Up-to-date methods suited to the various types of undertakings.

A committee formed in this respect mentioned in their report for 1954-55 on organization and administration of nationalized industrial undertakings refers to the early adoption of the costing system as: "That Committee has noticed that the importance of cost accounting is not appreciated in some of these nationalized undertakings. In the absence cost accounting control of expenditure and efficient working are difficult. The Committee would, therefore, urge that even from the outset, cost accounting should be introduced as a matter of course"

The Public Accounts Committee too has stressed from time to time the necessity to have a system of modern cost accounting in industrial undertakings run by the Government. On considering the report of various committees and after a long discussions in the Parliament of India, the Government of India on 28th May, 1959 established a statutory professional body "The Institute of Cost and Works Accountants of India" by a special act of Parliament "the Cost and works Accountants Act, 1959" for the regulation of the profession of cost and management accountancy.

The Institute of Cost Accountants of India (ICMAI) is providing its services with a motto nation building to the industries, government, in terms of optimum utilization of available resources, real time capturing of cost data, risk management, depth analysis of utilization of resources, capacity utilization by using various cost techniques and make industries more awareness towards cost control and reduction ab initio. To capture just in time cost driven factors whole activities of manufacturing and service are divided into various Cost centers. Cost centers are further bifurcated into production cost center and service cost center. These cost centers help in determine accurate cost of work in progress at various stages of production, manufacturing and construction.

Applicability of maintenance of Cost records and Cost Audit

Section 148 of the Companies Act, 2013 is a statutory provision which requires maintaining cost records and getting cost audit by a practicing Cost Accountant by such class of companies as notified by the government time to time. The companies engaged in the production, manufacturing of such goods or services are require to include particulars of utilization of materials, labor, utilities and other items of cost in the books of accounts maintained and kept.



The Companies (Cost Records and Audit) Rules, 2014 under its rule 3 requires the such class of companies including foreign companies engaged in the production of goods or providing services as mentioned in the below table to maintain and include cost records in their books of accounts for such goods or service, if overall turnover from all of its products or services is Rs. 35 crore or more during the immediately preceding financial year.

Note: In the case of a company which is classified as a micro enterprise or a small enterprise including as per the turnover criteria under sub-section (9) of section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 (27 of 2006), is not require to maintain cost records and get cost audit as per the rule 3 of CCRA, 2014.

Mandatory Statutory Cost Audit under section 148 of Companies Act, 2013

- (1) Every company specified in item (A) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees fifty crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees twenty-five crore or more.
- (2) Every company specified in item (B) of rule 3 shall get its cost records audited in accordance with these rules if the overall annual turnover of the company from all its products and services during the immediately preceding financial year is rupees one hundred crore or more and the aggregate turnover of the individual product or products or service or services for which cost records are required to be maintained under rule 3 is rupees thirty-five crore or more.
- (3) The requirement for cost audit under these rules shall not apply to a company which is covered in rule 3, and
 - (i) whose revenue from exports, in foreign exchange, exceeds seventy five per cent of its total revenue; or
 - (ii) which is operating from a special economic zone.
 - (iii) which is engaged in generation of electricity for captive consumption through Captive Generating Plant. For this purpose, the term “Captive Generating Plant” shall have the same meaning as assigned in rule 3 of the Electricity Rules, 2005;

The class of companies covered under the Companies (Cost records and audit) rules, 2014 are requires maintaining cost records as prescribed in CRA-1 form and have to follow Cost Accounting Standards (CAS) and Generally Accepted Cost Accounting Principles (GACAP)



issued by the Institute of Cost Accountants of India. Cost Auditor is required to follow Standards on Cost Auditing (Cost Auditing Standards) (SCA) as issued by the ICAI.

The Institute of Cost Accountants of India has released 4 Standards on Cost Auditing (Cost Auditing Standards) (SCA) and 24 Cost Accounting Standards.

COST AUDITING STANDARDS

1. Cost Auditing Standard-101: Cost Auditing Standard on Planning an Audit of Cost Statements
2. Cost Auditing Standard-102: Cost Auditing Standard on Cost Audit Documentation
3. Cost Auditing Standard-103: Cost Auditing Standard on Overall Objectives of the Independent Cost Auditor and the Conduct of an Audit in Accordance with Cost Auditing Standards
4. Cost Auditing Standard-104: Cost Auditing Standard on Knowledge of Business, its Processes and the Business Environment

COST ACCOUNTING STANDARDS

- CAS 1** - Classification of Cost For preparation of Cost Statements.
- CAS 2** - Capacity Determination
- CAS 3** - Production and Operation Overheads
- CAS 4** - Cost of Production / Acquisition / Supply of Goods / Provision of Services
- CAS 5** - Avg (Equalized) Cost of Transportation to determine averaged/equalized transportation cost
- CAS 6** - Material Cost
- CAS 7** - Employee Cost
- CAS 8** - Cost of Utilities
- CAS 9** - Packing Material Cost
- CAS 10** - Direct Expenses
- CAS 11** - Administrative Overheads
- CAS 12** - Repairs and Maintenance Cost
- CAS 13** - Cost of Service Cost Centre
- CAS 14** - Pollution Control Cost
- CAS 15** - Selling and Distribution overheads
- CAS 16** - Depreciation and Amortisation
- CAS 17** - Interest and Financing Charges
- CAS 18** - Research and Development Cost
- CAS 19** - Joint Costs
- CAS 20** - Royalty and Technical Know- How Fee
- CAS 21** - Quality Control
- CAS 22** - Manufacturing Cost
- CAS 23** - Overburden Removal Cost
- CAS 24** - Treatment of Revenue in Cost Statements



A comparable table is mentioned below to understand similarities and deviation among ICDS, AS and Ind AS.

Particulars	ICDS-II	AS 2	Ind AS 2
Definition of inventory	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.	Inventories are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.	<i>Inventories</i> are assets: (a) held for sale in the ordinary course of business; (b) in the process of production for such sale; or (c) in the form of materials or supplies to be consumed in the production process or in the rendering of services.
Net Realisable Value	"Net realisable 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.	Net Realisable 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.	Net Realisable 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.
Scope	This Income Computation and Disclosure Standard shall be applied for valuation of inventories, except: (a) Work-in-progress arising under 'construction contract' including directly related	This Standard should be applied in accounting for inventories other than: (a) work in progress arising under construction contracts, including directly related service contracts (see Accounting Standard	This Standard does not apply to the measurement of inventories held by: (a) producers of agricultural and forest products, agricultural produce after harvest, and minerals and



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>service contract which is dealt with by the Income Computation and Disclosure Standard on construction contracts;</p> <p>(b) Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;</p> <p>(c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;</p> <p>(d) Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value;</p> <p>(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 Income Computation and Disclosure Standard on tangible fixed assets.</p>	<p>(AS) 7, Construction Contracts);</p> <p>(b) work in progress arising in the ordinary course of business of service providers;</p> <p>(c) Shares, debentures and other financial instruments held as stock-in-trade; and</p> <p>(d) producers' inventories of livestock, agricultural and forest products, and mineral oils, ores and gases to the extent that they are measured at net realisable value in accordance with well established practices in those industries.</p>	<p>mineral products, to the extent that they are measured at net realisable value in accordance with well-established practices in those industries. When such inventories are measured at net realisable value, changes in that value are realisable in profit or loss in the period of the change.</p> <p>(b) commodity broker-traders who measure their inventories at fair value less costs to sell. When such inventories are measured at fair value less costs to sell, changes in fair value less costs to sell are realisable in profit or loss in the period of the change.</p>



Particulars	ICDS-II	AS 2	Ind AS 2
Measurement	Inventories shall be valued at cost, or net realisable value, whichever is lower.	Inventories should be valued at the lower of cost and net realisable value.	Inventories shall be measured at the lower of cost and net realisable value.
Costs of Inventories	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.	The cost of inventories should comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.	The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
Costs of Purchase	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.	The costs of purchase consist of the purchase price including duties and taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), freight inwards and other expenditure directly attributable to the acquisition. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase.	The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase
Costs of Services	The costs of services shall consist of labour and other costs of personnel directly engaged in providing the service including supervisory personnel	Not defined	Not defined



Particulars	ICDS-II	AS 2	Ind AS 2
	and attributable overheads.		
Costs of Conversion	<p>1. 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.</p> <p>2. Variable production overheads shall be those indirect costs of production that vary directly or nearly directly, with the volume of production.</p> <p>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</p>	<p>1. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.</p> <p>2. The allocation of fixed production overheads for the purpose of their inclusion in the costs of conversion is based on</p>	<p>1. The costs of conversion of inventories include costs directly related to the units of production, such as direct labour. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Fixed production overheads are those indirect costs of production that remain relatively constant regardless of the volume of production, such as depreciation and maintenance of factory buildings, equipment and right-of-use assets used in the production process, and the cost of factory management and administration. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour</p> <p>2. The allocation of fixed production overheads to</p>



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>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.</p> <p>3. Where a production process results in more than one product being produced simultaneously and the costs of conversion of</p>	<p>the normal capacity of the production facilities. Normal capacity is 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 may be used if it approximates normal capacity. The amount of fixed production overheads allocated to each unit of production is not increased as a consequence of low production or idle plant. Un allocated overheads are 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 cost. Variable production overheads are assigned to each unit of production on the basis of the actual use of the production facilities.</p>	<p>the costs of conversion is based on the normal capacity of the production facilities. Normal capacity is the production expected to be achieved on 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 may be used if it approximates normal capacity. The amount of fixed overhead allocated to each unit of production is not increased as a consequence of low production or idle plant. Unallocated overheads are recognized as an expense in the period in which they are incurred. In periods of abnormally high production, the amount of fixed overhead allocated to each unit of production is decreased so that inventories are not measured above cost. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.</p>



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>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 recognized value and this value shall be deducted from the cost of the main product.</p>	<p>3. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products as well as scrap or waste materials, by their nature, are immaterial. When this is the case, they are often measured at net recognized value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not</p>	<p>3. A production process may result in more than one product being produced simultaneously. This is the case, for example, when joint products are produced or when there is a main product and a by-product. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis. The allocation may be based, for example, on the relative sales value of each product either at the stage in the production process when the products become separately identifiable, or at the completion of production. Most by-products, by their nature, are immaterial. When this is the case, they are often measured at net recognized value and this value is deducted from the cost of the main product. As a result, the carrying amount of the main product is not materially different from its cost.</p>



Particulars	ICDS-II	AS 2	Ind AS 2
		materially different from its cost.	
Other Costs	<p>1. 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.</p> <p>2. 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 Income Computation and Disclosure Standard on borrowing costs.</p>	<p>1. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include overheads other than production overheads or the costs of designing products for specific customers in the cost of inventories.</p> <p>2. Interest and other borrowing costs are usually considered as not relating to bringing the inventories to their present location and condition and are, therefore, usually not included in the cost of inventories.</p>	<p>Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.</p> <p>Ind AS 23, <i>Borrowing Costs</i>, identifies limited circumstances where borrowing costs are included in the cost of inventories.</p> <p>An entity may purchase inventories on deferred settlement terms. When the arrangement effectively contains a financing element, that element, for example a difference between the purchase price for normal credit terms and the amount paid, is recognized as interest expense over the period of the financing.</p>



Particulars	ICDS-II	AS 2	Ind AS 2
Exclusions from the Cost of Inventories	<p>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, namely:—</p> <p>(a) Abnormal amounts of wasted materials, labour, or other production costs;</p> <p>(b) Storage costs, unless those costs are necessary in the production process prior to a further production stage;</p> <p>(c) Administrative overheads that do not contribute to bringing the inventories to their present location and condition ;</p> <p>(d) Selling costs.</p>	<p>In determining the cost of inventories in accordance with paragraph 6, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred. Examples of such costs are:</p> <p>(a) abnormal amounts of wasted materials, labour, or other production costs;</p> <p>(b) storage costs, unless those costs are necessary in the production process prior to a further production stage;</p> <p>(c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and</p> <p>(d) selling and distribution costs.</p>	<p>Examples of costs excluded from the cost of inventories and recognized as expenses in the period in which they are incurred are:</p> <p>(a) abnormal amounts of wasted materials, labour or other production costs;</p> <p>(b) storage costs, unless those costs are necessary in the production process before a further production stage;</p> <p>(c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and</p> <p>(d) selling costs.</p>
Cost Formulae	<p>The Cost of inventories of items</p> <p>(i) that are not ordinarily interchangeable; and</p>	<p>The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects</p>	<p>The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific</p>



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>(ii) goods or services produced and segregated for specific projects shall be assigned by specific identification of their individual costs.</p> <p>'Specific identification of cost' means specific costs are attributed to identified items of inventory.</p> <p>Where there are a large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs shall not be made.</p> <p>First-in First-out and Weighted Average Cost Formula</p> <p>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.</p> <p>The FIFO formula</p>	<p>should be assigned by specific identification of their individual costs.</p> <p>Specific identification of cost means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been purchased or produced. However, when there are large numbers of items of inventory which are ordinarily interchangeable, specific identification of costs is inappropriate since, in such circumstances, an enterprise could obtain predetermined effects on the net profit or loss for the period by selecting a particular method of ascertaining the items that remain in inventories.</p> <p>The cost of inventories, other than those dealt with in paragraph 14, should be assigned by using the first-in, first-out (FIFO), or weighted average cost formula. The formula used should reflect the fairest</p>	<p>projects shall be assigned by using specific identification of their individual costs.</p> <p>Specific identification of cost means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project, regardless of whether they have been bought or produced. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on profit or loss.</p> <p>The cost of inventories, other than those dealt with in paragraph 23, shall be assigned by using the first-in, first-out (FIFO) or weighted average cost formula. An entity shall use the same cost formula for all</p>



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>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.</p>	<p>possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.</p> <p>A variety of cost formulas is used to determine the cost of inventories other than those for which specific identification of individual costs is appropriate. The formula used in determining the cost of an item of inventory needs to be selected with a view to providing the fairest possible approximation to the cost incurred in bringing the item to its present location and condition. 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</p>	<p>inventories having a similar nature and use to the entity. For inventories with a different nature or use, different cost formulas may be justified.</p> <p>For example, inventories used in one operating segment may have a use to the entity different from the same type of inventories used in another operating segment. However, a difference in geographical location of inventories (or in the respective tax rules), by itself, is not sufficient to justify the use of different cost formulas.</p> <p>The FIFO formula assumes that the items of inventory that were purchased or produced first are 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</p>



Particulars	ICDS-II	AS 2	Ind AS 2
		at the beginning of a period and the cost of similar items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the enterprise.	items purchased or produced during the period. The average may be calculated on a periodic basis, or as each additional shipment is received, depending upon the circumstances of the entity.
Techniques for the Measurement of Cost	<p>(1) Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate the actual cost. Standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of the current conditions.</p> <p>(2) The retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods. The cost of the</p>	<p>1. Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate the actual cost. Standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilization. They are regularly reviewed and, if necessary, revised in the light of current conditions.</p> <p>2. The retail method is often used in the retail trade for measuring inventories of large numbers of rapidly changing items that have similar margins and for which it is impracticable</p>	Not specified



Particulars	ICDS-II	AS 2	Ind AS 2
	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. An average percentage for each retail department is to be used.	to use other costing methods. 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. An average percentage for each retail department is often used.	
Net Realisable Value	<p>1. 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 realisable value on an aggregate basis.</p> <p>2. Net realisable value shall be based on the</p>	<p>1. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs necessary to make the sale have increased. The practice of writing down inventories below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realisable from their sale</p>	<p>1. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also not be recoverable if the estimated costs of completion or the estimated costs to be incurred to make the sale have increased. The practice of writing down inventories below cost to net realisable value is consistent with the view that assets should not be carried in excess of amounts expected to be realisable</p>



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>most reliable evidence available at the time of valuation. The estimates of net realisable 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.</p> <p>3. 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 realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.</p>	<p>or use.</p> <p>2. Inventories are usually written down to net realisable value on an item-by-item basis. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have 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. It is not appropriate to write down inventories based on a classification of inventory, for example, finished goods, or all the inventories in a particular business segment.</p> <p>3. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made as to the amount the inventories are expected to realisable. These estimates take into</p>	<p>from their sale or use.</p> <p>2. Inventories are usually written down to net realisable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. This may be the case with items of inventory relating to the same product line that have similar purposes or end uses, are produced and marketed in the same geographical area, and cannot be practicably evaluated separately from other items in that product line. It is not appropriate to write inventories down on the basis of a classification of inventory, for example, finished goods, or all the inventories in a particular operating segment.</p> <p>3. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realisable. These estimates take into</p>



Particulars	ICDS-II	AS 2	Ind AS 2
		<p>consideration fluctuations of price or cost directly relating to events occurring after the balance sheet date to the extent that such events confirm the conditions existing at the balance sheet date.</p> <p>4. Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess inventory is based on general selling prices. Contingent losses on firm sales contracts in excess of inventory quantities held and contingent losses on firm purchase contracts are dealt with in accordance with the principles enunciated in Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet</p>	<p>consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm the conditions existing at the end of the period.</p> <p>4. Estimates of net realisable value also take into consideration the purpose for which the inventory is held. For example, the net realisable value of the quantity of inventory held to satisfy firm sales or service contracts is based on the contract price. If the sales contracts are for less than the inventory quantities held, the net realisable value of the excess is based on general selling prices. Provisions may arise from firm sales contracts in excess of inventory quantities held or from firm purchase contracts. Such provisions are dealt with under Ind AS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>5. Materials and other supplies held for use in the production of</p>



Particulars	ICDS-II	AS 2	Ind AS 2
		<p>Date.</p> <p>5. Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.</p> <p>6. An assessment is made of net realisable value as at each balance sheet date.</p>	<p>inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value. In such circumstances, the replacement cost of the materials may be the best available measure of their net realisable value.</p> <p>6. A new assessment is made of net realisable value in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed (ie the reversal is limited to the amount of the original write-down) so that the</p>



Particulars	ICDS-II	AS 2	Ind AS 2
			new carrying amount is the lower of the cost and the revised net realisable value. This occurs, for example, when an item of inventory that is carried at net realisable value, because its selling price has declined, is still on hand in a subsequent period and its selling price has increased.
Value of Opening Inventory	<p>The value of the inventory as on the beginning of the previous year shall be</p> <p>(i) the cost of inventory available, if any, on the day of the commencement of the business when the business has commenced during the previous year; and</p> <p>(ii) the value of the inventory as on the close of the immediately preceding previous year, in any other case.</p>	Not specified	Not specified
Change of Method of Valuation of Inventory	The method of valuation of inventories once adopted by a person in any previous year shall not be changed without reasonable cause.	Not specified	Not specified
Valuation of Inventory in Case of	In case of dissolution of a partnership firm or association of person or	Not specified	Not specified



Particulars	ICDS-II	AS 2	Ind AS 2
Certain Dissolutions	body of individuals, notwithstanding whether business is discontinued or not, the inventory on the date of dissolution shall be valued at the net recognized value.		
Transitional Provisions	Interest and other borrowing costs, which do not meet the criteria for recognition of interest as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1 st day of April, 2016, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginning on or after 1 st day of April, 2016 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1 st day of April, 2016.	Not specified	Not specified
Disclosure	The following aspects shall be disclosed, namely:— (a) the accounting policies adopted in measuring inventories including the cost formulae used. Where Standard Costing has	The financial statements should disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used; and	The financial statements shall disclose: (a) the accounting policies adopted in measuring inventories, including the cost formula used;



Particulars	ICDS-II	AS 2	Ind AS 2
	<p>been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost approximates the actual cost; and</p> <p>(b) the total carrying amount of inventories and its classification appropriate to a person.</p>	<p>(b) the total carrying amount of inventories and its classification appropriate to the enterprise.</p> <p>Information about the carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are:</p> <p>(a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)</p>	<p>(b) the total carrying amount of inventories and the carrying amount in classifications appropriate to the entity;</p> <p>(c) the carrying amount of inventories carried at fair value less costs to sell;</p> <p>(d) the amount of inventories recognized as an expense during the period;</p> <p>(e) the amount of any write-down of inventories recognized as an expense in the period in accordance with paragraph 34;</p> <p>(f) the amount of any reversal of any write-down that is recognized as a reduction in the amount of inventories recognized as expense in the period in accordance with paragraph 34;</p> <p>(g) the circumstances or events that led to the reversal of a write-down of inventories in accordance with paragraph 34; and</p> <p>(h) the carrying amount of inventories pledged as security for liabilities.</p> <p>Information about the</p>



Particulars	ICDS-II	AS 2	Ind AS 2
			<p>carrying amounts held in different classifications of inventories and the extent of the changes in these assets is useful to financial statement users. Common classifications of inventories are merchandise, production supplies, materials, work in progress and finished goods.</p> <p>An entity adopts a format for profit or loss that results in amounts being disclosed other than the cost of inventories recognized as an expense during the period. Under this format, the entity presents an analysis of expenses using a classification based on the nature of expenses. In this case, the entity discloses the costs recognized as an expense for raw materials and consumables, labour costs and other costs together with the amount of the net change in inventories for the period.</p>



A comparable table is given below only to have at glance common provisions between the ICDS and AS, Ind AS. PCMA is required to use CCRA Rule, costing method, cost formulae and cost techniques to determine the valuation of inventory in conformity with the relevant ICDS.

Particulars	ICDS-III	AS7	Ind AS115
Definitions	<p>2 (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:</p> <p>(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 :</p> <p>(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;</p> <p>(ii) contract for destruction or restoration of assets, and the restoration of the environment</p>	<p>2. The following terms are used in this Standard with the meanings specified:</p> <p>2.1 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.</p> <p>2.2 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 in some cases is subject to cost escalation clauses.</p> <p>2.3 A cost plus contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs,</p>	No specific definition



Particulars	ICDS-III	AS7	Ind AS115
	<p>following the demolition of assets.</p> <p>(b) "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.</p> <p>(c) "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.</p> <p>(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.</p> <p>(e) "Progress billings" are amounts billed for work performed on a contract whether or not they have been paid by the customer.</p> <p>(f) "Advances" are amounts received by the contractor before the</p>	<p>plus percentage of these costs or a fixed fee.</p> <p>3. A construction contract may be negotiated for the construction of a single asset such as a bridge, building, dam, pipeline, road, ship or tunnel. 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; examples of such contracts include those for the construction of refineries and other complex pieces of plant or equipment.</p> <p>4. For the purposes of this Standard, construction contracts include:</p> <p>(a) contracts 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; and</p>	



Particulars	ICDS-III	AS7	Ind AS115
	<p>related work is performed.</p> <p>(2) Words and expressions used and not defined in this Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.</p> <p>(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.</p> <p>4. Construction contracts are formulated in a number of ways which, for the purposes of this Income Computation and Disclosure Standard, are classified as fixed price contracts and cost plus contracts. Some construction contracts</p>	<p>(b) contracts for destruction or restoration of assets, and the restoration of the environment following the demolition of assets.</p> <p>5. Construction contracts are formulated in a number of ways which, for the purposes of this 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. In such circumstances, a contractor needs to consider all the conditions in paragraphs 22 and 23 in order to determine when to recognise contract revenue and expenses.</p>	



Particulars	ICDS-III	AS7	Ind AS115
	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	<p>5. The requirements of this Income Computation and Disclosure 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 Income Computation and Disclosure Standard should be applied to the separately identifiable components of a single contract or to a group of contracts together.</p> <p>6. Where a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:</p> <p>(a) separate proposals have been submitted for each asset;</p>	<p>6. The requirements of this Standard are usually applied separately to each construction contract. However, in certain circumstances, it is necessary to apply the Standard to the separately identifiable components of a single contract or to a group of contracts together in order to reflect the substance of a contract or a group of contracts.</p> <p>7. When a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:</p> <p>(a) separate proposals have been submitted for each asset;</p> <p>(b) each asset has been subject to separate negotiation and the</p>	<p>Identifying the contract</p> <p>9 An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:</p> <p>(a) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;</p> <p>(b) the entity can identify each party's rights regarding the goods or services to be transferred;</p> <p>(c) the entity can identify the payment terms for the goods or services to be transferred;</p> <p>(d) the contract has commercial substance (ie the risk, timing or</p>



Particulars	ICDS-III	AS7	Ind AS115
	<p>(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</p> <p>(c) the costs and revenues of each asset can be identified.</p> <p>7. A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:</p> <p>(a) the group of contracts is negotiated as a single package;</p> <p>(b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and</p> <p>(c) the contracts are performed concurrently or in a continuous sequence.</p> <p>8. Where a contract provides for the construction of an additional asset at the option of the customer or is amended to include</p>	<p>contractor and customer have been able to accept or reject that part of the contract relating to each asset; and</p> <p>(c) the costs and revenues of each asset can be identified.</p> <p>8. A group of contracts, whether with a single customer or with several customers, should be treated as a single construction contract when:</p> <p>(a) the group of contracts is negotiated as a single package;</p> <p>(b) the contracts are so closely interrelated that they are, in effect, part of a single project with an overall profit margin; and</p> <p>(c) the contracts are performed concurrently or in a continuous sequence.</p> <p>9. A contract may provide for the construction of an additional asset at the option of the customer or may be amended to include the construction</p>	<p>amount of the entity's future cash flows is expected to change as a result of the contract); and</p> <p>(e) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession</p>



Particulars	ICDS-III	AS7	Ind AS115
	<p>the construction of an additional asset, the construction of the additional asset should be treated as a separate construction contract when:</p> <p>(a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or</p> <p>(b) the price of the asset is negotiated without having regard to the original contract price.</p>	<p>of an additional asset. The construction of the additional asset should be treated as a separate construction contract when:</p> <p>(a) the asset differs significantly in design, technology or function from the asset or assets covered by the original contract; or</p> <p>(b) the price of the asset is negotiated without regard to the original contract price.</p>	
Contract Revenue	<p>9. Contract revenue shall be recognised when there is reasonable certainty of its ultimate collection.</p> <p>10. Contract revenue shall comprise of:</p> <p>(a) the initial amount of revenue agreed in the contract, including retentions; and</p> <p>(b) variations in contract work, claims and incentive payments:</p> <p>(i) to the extent that it is probable that they will result in revenue; and</p>	<p>Contract revenue should comprise:</p> <p>4</p> <p>(a) the initial amount of revenue agreed in the contract; and</p> <p>(b) variations in contract work, claims and incentive payments:</p> <p>(i) to the extent that it is probable that they will result in revenue; and</p> <p>(ii) they are capable of being reliably measured.</p> <p>11. Contract revenue is</p>	<p>When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation. Determining the transaction price</p> <p>47 An entity shall consider the terms of the contract and its customary business</p>



Particulars	ICDS-III	AS7	Ind AS115
	<p>(ii) they are capable of being reliably measured.</p> <p>11. Where contract revenue already recognised as income is subsequently written off in the books of account as uncollectible, the same shall be recognised as an expense and not as an adjustment of the amount of contract revenue.</p>	<p>measured at the consideration received or receivable. The measurement of contract revenue is affected by a variety of uncertainties that depend on the outcome of future events. The estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue may increase or decrease from one period to the next. For example:</p> <p>(a) a contractor and a customer may agree to variations or claims that increase or decrease contract revenue in a period subsequent to that in which the contract was initially agreed;</p> <p>(b) the amount of revenue agreed in a fixed price contract may increase as a result of cost escalation clauses;</p> <p>(c) the amount of contract revenue may decrease as a result of penalties arising from delays caused by the contractor in the</p>	<p>practices to determine the transaction price. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both. Allocating the transaction price to performance obligations 73 The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer.</p>



Particulars	ICDS-III	AS7	Ind AS115
		<p>completion of the contract; or (d) when a fixed price contract involves a fixed price per unit of output, contract revenue increases as the number of units is increased.</p> <p>12. A variation is an instruction by the customer for a change in the scope of the work to be performed under the contract. A variation may lead to an increase or a decrease in contract revenue. Examples of variations are changes in the specifications or design of the asset and changes in the duration of the contract. A variation is included in contract revenue when:</p> <p>(a) it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and</p> <p>(b) the amount of revenue can be reliably measured.</p> <p>13. A claim is an amount that the contractor seeks to collect from the customer or another</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>party as reimbursement for costs not included in the contract price. A claim may arise from, for example, customer caused delays, errors in specifications or design, and disputed variations in contract work. The measurement of the amounts of revenue arising from claims is subject to a high level of uncertainty and often depends on the outcome of negotiations. Therefore, claims are only included in contract revenue when:</p> <p>(a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and</p> <p>(b) the amount that it is probable will be accepted by the customer can be measured reliably.</p> <p>14. Incentive payments are additional amounts payable to the contractor if specified performance standards are met or exceeded. For example, a contract may allow for an incentive payment to</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>the contractor for early completion of the contract. Incentive payments are included in contract revenue when:</p> <p>(a) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and</p> <p>(b) the amount of the incentive payment can be measured reliably.</p>	
Contract Costs	<p>12. Contract costs shall comprise of :</p> <p>(a) costs that relate directly to the specific contract;</p> <p>(b) costs that are attributable to contract activity in general and can be allocated to the contract;</p> <p>(c) such other costs as are specifically chargeable to the customer under the terms of the contract; and</p> <p>(d) allocated borrowing costs in accordance with the Income Computation and Disclosure Standard on Borrowing Costs.</p>	<p>15. Contract costs should comprise :</p> <p>(a) costs that relate directly to the specific contract;</p> <p>(b) costs that are attributable to contract activity in general and can be allocated to the contract; and</p> <p>(c) such other costs as are specifically chargeable to the customer under the terms of the contract.</p> <p>16. Costs that relate directly to a specific contract include:</p>	<p>Incremental costs of obtaining a contract</p> <p>91 An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs.</p> <p>If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, Ind AS 2, Inventories, Ind AS 16, Property, Plant and Equipment or Ind AS 38, Intangible Assets), an entity shall recognise an asset from the costs incurred to fulfil a contract only if</p>



Particulars	ICDS-III	AS7	Ind AS115
	<p>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.</p> <p>13. 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.</p> <p>14. 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</p> <p>(a) they can be separately identified; and</p> <p>(b) it is probable that the contract shall be obtained.</p> <p>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</p>	<p>(a) site labour costs, including site supervision;</p> <p>(b) costs of materials used in construction;</p> <p>(c) depreciation of plant and equipment used on the contract;</p> <p>(d) costs of moving plant, equipment and materials to and from the contract site;</p> <p>(e) costs of hiring plant and equipment;</p> <p>(f) costs of design and technical assistance that is directly related to the contract;</p> <p>(g) the estimated costs of rectification and guarantee work, including expected warranty costs; and</p> <p>(h) claims from third parties.</p> <p>These costs may be reduced by any incidental income that is not included in contract revenue, for example income from the sale of surplus materials and the disposal of plant and equipment at the end of the contract.</p>	<p>those costs meet all of the following criteria:</p> <p>(a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);</p> <p>(b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and</p> <p>(c) the costs are expected to be recovered.</p>



Particulars	ICDS-III	AS7	Ind AS115
	<p>contract costs when the contract is obtained in a subsequent period.</p> <p>15. 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.</p>	<p>17. Costs that may be attributable to contract activity in general and can be allocated to specific contracts include:</p> <p>(a) insurance;</p> <p>(b) costs of design and technical assistance that is not directly related to a specific contract; and</p> <p>(c) construction overheads.</p> <p>Such costs are allocated using methods that are systematic and rational and are applied consistently to all costs having similar characteristics. The allocation is based on the normal level of construction activity. Construction overheads include costs such as the preparation and processing of construction personnel payroll. Costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs as per Accounting Standard (AS) 16, Borrowing</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>Costs.</p> <p>18. Costs that are specifically chargeable to the customer under the terms of the contract may include some general administration costs and development costs for which reimbursement is specified in the terms of the contract.</p> <p>19. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract. Such costs include:</p> <p>(a) general administration costs for which reimbursement is not specified in the contract;</p> <p>(b) selling costs;</p> <p>(c) research and development costs for which reimbursement is not specified in the contract; and</p> <p>(d) depreciation of idle plant and equipment that is not used on a particular contract.</p>	



Particulars	ICDS-III	AS7	Ind AS115
		20. 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. However, costs that relate directly to a contract and which are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will 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.	
Recognition of Contract Revenue and Expenses	16. 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.	21. When the outcome of construction contract can be estimated reliably, 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	When either party to a contract has performed, an entity shall present the contract in the balance sheet as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An



Particulars	ICDS-III	AS7	Ind AS115
	<p>17. 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.</p> <p>18. The stage of completion of a contract shall be determined with reference to:</p> <p>(a) the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or</p> <p>(b) surveys of work performed; or</p> <p>(c) completion of a physical proportion of the contract work.</p> <p>Progress payments and advances received from customers are not determinative of the stage of completion of a</p>	<p>contract activity at the reporting date. An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35.</p> <p>22. In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:</p> <p>(a) total contract revenue can be measured reliably;</p> <p>(b) it is probable that the economic benefits associated with the contract will flow to the enterprise;</p> <p>(c) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and</p> <p>(d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with</p>	<p>entity shall present any unconditional rights to consideration separately as a receivable.</p> <p>106 If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.</p> <p>107 If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an</p>



Particulars	ICDS-III	AS7	Ind AS115
	<p>contract.</p> <p>19. 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:</p> <p>(a) contract costs that relate to future activity on the contract; and</p> <p>(b) payments made to subcontractors in advance of work performed under the subcontract.</p> <p>20. 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.</p>	<p>prior estimates.</p> <p>23. In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:</p> <p>(a) it is probable that the economic benefits associated with the contract will flow to the enterprise; and</p> <p>(b) the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.</p> <p>24. The recognition of revenue and expenses by reference to the stage of completion of a contract is often 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. This</p>	<p>entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for impairment in accordance with Ind AS 109. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of Ind AS 109 (see also paragraph 113(b)).</p> <p>108 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with Ind AS 109. Upon initial recognition of a</p>



Particulars	ICDS-III	AS7	Ind AS115
		<p>method provides useful information on the extent of contract activity and performance during a period.</p> <p>7</p> <p>25. Under the percentage of completion method, contract revenue is recognised as revenue in the statement of profit and loss in the accounting periods in which the work is performed. Contract costs are usually recognised as an expense in the statement of profit and loss in the accounting periods in which the work to which they relate is performed. However, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately in accordance with paragraph 35.</p> <p>26. A contractor may have incurred contract costs that relate to future activity on the contract. Such contract costs are recognised as an asset provided it is probable that they will be</p>	<p>receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with Ind AS 109 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).</p> <p>109 This Standard uses the terms 'contract asset' and 'contract liability' but does not prohibit an entity from using alternative descriptions in the balance sheet for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and contract assets.</p> <p>616</p> <p>109AA An entity shall present separately the amount of excise duty included in the revenue recognised in the statement of profit and loss.</p>



Particulars	ICDS-III	AS7	Ind AS115
		<p>recovered. Such costs represent an amount due from the customer and are often classified as contract work in progress.</p> <p>27. When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in the statement of profit and loss, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.</p> <p>28. An enterprise is generally able to make reliable estimates after it has agreed to a contract which establishes:</p> <p>(a) each party's enforceable rights regarding the asset to be constructed;</p> <p>(b) the consideration to be exchanged; and</p> <p>(c) the manner and terms of settlement.</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>It is also usually necessary for the enterprise to have an effective internal financial budgeting and reporting system. The enterprise reviews and, when necessary, revises the estimates of contract revenue and contract costs as the contract progresses. The need for such revisions does not necessarily indicate that the outcome of the contract cannot be estimated reliably.</p> <p>29. The stage of completion of a contract may be determined in a variety of ways. The enterprise uses the method that measures reliably the work performed. Depending on the nature of the contract, the methods may include:</p> <p>(a) the proportion that contract costs incurred for work performed upto the reporting date bear to the estimated total contract costs; or</p> <p>(b) surveys of work performed; or</p> <p>(c) completion of a physical proportion of</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>the contract work.</p> <p>Progress payments and advances received from customers may not necessarily reflect the work performed.</p> <p>30. 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. Examples of contract costs which are excluded are:</p> <p>(a) contract costs that relate to future activity on the contract, such as costs of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance, unless the materials have been made specially for the contract; and</p> <p>(b) payments made to subcontractors in advance of work performed under the subcontract.</p> <p>8</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>31. When the outcome of a construction contract cannot be estimated reliably:</p> <p>(a) revenue should be recognised only to the extent of contract costs incurred of which recovery is probable; and</p> <p>(b) contract costs should be recognised as an expense in the period in which they are incurred.</p> <p>An expected loss on the construction contract should be recognised as an expense immediately in accordance with paragraph 35.</p> <p>32. During the early stages of a contract it is often the case that the outcome of the contract cannot be estimated reliably. Nevertheless, it may be probable that the enterprise will recover the contract costs incurred. Therefore, contract revenue is recognised only to the extent of costs incurred that are expected to be recovered. As the outcome of the contract</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>cannot be estimated reliably, no profit is recognised. However, even though the outcome of the contract cannot be estimated reliably, it may be probable that total contract costs will exceed total contract revenue. In such cases, any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately in accordance with paragraph 35.</p> <p>33. Contract costs recovery of which is not probable are recognised as an expense immediately. Examples of circumstances in which the recoverability of contract costs incurred may not be probable and in which contract costs may, therefore, need to be recognised as an expense immediately include contracts:</p> <p>(a) which are not fully enforceable, that is, their validity is seriously in question;</p> <p>(b) the completion of</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>which is subject to the outcome of pending litigation or legislation;</p> <p>(c) relating to properties that are likely to be condemned or expropriated;</p> <p>(d) where the customer is unable to meet its obligations; or</p> <p>(e) where the contractor is unable to complete the contract or otherwise meet its obligations under the contract.</p> <p>34. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue and expenses associated with the construction contract should be recognised in accordance with paragraph 21 rather than in accordance with paragraph 31.</p> <p>Recognition of Expected Losses</p> <p>35. When it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognised as an expense</p>	



Particulars	ICDS-III	AS7	Ind AS115
		<p>immediately.</p> <p>36. The amount of such a loss is determined irrespective of:</p> <p>(a) whether or not work has commenced on the contract;</p> <p>(b) the stage of completion of contract activity; or</p> <p>(c) the amount of profits expected to arise on other contracts which are not treated as a single construction contract in accordance with paragraph 8.</p>	



Income Computation and Disclosure Standards

[TO BE PUBLISHED IN THE GAZETTE OF INDIA, EXTRAORDINARY, PART-II, SECTION 3, SUB-SECTION (ii)]

**GOVERNMENT OF INDIA
MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)
(CENTRAL BOARD OF DIRECT TAXES)
NOTIFICATION**

New Delhi, the 29th September, 2016

S.O. 3079 (E) In exercise of the powers conferred by sub-section (2) of section 145 of the Income-tax Act, 1961 (43 of 1961, the Central Government hereby notifies the income computation and disclosure standards as specified in the Annexure to this notification to be followed by all assesseees (other than an individual or a Hindu undivided family who is not required to get his accounts of the previous year audited in accordance with the provisions of section 44AB of the said Act) following the mercantile system of accounting, for the purposes of computation of income chargeable to income-tax under the head “Profits and gains of business or profession” or “Income from other sources”.

2. This notification shall apply to the assessment year 2017-18 and subsequent assessment years.

Annexure

A. Income Computation and Disclosure Standard I relating to accounting policies

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with significant accounting policies.

Fundamental Accounting Assumptions

2. The following are fundamental accounting assumptions, namely:—
 - (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

3. 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

4. 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 Income Computation and Disclosure Standard.
5. An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies

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



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

Transitional Provisions

10. All contract or transaction existing on the 1st day of April, 2016 or entered into on or after the 1st day of April, 2016 shall be dealt with in accordance with the provisions of this standard after taking into account the income, expense or loss, if any, recognised in respect of the said contract or transaction for the previous year ending on or before the 31st March, 2016.

B. Income Computation and Disclosure Standard II relating to valuation of inventories

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure 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 Income Computation and Disclosure Standard on construction contracts;
 - (b) Work-in-progress which is dealt with by other Income Computation and Disclosure Standard;
 - (c) Shares, debentures and other financial instruments held as stock-in-trade which are dealt with by the Income Computation and Disclosure Standard on securities;
 - (d) Producers’ inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable 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 Income Computation and Disclosure Standard on tangible fixed assets.



Definitions

- 2(1) The following terms are used in this Income Computation and Disclosure 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 realisable 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 Income Computation and Disclosure Standard but defined in the Act shall have the meanings assigned to them in that Act.

Measurement

3. Inventories shall be valued at cost, or net realisable value, whichever is lower.

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 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 recognised 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 realisable 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 Income Computation and Disclosure 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 recognised as expenses of the period in which they are incurred, namely:—
 - (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.

Techniques for the Measurement of Cost

- 18(1) Techniques for the measurement of the cost of inventories, such as the standard cost method or the retail method, may be used for convenience if the results approximate the actual cost. Standard costs take into account normal levels of consumption of materials and supplies, labour, efficiency and capacity utilisation. They are regularly reviewed and, if necessary, revised in the light of the current conditions.
- 18(2) The retail method can be used in the retail trade for measuring inventories of large number of rapidly changing items that have similar margins and for which it is impracticable to use other costing methods. 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. An average percentage for each retail department is to be used.



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 realisable value on an aggregate basis.
20. Net realisable value shall be based on the most reliable evidence available at the time of valuation. The estimates of net realisable 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 realisable value, the value of materials shall be written down to net realisable value which shall be the replacement cost of such materials.

Value of Opening Inventory

22. The value of the inventory as on the beginning of the previous year shall be
 - (i) the cost of inventory available, if any, on the day of the commencement of the business when 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.

Valuation of Inventory in Case of Certain Dissolutions

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

Transitional Provisions

25. Interest and other borrowing costs, which do not meet the criteria for recognition of interest



as a component of the cost as per para 11, but included in the cost of the opening inventory as on the 1st day of April, 2016, shall be taken into account for determining cost of such inventory for valuation as on the close of the previous year beginning on or after 1st day of April, 2016 if such inventory continue to remain part of inventory as on the close of the previous year beginning on or after 1st day of April, 2016.

Disclosure

26. The following aspects shall be disclosed, namely:—
- (a) the accounting policies adopted in measuring inventories including the cost formulae used. Where Standard Costing has been used as a measurement of cost, details of such inventories and a confirmation of the fact that standard cost approximates the actual cost; and
 - (b) the total carrying amount of inventories and its classification appropriate to a person.

C. Income Computation and Disclosure Standard III relating to construction contracts

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure 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 Income Computation and Disclosure Standard with the meanings specified:
- (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) **“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) **“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 Income Computation and Disclosure 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 Income Computation and Disclosure 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 Income Computation and Disclosure 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 Income Computation and Disclosure 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 be recognised when there is reasonable certainty of its ultimate collection.
10. 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.
11. 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

12. 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 Income Computation and Disclosure 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.

13. 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.

14. 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.

15. 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

16. 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.

17. 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.



18. 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.
19. 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.
20. 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

21. The percentage of completion method is applied on a cumulative basis in each previous year 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.

Transitional Provisions

- 22.1 Contract revenue and contract costs associated with the construction contract, which commenced on or after 1st day of April, 2016 shall be recognised in accordance with the provisions of this standard.
- 22.2 Contract revenue and contract costs associated with the construction contract, which commenced on or before the 31st day of March, 2016 but not completed by the said date, shall be recognised based on the method regularly followed by the person prior to the previous year beginning on the 1st day of April, 2016.

Disclosure

23. 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.
24. A person shall disclose the following for contracts in progress at the reporting date, namely:—
- (a) amount of costs incurred and recognised profits (less recognised losses) upto the reporting date;
 - (b) the amount of advances received; and
 - (c) the amount of retentions.

D. Income Computation and Disclosure Standard IV relating to revenue recognition

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

- 1(1) This Income Computation and Disclosure 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 Income Computation and Disclosure Standard does not deal with the aspects of revenue recognition which are dealt with by other Income Computation and Disclosure Standards.

Definitions

- 2(1) The following term is used in this Income Computation and Disclosure 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. In an agency relationship, the revenue is the amount of commission and not the gross inflow of cash, receivables or other consideration.



- 2(2) Words and expressions used and not defined in this Income Computation and Disclosure 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. In a situation, where transfer of property in goods does not coincide with the transfer of significant risks and rewards of ownership, revenue in such a situation shall be recognised at the time of transfer of significant risks and rewards of ownership to the buyer.
4. Revenue shall be recognised when there is reasonable certainty of its ultimate collection.
5. 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

6. Subject to Para 7, revenue from service transactions shall be recognised by the percentage completion method. Under this method, revenue from service transactions is matched with the service transaction 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. Income Computation and Disclosure Standard on construction contract also requires the recognition of revenue on this basis. The requirements of that Standard shall mutatis mutandis apply to the recognition of revenue and the associated expenses for a service transaction. However, when services are provided by an indeterminate number of acts over a specific period of time, revenue may be recognised on a straight line basis over the specific period.
7. Revenue from service contracts with duration of not more than ninety days may be recognised when the rendering of services under that contract is completed or substantially completed.

The Use of Resources by Others Yielding Interest, Royalties or Dividends

8.
 - (1) Subject to sub paragraph (2), interest shall accrue on the time basis determined by the amount outstanding and the rate applicable.
 - (2) Interest on refund of any tax, duty or cess shall be deemed to be the income of the previous year in which such interest is received.
 - (3) Discount or premium on debt securities held is treated as though it were accruing over



the period to maturity.

9. 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.
10. Dividends are recognised in accordance with the provisions of the Act.

Transitional Provisions

11. The transitional provisions of Income Computation and Disclosure Standard on construction contract shall **mutatis mutandis** apply to the recognition of revenue and the associated costs for a service transaction undertaken on or before the 31st day of March, 2016 but not completed by the said date.
12. Revenue for a transaction, other than a service transaction referred to in Para 10, undertaken on or before the 31st day of March, 2016 but not completed by the said date shall be recognised in accordance with the provisions of this standard for the previous year commencing on the 1st day of April, 2016 and subsequent previous year. The amount of revenue, if any, recognised for the said transaction for any previous year commencing on or before the 1st day of April, 2015 shall be taken into account for recognising revenue for the said transaction for the previous year commencing on the 1st day of April, 2016 and subsequent previous years.

Disclosure

13. Following disclosures shall be made in respect of revenue recognition, namely:—
 - (a) in a transaction involving sale of good, total amount not recognised as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty;
 - (b) the amount of revenue from service transactions recognised as revenue during the previous year;
 - (c) the method used to determine the stage of completion of service transactions in progress; and
 - (d) for service transactions in progress at the end of previous year:
 - (i) amount of costs incurred and recognised profits (less recognised losses) upto end of previous year;
 - (ii) the amount of advances received; and
 - (iii) the amount of retentions.



E. Income Computation and Disclosure Standard V relating to tangible fixed assets

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure Standard deals with the treatment of tangible fixed assets.

Definitions

- 2(1) The following terms are used in this Income Computation and Disclosure 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) Words and expressions used and not defined in this Income Computation and Disclosure 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 clause (a) of sub-paragraph (1) of paragraph 2 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 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 Income Computation and Disclosure 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, that is, 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, the fair value of the tangible fixed asset so acquired shall be its actual cost.
11. When a tangible fixed asset is acquired in exchange for shares or other securities, the fair value of the tangible fixed asset so acquired shall be its actual cost.

Improvements and Repairs

12. An Expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is added to the actual cost.
13. 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

14. 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.
15. Where several assets are purchased for a consolidated price, the consideration shall be apportioned to the various assets on a fair basis.

Transitional Provisions

16. The actual cost of tangible fixed assets, acquisition or construction of which commenced on or before the 31st day of March, 2016 but not completed by the said date, shall be recognised in accordance with the provisions of this standard. The amount of actual cost, if any, recognised for the said assets for any previous year commencing on or before the 1st day of April, 2015 shall be taken into account for recognising actual cost of the said assets for the previous year commencing on the 1st day of April, 2016 and subsequent previous years.

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.

Disclosures

19. Following disclosure shall be made in respect of tangible fixed assets, namely:—
 - (a) description of asset or block of assets;
 - (b) rate of depreciation;
 - (c) actual cost or written down value, as the case may be;
 - (d) additions or 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) Central Value Added Tax credit claimed and allowed under the CENVAT Credit Rules, 2004;
 - (ii) change in rate of exchange of currency;
 - (iii) subsidy or grant or reimbursement, by whatever name called;
 - (e) depreciation Allowable; and



- (f) written down value at the end of year.

F. Income Computation and Disclosure Standard VI relating to the effects of changes in foreign exchange rates

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure 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

2. (1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
 - (a) **“Average rate”** is the mean of the exchange rates in force during a period.
 - (b) **“Closing rate”** is the exchange rate at the last day of the previous year.
 - (c) **“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.
 - (d) **“Exchange rate”** is the ratio for exchange of two currencies.
 - (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) **“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;
- (l) **“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;
- (m) **“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 Income Computation and Disclosure Standard but defined in the Act shall have the meaning assigned to them in the Act.

Foreign Currency Transactions

Initial Recognition

- 3(1) 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.
- (2) An average rate for a week or a month that approximates the actual rate at the date of the transaction may be used for all transaction in each foreign currency occurring during that period. If the exchange rate fluctuates significantly, the actual rate at the date of the transaction shall be used.



Conversion at Last Date of Previous Year

4. At last day of each previous year:—

- (a) foreign currency monetary items shall be converted into reporting currency by applying the closing rate;
- (b) where the closing rate does not reflect with reasonable accuracy, the amount in reporting currency that is likely to be realised from or required to disburse, a foreign currency monetary item owing to restriction on remittances or the closing rate being unrealistic and it is not possible to effect an exchange of currencies at that rate, then the relevant monetary item shall be reported in the reporting currency at the amount which is likely to be realised from or required to disburse such item at the last date of the previous year; and
- (c) non-monetary items in a foreign currency shall be converted into reporting currency by using the exchange rate at the date of the transaction.
- (d) non-monetary item being inventory which is carried at net realisable value denominated in a foreign currency shall be reported using the exchange rate that existed when such value was determined.

Recognition of Exchange Differences

- 5. (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 recognised as income or as expense in that previous year.

Exceptions to Paragraphs 3, 4 and 5

- 6. Notwithstanding anything contained in paragraph 3, 4 and 5; 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

- 7. The financial statements of a foreign operation shall be translated using the principles and procedures in paragraphs 3 to 6 as if the transactions of the foreign operation had been those of the person himself.

Forward Exchange Contracts

- 8. (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 recognised 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.

Transitional Provisions

9. (1) All foreign currency transactions undertaken on or after 1st day of April, 2016 shall be recognised in accordance with the provisions of this standard.
- (2) Exchange differences arising in respect of monetary items or non-monetary items, on the settlement thereof during the previous year commencing on the 1st day of April, 2016 or on conversion thereof at the last day of the previous year commencing on the 1st day of April, 2016, shall be recognised in accordance with the provisions of this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2016 for an item, if any, which is carried forward from said previous year.



- (3) The financial statements of foreign operations for the previous year commencing on the 1st day of April, 2016 shall be translated using the principles and procedures specified in this standard after taking into account the amount recognised on the last day of the previous year ending on the 31st March, 2016 for an item, if any, which is carried forward from said previous year.
- (4) All forward exchange contracts existing on the 1st day of April, 2016 or entered on or after 1st day of April, 2016 shall be dealt with in accordance with the provisions of this standard after taking into account the income or expenses, if any, recognised in respect of said contracts for the previous year ending on or before the 31st March, 2016.

G. Income Computation and Disclosure Standard VII relating to government grants

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure 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 Income Computation and Disclosure Standard does not deal with:—
 - (a) Government assistance other than in the form of Government grants; and
 - (b) Government participation in the ownership of the enterprise.

Definitions

3(1) The following terms are used in the Income Computation and Disclosure 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 Income Computation and Disclosure 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 recognised 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 recognised 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 recognised 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 recognised 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 unamortised 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 depreciable 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.

Transitional Provisions

13. All the Government grants which meet the recognition criteria of para 4 on or after 1st day of April, 2016 shall be recognised for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount, if any, of the said Government grant recognised for any previous year ending on or before 31st day of March, 2016.

Disclosures

14. Following disclosure shall be made in respect of Government grants, namely:—
 - 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; and
 - d. nature and extent of Government grants not recognised during the previous year as income and reasons thereof.

H. Income Computation and Disclosure Standard VIII relating to securities Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.



Part A

Scope

1. This part of Income Computation and Disclosure Standard deals with securities held as stock-in-trade.
2. This part of Income Computation and Disclosure Standard does not deal with:
 - (a) the bases for recognition of interest and dividends on securities which are covered by the Income Computation and Disclosure 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 (1 of 1956) or the Companies Act, 2013 (18 of 2013).

Definitions

- 3(1) The following terms are used in this part of Income Computation and Disclosure 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 Contracts (Regulation) Act, 1956 (42 of 1956) and shall include share of a company in which public are not substantially interested but shall not include derivatives referred to in sub-clause (ia) of that clause (h).
- 3(2) Words and expressions used and not defined in this part of Income Computation and Disclosure 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 fair value of the security so acquired shall be its actual cost.
7. Where a security is acquired in exchange for another asset, the fair value of the security so



acquired shall be its actual cost.

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, namely:-
 - (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 on the beginning of the previous year shall be:
 - (a) the cost of securities available, if any, on the day of the commencement of the business when the business has 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 purposes 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 or weighted average cost formula.

Part B

Scope

1. This part of Income Computation and Disclosure Standard deals with securities held by a scheduled bank or public financial institutions formed under a Central or a State Act or so



declared under the Companies Act, 1956 (1 of 1956) or the Companies Act, 2013 (18 of 2013).

Definitions

- 2(1) The following terms are used in this part of Income Computation and Disclosure Standard with the meanings specified:
- (a) **“Scheduled Bank”** shall have the meaning assigned to it in clause (ii) of the Explanation to clause (viia) of sub-section (1) of section 36 of the Act.
 - (b) **“Securities”** shall have the meaning assigned to it in clause (h) of Section 2 of the Securities Contract (Regulation) Act, 1956 (42 of 1956) and shall include share of a company in which public are not substantially interested;
- 2(2) Words and expressions used and not defined in this part of Income Computation and Disclosure Standard but defined in the Act shall have the meaning respectively assigned to them in the Act.

Classification, Recognition and Measurement of Securities

3. Securities shall be classified, recognised and measured in accordance with the extant guidelines issued by the Reserve Bank of India in this regard and any claim for deduction in excess of the said guidelines shall not be taken into account. To this extent, the provisions of Income Computation and Disclosure Standard VI on the effect of changes in foreign exchange rates relating to forward exchange contracts shall not apply.”

I. Income Computation and Disclosure Standard IX relating to borrowing costs

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. (1) This Income Computation and Disclosure Standard deals with treatment of borrowing costs.
- (2) This Income Computation and Disclosure 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 Income Computation and Disclosure 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 Income Computation and Disclosure 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 Income Computation and Disclosure Standard. Other borrowing costs shall be recognised in accordance with the provisions of the Act.
4. For the purposes of this Income Computation and Disclosure Standard, “capitalisation” in the context of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2 means addition of borrowing cost to the cost of inventory.

Borrowing Costs Eligible for Capitalisation

5. Subject to paragraph 8, the extent to which funds are borrowed specifically for the purposes of acquisition, construction or production 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. Subject to Para 8, in respect of borrowing other than those referred to in Para 5, if any, the amount of borrowing costs to be capitalised shall be computed in accordance with the following formula namely :—

$$A * B / C$$

Where A = borrowing costs incurred during the previous year except on borrowings referred to in Para 5 above;

B = (i) the average of costs of qualifying asset as appearing in the balance sheet of a person on the first day and the last day of the previous year;

(ii) in case the qualifying asset does not appear in the balance sheet of a person on the first day, half of the cost of qualifying asset; or

(iii) in case the qualifying asset does not appear in the balance sheet of a person on the last day of the previous year, the average of the costs of qualifying asset as appearing in the balance sheet of a person on the first day of the previous year and on the date of put to use or completion, as the case may be, excluding the extent to which the qualifying assets are directly funded out of specific borrowings;

C = the average of the amount 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 assets to the extent they are directly funded out of specific borrowings;

Explanation: For the purpose of this paragraph, a qualifying asset shall be such asset that necessarily require a period of twelve months or more for its acquisition, construction or production.

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 item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such asset is first put to use;
 - (b) in case of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2, 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 item (i) and (ii) of clause (b) of sub-paragraph (1) of paragraph 2, when such part of a qualifying asset is first put to use;
 - (b) in case of part of inventory referred to in item (iii) of clause (b) of sub-paragraph (1) of paragraph 2, when substantially all the activities necessary to prepare such part of inventory for its intended sale are complete.

Transitional Provisions

10. All the borrowing costs incurred on or after 1st day of April, 2016 shall be capitalised for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount of borrowing costs capitalised, if any, for the same borrowing for any previous year ending on or before 31st day of March, 2016.

Disclosure

11. The following disclosure shall be made in respect of borrowing costs, namely:—
- (a) the accounting policy adopted for borrowing costs; and
 - (b) the amount of borrowing costs capitalised during the previous year.

J. Income Computation and Disclosure Standard X relating to provisions, contingent liabilities and contingent assets

Preamble

This Income Computation and Disclosure 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 Income Computation and Disclosure Standard, the provisions of the Act shall prevail to that extent.

Scope

1. This Income Computation and Disclosure 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 Income Computation and Disclosure Standard.
2. This Income Computation and Disclosure Standard does not deal with the recognition of revenue which is dealt with by Income Computation and Disclosure 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 Income Computation and Disclosure Standard.

Definitions

- 4(1) The following terms are used in this Income Computation and Disclosure Standard with the meanings specified:
- (a) **"Provision"** is a liability which can be measured only by using a substantial degree of estimation.
 - (b) **"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) **"Obligating event"** is an event that creates an obligation that results in a person having no realistic alternative to settling that obligation.
 - (d) **"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) **"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) **"Present obligation"** is an 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 Income Computation and Disclosure 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, that is 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.

Transitional Provisions

20. All the provisions or assets and related income shall be recognised for the previous year commencing on or after 1st day of April, 2016 in accordance with the provisions of this standard after taking into account the amount recognised, if any, for the same for any previous year ending on or before 31st day of March, 2016.

Disclosure

21(1) Following disclosure shall be made in respect of each class of provision, namely:-

- (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;

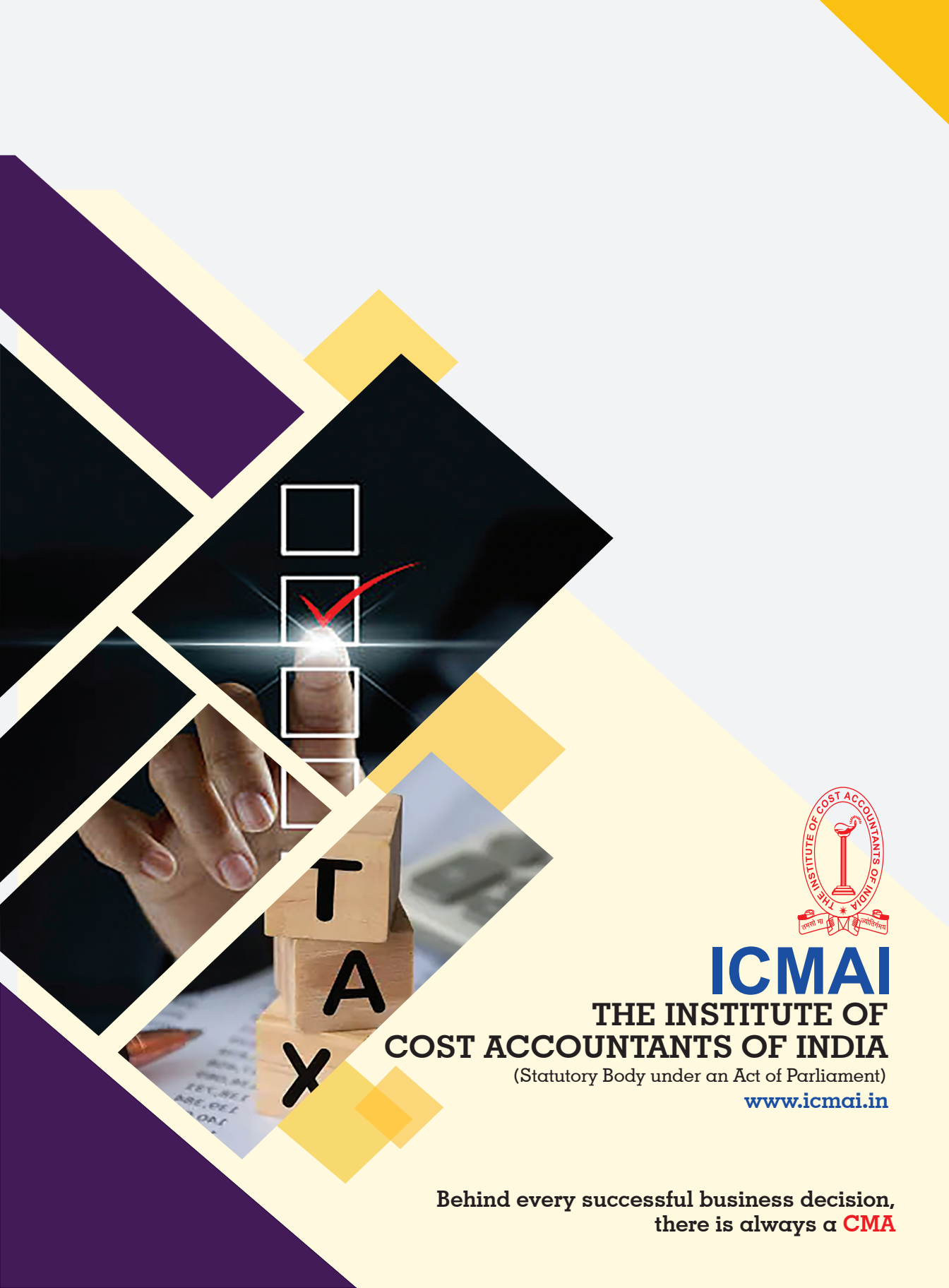
- (d) amounts used, that is incurred and charged against the provision, during the previous year;
- (e) unused amounts reversed during the previous year; and
- (f) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

21(2) Following disclosure shall be made in respect of each class of asset and related income recognised as provided in para 11, namely:—

- (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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