

**IN THE INCOME TAX APPELLATE TRIBUNAL
Hyderabad ‘ A ‘ Bench, Hyderabad**

Before
Shri Laliet Kumar, Judicial Member
AND
Shri L.P.SAHU, Accountant Member

ITA No.63/Hyd/2022		
Assessment Year: 2018-19		
Olectra Greentech Ltd Secunderabad PAN:AABCG3455B	Vs.	Asstt. Commissioner of Income Tax, Central Circle 3(2), Hyderabad
(Appellant)		(Respondent)
Assessee by:	Sri P. Murali Mohan Rao, CA	
Revenue by:	Sri Rajendra Kumar, CIT-DR	
Date of hearing:	05/05/2022	
Date of pronouncement:	27/06/2022	

ORDER

Per Laliet Kumar, J.M.

This is assessee's appeal for the A.Y 2018-19 against the order of the CIT (A)-11, Hyderabad, dated 16.2.2022 imposing penalty of Rs.1,11,83,231/- u/s 143(3) of the Act.

2. The assessee has raised as many as 21 grounds which reads as under :

“1. On the facts and in the circumstances of the case the appellate order passed by the CIT(A) is erroneous both on facts and in law to the extent the order is prejudicial to the interest of the appellant.

2. *The Ld. CIT(A) erred in partly allowing the appeal.*
3. *The Ld. CIT(A) ought to have appreciated the fact that the order of the assessing officer under section 143(3) of the Act dated 28.12.2019 for the AY 2018-19 is erroneous both on facts of the case and- in law to the extent the order is prejudicial to the interest of the assessee.*
4. *The Ld. CIT(A) ought to have appreciated the fact that the AO ought to have restricted himself to the income returned, when no incriminating material was found during the course of search u/s 132 relating for the assessment year, which year is the period in which search u s 132 of the Act was conducted.*
5. *The Ld. CIT(A) ought to have appreciated the fact that the AO ought to have considered that the return of income for this Asst. year was converted into scrutiny in issuing notice u/s 143(2) in accordance with the provisions of section 153A and was not for any other mode of norms as laid down for conversion into scrutiny which thus, no addition can be made relating to this Asst. year without any incriminating material found at the time of search u/s 132 of the Act.*
6. *The Ld. CIT(A) ought to have appreciated the fact that the Ld. AO has erred in passing the order u/ s 153A of the Act without obtaining the prior approval of the competent authority JCIT/ Additional commissioner of income tax u/s 153D of the Act.*
7. *The Id. CIT(A) erred in confirming the difference between interest income reflected in 26AS and accounted in books of accounts for the relevant assessment year.*
8. *The Ld. CIT(A) instead of deleting the addition in respect of difference of between interest income reflected in 26AS and accounted in books of accounts ignoring the fact that is offered in subsequent years, erred in directing the assessing officer reverifying the issue again.*
9. *The Ld.CIT(A) ought to have appreciated the fact that without prejudice to other grounds of appeal, the A.O erred in making an addition of Rs.5,98,865/towards difference in interest income, without appreciating the fact that the appellant admitted interest income based on actual interest received as per the regular books of accounts maintained.*
10. *The Ld. CIT(A) ought to have appreciated the fact that the AO erred in making addition of amount of Rs.8,91,25,000/- towards stock adjustment made, without considering that the appellant has written off the obsolete inventory accumulated from past several years after reviewing market value in accordance with the IND AS-2 and as per approval accorded by the Board of Directors of the appellant and which is according with the provisions of the I.T. Act, 1961.*

11. The Ld. CIT(A) ought to have appreciated the fact that the loss on inventory valuation has been adjusted in the opening reserves of the company as on 01.04.2016 in accordance with provisions of IND AS 101 and taken in computation of income in the AY 2018-19 and thus, no disallowance need to be made.

12. The Ld. CIT(A) ought to have appreciated the fact that deduction shall be allowed to the assessee on the basis of provisions of law and not on basis of the accounting entries passed in the books of account. Mere adjustment of such loss against the opening reserves should not result in disallowance.

13. The Ld. CIT(A) erred in not appreciating the fact that the inventory as on 01.04.2016 was restated from Rs. 16,66,57,799 to Rs. 7,75,32,799 i.e. a difference of Rs. 8,91,25,000.

14. The Ld. CIT(A) erred in not appreciating the fact that the opening inventory of Rs. 63,41,81,360/- as on 01.04.2017 is a carry forward of the adjusted balance of inventory of 01.04.2016.

15. The Ld. CIT(A) failed to have appreciated the fact that the AO ought not to have made any disallowance towards stock inventory for this year, as the appellant had already offered the excess income in the earlier Asst' year to the extent of stock inventory written off this year and as thus the action of the AO is against to the principles of Natural Justice and is bad in law.

16. The Ld. CIT(A) failed to have appreciated the fact that the write off of stock as the same was obsolete from many years in accordance with provisions of Ind AS 2 and is accordingly allowable as business expenditure u/s 28(i) of the Act.

17. The Ld. CIT(A) failed to have appreciated the fact that Without prejudice, the AO ought to have agreed for the written off either in the year of adjustment i.e. , AY 2017-18 or in the AY 2018-19.

18. The Ld. CIT(A) ought to have appreciated the fact the books of accounts have been audited by a Chartered Accountant in accordance with provisions of sec 44AB of the Act.

19. The Ld. CIT(A) ought to have appreciated the fact that without prejudice to the above, the AO completed the assessment without affording reasonable opportunity of being heard to the appellant, which is against to the Principles of Natural justice and bad in law.

20. The Ld. CIT(A) ought to have appreciated the fact that the AO erred in initiating penalty proceedings under section 270A of the Act, without appreciating the fact that the appellant has not under reported or misreported any particulars of income.

21. The appellant may add or alter or amend or modify or substitute or delete and / or rescind all or any of the grounds of appeal at any time before or at the time of hearing of the appeal.”

2.1. Brief facts of the case are that the assessee company Olectra Greentech Ltd (formerly known as M/s Goldstone Infratech Ltd) is engaged in the business of manufacturing of composite polymer insulators. The assessee company entered into the business of manufacturing of Electric Buses, in collaboration with M/s. BYD Auto Co. Ltd, China.

3. A search and seizure operation u/s 132 of the Act was conducted in the premises of the assessee and its other associated companies on 09.11.2017. Subsequently, the assessee filed revised return of income on 23.10.2018 declaring an income of Rs.36,92,510/-. The Assessing Officer, thereafter, served a notice u/s 143(2) on 22.9.2019 for the A.Y 2018-19 to the assessee company, being the search A.Y.

4. The Assessing Officer observed that the assessee is in receipt of interest income and the assessee has offered Rs.95,40,975/- as interest income. The same was verified from 26AS and it was observed that the assessee is in receipt of the following interest income from different parties which are given below:

Name from whom interest is received	Amount (Rs.)
S&P Structures P Ltd	43,294
Southern Power Distribution Co. of Telangana Ltd	2,08,930
Superintending Engineer Corporation	76,950
SBI	18,65,842
SBI	1,59,243
SBI	32,80,581
KEC International	30,145
Yes Bank	44,74,855
Total	1,01,39,840
Interest Income offered	95,40,975
Balance interest income to be offered	5,98,865

5. Thereafter, the assessee enhanced its income by Rs.5,98,865/- which is considered as undisclosed income by the Assessing Officer and hence penalty proceedings u/s 270A were initiated for underreporting of income.

6. The Assessing Officer further observed that the assessee has claimed Rs.8,91,25,000/- as stocks written off in terms of Ind AS adjustments amounting to Rs.8,91,25,00/- and Rs.89,06,841/- as interest on excise refund written off in terms of Ind AS adjustment. In this regard, a notice was issued to the assessee on 3.12.2019 seeking details of valuation on which the values of inventories have been written off with supportive evidences, if any. The assessee, vide its letter dated 06.12.2019 submitted its reply. The contention of the assessee with regard to valuation of stock for the purpose of determining the income chargeable under profits and gains from business is considered. It was observed by the Assessing Officer that the inventories shown at the end of the financial year ending i.e. as on 31.3.2018 is Rs.63,41,81,360/- and the same figure should be shown as the opening balance i.e. o 1.4.2018. Assessing Officer observed that the assessee company in its computation sheet has reduced an amount of Rs.8,91,25,000/-. Assessing Officer was of the opinion that even if the claim of the assessee for written off is considered for a moment, even then by reducing the amount, the assessee should have shown its opening balance of the inventory as on 1.4.2018 as Rs.54,50,56,360/- but the assessee has shown its opening value of stock as Rs.63,41,81,360/-. Hence, the Assessing Officer proceeded with penalty proceedings u/s 270A for underreporting of income and the total tax payable by the assessee was determined at Rs.1,11,83,231/-.

7. Aggrieved, the assessee preferred an appeal before the Id.CIT(A) who partly allowed the appeal of the assessee. Still being aggrieved, the assessee is in appeal before the Tribunal by raising the following written submissions:

"I. Disallowance of Rs. 8,91,25,000/- on account of stock adjustment as per IND AS (Ground Nos. 10 to 18)

It is to submit that the appellant company has conversed to IND AS method of accounting system from the financial year 2.017-18 and onwards. As per the guidelines and rules of the IND AS, the assessee shall prepare and present an Opening IND AS Balance Sheet at the date of transition to IND AS. Accordingly, the assessee has prepared and presented the opening IND AS Balance Sheet i.e., FY 2016-17 and effects were provided in the financial Statements for the FY 2017-18. Your kind reference is invited to the Financials of FY 2017-18 presented at page nos. 156 to 326 of the paper book filed on 27 April 2022.

Further as per section 14sA r.w.s ICDS-I! 'Valuation of Inventories' linked with 'IND AS-2' states that the Closing stock is to be valued at Lower of Cost or Net Realisable Value. Further for your reference the ICDS-II provides for 'Valuation of Opening Inventory' where in it states that - "The value of opening inventory will be the cost of inventory present at the date of commencement of business, in case of new business and in any other case, cost of inventory as on the last date of immediately preceding year".

~It is also to bring to your kind notice that the assessee has written off the obsolete inventory which was being accumulated from past several years in the factory and the same was approved by the Board of Directors of the appellant and which is in accordance with the provisions of the LT. Act, 1961. The assessee has written off the stock after reviewing the market value in accordance with provisions of IND AS 2.

On application of IND AS for the FY 2017-18, the Inventories were valued at realisation basis and an amount of Rs.8,91,25,000/- was written off. In support of the same, your kind attention is taken to the copy of the statement of value wise break-up of inventories at page nos. 378-382 of the paper book filed on 27 April 2022.

Due to undervaluation of closing stock as on 31.03.2017, as stated supra. Opening stock for 01.04.2016 was also restated. The following table below provide the details of

Fair Valuation of the Inventory as on 01.04.2016 (before & after):

<i>Particulars</i>	<i>As on 31.3.2016 (original) financial year 2015-16)</i>	<i>As on 1.4.2016 (restated) in F.Y 2017-18</i>	<i>Difference</i>
<i>Inventory</i>	<i>16,66,57,799</i>	<i>7,75,32,799</i>	<i>8,91,25,000</i>

Further the table below provides the details of Fair Valuation of Inventory as on 31.03.2017(before & after):

<i>Particulars</i>	<i>As on 31.3.2017 (original)</i>	<i>As on 31.3.2017 (Restated)</i>	<i>Difference</i>
<i>Inventory</i>	<i>32,07,13,781</i>	<i>23,15,88,781</i>	<i>8,91,25,000</i>

The above facts were also brought to the notice of the assessing officer and also to the notice of the CIT(A) during course of appellate proceedings. Your kind reference is invited to the page nos.369-388 of the paper book filed on 27 April 2022. The AO and the CIT(A) has not considered the above submissions of the assessee without finding any discrepancy.

The appellant company gave the effect of restatement of Inventory balances as per IND AS implementation (difference/loss of Rs.8,91,25,000/-) in the stock value in the Opening Reserves of the company as on 01.04.2016 in accordance with provisions of IND AS 101 and this being the revenue loss was deducted in computation of income in the AY 2018-19(FY 2017-18).

The same fact can be seen in the Ledger Copy of Reserves (Profit & loss A/c) where in the inventory along with the other restatement effects have also been adjusted. Ledger Copy of Reserves (P&L A/c) for the FY 2017-18 is presented at page Nos. 389 to 390 of the paper book filed on 27 April 2022.

It is to submit that the closing stock value has taken at original value in P&L account on the credit side in the previous financial year and offered to tax. Thus, as per IND AS-2 and as per ICDS- II 'Valuation of Inventories', the inventories have to be recognized at lower of cost or market value in the relevant FY 2017-18. This loss due to inventories valuation has been adjusted by the appellant company in the opening reserves of the company as on 01.04.2017 as per the IND AS. This being the revenue loss and the loss is deductible irrespective of the accounting treatment in the books of account of the assessee. Accordingly, the assessee deducted loss on obsolete inventory in the computation of income for the AY 2018-19. In support of the same reliance is place on the decision of the Hon'ble ITAT Chennai in the case of DCIT Vs. The India Cements Ltd in ITA No. 214S&2210/CHNY/2017, "wherein

it was held that when the loss incurred on fluctuation in foreign currency is on revenue account then said loss is deductible u/s.37(1) of the Act irrespective of accounting treatment given in books of accounts of the assessee"

We would like to submit further that as per the MCA press release No. 11/10/2009 CL-V dated 2 January 2015 for implementation of Indian Accounting Standards (IND AS) converged with the international Financial Reporting Standards (IFRS), the companies should adopt IND AS If they come under the threshold. The relevant extract of the MCA press release is reproduced under:

*The Ind AS shall be applicable to the companies as follows:
[i] On voluntary basis for financial statements for accounting periods beginning on or after April 1, 2015, with the comparatives for the periods ending 31" March, 2015 or thereafter;*

(ii) On mandatory basis for the accounting periods beginning on or after April 1, 2016, with comparatives for the periods ending 31st March, 2016, or thereafter, for the companies specified below:

(a) Companies whose equity and/or debt securities are listed or are in the process of listing on any stock exchange in India or outside India and having net worth of Rs. 500 crores or more.

[b] Companies other than those covered in (ii)(a) above, having net worth of Rs. 500 crore or more.

(c) Holding; subsidiary, joint venture or associate companies of companies covered under (ii) (a) and (ii) [b] above.

(iii) On mandatory basis for the accounting periods beginning on or after April 2017, With comparatives, for the periods ending 31stMarch, 2017, or thereafter, for the c:ompanies specified below:

(a) Companies whose equity and/or debt securities are listed or are in the process of being listed on any stock Exchange in India or outside India and having net worth of less than rupees five hundred Crore.

[b] Companies other than those covered in paragraph (ii) and paragraph (iii)(a) above that is unlisted companies having net worth of two hundred and fifty crore or more but less than rupees five hundred Crore,

(c) Holding, subsidiary, joint venture or associate companies of companies covered under paragraph ((iii) (a) and (iii)(b) above.

The assessee company met the criteria laid down in clause iii of the above press release and has adopted for the IND AS in the preparation and presentation of the financial statement for the period beginning from 1 April 2017.

Accordingly, the assessee has adopted the treatment laid down in the IND AS 101 (First-time Adoption of Indian Accounting Standards) notified by MCA for transition to IND AS from the previous GAAP. Relevant portion of IND AS -101 is reproduced as under;

"11 The accounting policies that an entity uses in its opening Ind AS Balance Sheet may differ from those that it used for the same date using its previous GAAP. The resulting adjustments arise from events and transactions before the date of transition to 111d ASs. Therefore, an entity shall recognize those adjustments directly in retained earnings (or, if appropriate, another category of equity) at the date of transition to Ind ASs".

The Accountant Standards are issued by ICAI and they are notified by Ministry of Corporate Affairs, it has a binding force of law on companies and if the accounts are prepared in violation of notified Accounting Standards, then it could not be said that the accounts reflect true and fair view. IND AS-101 was duly notified by Ministry of Corporate Affairs, Government of India. The assessee has rightly accounted for said effect of transition to IND AS in its audited financial statements prepared for the year under consideration under the Companies Act.

At this juncture, we would like to bring to your kind notice that when the expert body like ICAI issue Accounting Standards prescribing manner in which accounts are to be prepared and later it is notified by Government of India, Ministry of Corporate Affairs as mandatorily to be followed, it has force of law and it cannot be simply brushed aside. Reliance is placed on the decision of Hon'ble ITAT Hyderabad in the case of M/s. Country Club Hospitality Holidays Limited Vs ACIT in ITA No. 1689/HYD/2012.

We further would like to submit that the assessee is being a Listed Company on Stock Exchanges in India and obligatory to adopt the rules and regulations of other Law governing bodies of India. Thus, adoption of norms as per both the laws is mandatory for the assessee and he has complied with both the laws and so adjusted the difference to Reserves & Surplus A/c. Thus the adjustment made in the computation of total income following the accounting standards as laid down in IND AS is allowable and is supported by the decisions of the Hon'ble Apex court in the case of CIT Vs Virtual Soft Systems Ltd vide order in [2018] 92 taxmann.com 370 (SC), wherein it was held that "There being no express bar in Act regarding application of

accounting standards prescribed by ICAI, deduction on account of lease equalization charges from lease rental income could have been allowed under Act, on basis of these accounting standards".

Further, the above view is supported by the Decision of Hon'ble High Court of Andhra Pradesh (Jurisdictional Court), in the case of CIT vs. Pact securities and Financial Services Ltd., vide order in ITA Nos. 252 & 291 of 2003, 132 & 136 of 2004 and 76 & 77 of 2006, dt: 05-02-2015;

In view of the facts submitted above, it is to submit that the addition of Rs. 8,91,25,000/ deserves to be deleted as the written off of obsolete inventory is as per IND AS.

II. Addition of Rs.5,98,865/- on account of Undisclosed interest income (Ground Nos. 7 to 9)

The A.O has made addition of Rs. 5,98,865/- towards difference in interest income between Profit & loss account and 26AS without appreciating the fact that appellant has admitted interest income based on Prudence and Accrual concept. The same was offered in subsequent years and hence the addition deserves to be deleted. The same fact was accepted by the Hon'ble ITAT in the assessee own case for the earlier years in ITA No. 466 & 467 /HYD / 2021, the relevant extract of the order is reproduced as under;

"In respect of interest income, there was a difference in the financial statements and Form 26AS only, We find that the difference has been offered by the assessee in the subsequent assessment years, which is clear from the order of the CIT(A)."

Therefore, in view of above, it is requested to your kind to delete the addition made on account of undisclosed interest income.

PRAYER

We request your good self to kindly consider the above explanations and to delete the addition of Rs. 8,91,25,000/- and Rs. 5,98,865/-."

8. The assessee relied on the following case laws in support of its claim:

- i. ITA No.1689/Hyd/2012 for the A.Y 2009-10 in the case of M/s Country Club & Hospitality & Holidays Ltd vs. ACIT

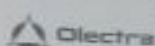
- ii. ITA No.1735/Hyd/2012 in the case of ACIT vs. M/s Country Club Hospitality & Holidays.

9. The learned DR relied upon the orders passed by the lower authorities.

10. We have heard the rival contentions and the material available on record. The learned CIT (A) at page 29 & 30 of his order had dealt with the issue in respect to re-valuation of the stock for an amount of Rs.8,91,25,000/- , the findings of the learned CIT (A) can be summarized as under:

- i. That the assessee was harping upon IND-AS 101.
- ii. The original value of the inventory as on 31.3.2016 was Rs.16,66,57,799/- which was revalued on realization basis at Rs.7,75,32,779/- which is almost reduction of 55% of the total stock.
- iii. The assessee is duty bound to justify the reduction in the value of inventory either based on cost and market value whichever is lower.
- iv. It is a device by the assessee to reduce the tax liability, or the CIT (A) has raised a suspicion that the goods were sold off the book.

11. We first deal with the issue whether the assessee was required to adopt IND-AS 101. In this regard the assessee has placed on record the audited balance sheet running from pages at 156 to 326 for the financial year 2017-18. At page 266 of the balance sheet, it is mentioned at note 42 as under:

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NOTES FORMING PART OF THE STANDALONE FINANCIAL STATEMENTS
(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

41 Capital management

The Company's policy is to maintain a stable capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors capital on the basis of return on capital employed as well as the debt to total equity ratio. For the purpose of debt to total equity ratio, debt considered is long-term and short-term borrowings. Total equity comprise of issued share capital and all other equity reserves. The capital structure as of March 31, 2018, March 31, 2017 and April 1, 2016 was as follows:

Particulars	31-Mar-18	31-Mar-17	1-Apr-16
Total equity attributable to the equity shareholders of the Company	19,835.09	6,623.57	5,789.08
As a percentage of total capital	73.25%	50.60%	56.78%
Long term borrowings including current maturities	1,089.61	484.46	431.27
Short term borrowings	6,152.63	5,980.84	3,975.28
Total borrowings	7,242.25	6,465.30	4,406.54
As a percentage of total capital	26.75%	49.40%	43.22%
Total capital (equity and borrowings)	27,077.34	13,088.87	10,195.62

42 Explanation on transition to Ind AS

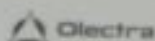
As stated in Note 2.1, these are the first standalone financial statements prepared in accordance with Ind AS. For the year ended March 31, 2017, the Company had prepared its standalone financial statements in accordance with Companies (Accounting Standards) Rules, 2006 notified under section 133 of the Act and other relevant provision of the Act ('Previous GAAP'). For the purpose of transition from Previous GAAP to Ind AS, the Company has followed the guidance prescribed under Ind AS 101-first time adoption of Indian Accounting Standards ("Ind AS-101"), with effect from April 1, 2016 ('transition date').

The accounting policies set out in Note 3 have been applied in preparing these standalone financial statements for the year ended March 31, 2018 including the comparative information for the year ended March 31, 2017 and the opening standalone Ind AS balance sheet on the date of transition i.e. April 1, 2016.

In preparing its standalone Ind AS balance sheet as at April 1, 2016 and in presenting the comparative information for the year ended March 31, 2017, the Company has adjusted amounts reported previously in standalone financial statement prepared in accordance with the Previous GAAP. This note explains how the transition from Previous GAAP to Ind AS has affected the Company's financial position and financial performance.

A. Mandatory exceptions to retrospective application

The Company has applied the following exceptions to the retrospective application of Ind AS as mandatorily required under Ind AS 101 "First Time Adoption of Indian Accounting Standards":



NOTES FORMING PART OF THE STANDALONE FINANCIAL STATEMENTS

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

- 1) **Estimates:** As per Ind AS 101, an entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with the Previous GAAP unless there is objective evidence that those estimates were in error.

As per Ind AS 101, where application of Ind AS requires an entity to make certain estimates that were not required under Previous GAAP, those estimates should be made to reflect conditions that existed at the date of transition (for preparing opening Ind AS balance sheet) or at the end of the comparative period (for presenting comparative information as per Ind AS).

The Company's estimates under Ind AS are consistent with the above requirement. Key estimates considered in preparation of the standalone financial statements that were not required under the Previous GAAP are listed below:

- Impairment of financial assets based on the expected credit loss model.
- Determination of the discounted value for financial instruments carried at amortised cost.

- 2) **Classification and measurement of financial assets:** Ind AS 101 requires an entity to assess classification of financial assets on the basis of facts and circumstances existing as on the date of transition. Further, the standard permits measurement of financial assets accounted at amortised cost based on facts and circumstances existing at the date of transition if retrospective application is impracticable.

Accordingly, the Company has determined the classification of financial assets based on facts and circumstances that exist on the date of transition. Measurement of the financial assets accounted at amortised cost has been done retrospectively except where the same is impracticable.

B. Optional exemptions from retrospective application

Ind AS 101 "First time Adoption of Indian Accounting Standards" permits Companies adopting Ind AS for the first time to take certain exemptions from the full retrospective application of Ind AS during the transition. The Company has accordingly on transition to Ind AS availed the following key exemptions:

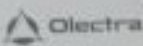
- 1) **Property, plant and equipment:** The Company has elected to treat fair value as deemed cost for certain items of its property, plant and equipment.

The aggregate fair value of property, plant and equipment where the exemption was availed amounted to ₹ 1,533.71 Lakhs with an aggregate adjustment of ₹ 1,533.71 Lakhs being recognised to the carrying value reported under the Previous GAAP.

- 2) **Intangible assets:** The Company has elected to treat fair value as deemed cost for all items of intangibles. The aggregate fair value of intangibles where the exemption was availed amounted to ₹ 13.60 Lakhs with an aggregate adjustment of ₹ 13.60 Lakhs being recognised to the carrying value reported under the Previous GAAP.

- 3) **Business combination:** Ind AS 101, provides the option to apply Ind AS 103, Business Combinations ("Ind AS 103") prospectively from the transition date or from a specific date prior to the transition date. The Company has elected to apply Ind AS 103 from transition date. Accordingly, business combinations occurring prior to the transition date have not been restated.

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NOTES FORMING PART OF THE STANDALONE FINANCIAL STATEMENTS
(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

4) Investments in subsidiary: On transition, Ind AS 101 allows an entity to treat fair value as deemed cost for investments held in subsidiaries, associates and joint ventures.

Accordingly, the Company has elected to treat fair value as deemed cost for its investments held in its subsidiary. The fair value of such investments was considered as Nil with an adjustment of ₹ 601.00 Lakhs being recognised to the carrying value reported under the Previous GAAP.

C. The following reconciliation provide the effect of transition to Ind AS from Previous GAAP in accordance with Ind AS 101:

(i) Reconciliation of total equity as at March 31, 2017 and April 1, 2016

Particulars	Note	As at March 31, 2017	As at April 1, 2016
Equity as reported under previous GAAP		9,220.98	8,619.90
Fair value as deemed cost	a	(2,155.60)	(2,155.60)
Reversal of depreciation on change in deemed cost of PPE	b	292.95	-
Allowance for doubtful receivables	c	(572.90)	(556.17)
Fair Valuation/ Amortized Cost of Financial Assets/ Liabilities and Other Assets	d	(926.88)	(891.25)
Others	e	(193.31)	(258.87)
Impact on deferred tax		958.33	1,031.07
Equity reported under Ind AS		6,623.57	5,789.08

a. Fair value as Deemed cost

Ind AS 101 "First time Adoption of Indian Accounting Standards" permits Companies adopting Ind AS for the first time to take certain exemptions from the full retrospective application of Ind AS during the transition. Accordingly on transition to Ind AS, the Company has elected to treat fair value as deemed cost for certain items of its property, plant and equipment, intangible assets and investments, the details of which are listed below:

(i) The aggregate fair value of property, plant and equipment (including capital work in progress) where the exemption was availed amounted to ₹ 1,541.00 Lakhs with an aggregate adjustment of ₹ 1,541.00 Lakhs being recognised to the carrying value reported under the Previous GAAP.

(ii) The aggregate fair value of Intangibles where the exemption was availed amounted to ₹ 13.60 Lakhs with an aggregate adjustment of ₹ 13.60 Lakhs being recognised to the carrying value reported under the Previous GAAP.

(iii) The aggregate fair value of Investments where the exemption was availed amounted to ₹ 601.00 Lakhs with an aggregate adjustment of ₹ 601.00 Lakhs being recognised to the carrying value reported under the Previous GAAP.

12. From the perusal of the above, it is clear that the restatement of the stock/switching over from the previous GAP to IND-AS 101 was done as per IAS-101, the effect was given from 1.4.2016. Further, at page 378, the assessee has provided the details of the value of stock items which were written off amounting to Rs.7,00,00,021/-. The cursory look of the stock items shows that these were electric items which stocks were

written off on account of the shift of the line of the business of the assessee. Similarly, the assessee had also written material and component which are not usable in the business of the assessee for Respondent 1,91,25,108/-. Thus, the assessee had in total written off inventory of Rs.8,91,25,129/-.

13. For the year under consideration, the total inventory including the raw material of the assessee was Rs.63,41,81,360/- and on account of shifting of the assessee from GAP to IND-AS 101, the assessee has passed on the entry after recharacterization/valuation as per accounting standard for value less than Rs.8,91,25,000/-. In our considered opinion, shifting/ adoption to IND-AS 101 is mandatory for the assessee as it is requirement of law u/s 145(3) of the Act . Further assessee was permitted to estimate the inventories in accordance with the accounting standard AS 101. Therefore, we do not find any error in shifting of the assessee from GAP to IND-AS 101.

14. The second reason given by the learned CIT (A) was that no basis was given for the valuation of the stock and for declaring the stock as obsolete. In our considered opinion, the assessee in the balance sheet have given the detailed description of the business of the assessee and shifting of line of business.

15. Even the Assessing Officer in para 1 of his order has mentioned as under:

“Assessee company M/s.Olectra Greentech Ltd (formerly known as M/s Goldstone Infratech Ltd) is a company in which public are substantially interested is engaged in the business of manufacturing composite polymer insulators. The assessee company entered into the business of

manufacturing of Electric Buses, in collaboration with M/s. BYD Auto Co. Ltd, China”.

16. From the above, it is abundantly clear that there is a change in the primary activities of the assessee and instead of doing the manufacturing composite polymer insulators, the assessee had entered into agreement of manufacturing of electrical buses in collaboration with M/s. BYD Auto Co. Ltd, China. Thus, it cannot be said that the stock which was relevant for the earlier business would not become obsolete and continue to be useful. In our view, once the option has been given to the assessee by way of shifting GAP to IND-AS 101, then the assessee was required to correct the status of the inventories and record of the assessee should reflect the correct state of affairs . We may fruitfully rely upon the decision of SC in the case of S.A. Builders Ltd. v. CIT (Appeals) [2007] 288 ITR 1/158 Taxman 74 (SC) After taking note of and discussing on the scope of commercial expediency, the Court summed up the legal position in the following manner:—

“26. The expression "commercial expediency" is an expression of wide import and includes such expenditure as a prudent businessman incurs for the purpose of business. The expenditure may not have been incurred under any legal obligation, but yet it is allowable as a business expenditure if it was incurred on grounds of commercial expediency.

27. No doubt, as held in Madhav Prasad Jatia v. CIT [1979 (118) ITR 200 (SC)], if the borrowed amount was donated for some sentimental or personal reasons and not on the ground of commercial expediency, the interest thereon could not have been allowed under section 36(1)(iii) of the Act. In Madhav Prasad's case [1979 (118) ITR 200 (SC)], the borrowed amount was donated to a college with a view to commemorate the memory of the assessee's deceased husband after whom the college was to be named, it was held by this court that the interest on the borrowed fund in such a case could not be allowed, as it could not be said that it was for commercial expediency.

28. Thus, the ratio of Madhav Prasad Jatia's case [1979 (118) ITR 200 (SC)] is that the borrowed fund advanced to a third party should be for

commercial expediency if it is sought to be allowed under section 36(1)(iii) of the Act.

29. In the present case, neither the High Court nor the Tribunal nor other authorities have examined whether the amount advanced to the sister concern was by way of commercial expediency.

30. It has been repeatedly held by this court that the expression "for the purpose of business" is wider in scope than the expression "for the purpose of earning profits" vide CIT v. Malayalam Plantations Ltd. [1964 53 ITR 140 (SC), CIT v. Birla Cotton Spinning and Weaving Mills Ltd. [1971 82 ITR 166 (SC)], etc."

17. We may also point out that the premises of the assessee is situated in the bounded premises which is subject to supervision of the Excise and Other Govt. Departments, and it is not possible for the assessee to remove any of the material without paying excise duty even if they pertain to the obsolete stock. Nonetheless in the subsequent A.Y, whenever there is a sale of the obsolete stock, the value of the said stock shall be duly accounted for and would be subjected to due tax. In view of the above, we do not find any reason to interfere in the matter.

18. Lastly, the Coordinate Bench of the ITAT Hyderabad in the case of M/s. Country Club Hospitality & Holidays Ltd vs. ACIT in ITA No.1689/Hyd/2012 dated 22.5.2018 had dealt with the issue and it was held as under:

"16. In the light of what is stated hereinabove, it is clear that profits and gains of the previous year are required to be computed in accordance with the relevant accounting standard. It is important to bear in mind that the basis on which stock-in-trade is valued is part of the method of accounting. It is well established, that, on general principles of commercial accounting, in the P&L account, the values of the stock-in-trade at the beginning and at the end of the accounting year should be entered at cost or market value, whichever is lower - the market value being ascertained as on the last date of the accounting year and not as on any intermediate date between the commencement and the closing of the year, failing which it would not be possible to ascertain the true and correct state of affairs. No gain or profit can arise until a balance is struck between the cost of

acquisition and the proceeds of sale. The word "profit" implies a comparison between the state of business at two specific dates, usually separated by an interval of twelve months. Stock-in-trade is an asset. It is a trading asset. Therefore, the concept of profit and gains made by business during the year can only materialize when a comparison of the assets of the business at two different dates is taken into account. Section 145(1) enacts that for the purpose of Section 28 and Section 56 alone, income, profits and gains must be computed in accordance with the method of accounting regularly employed by the assessee. In this case, we are concerned with Section 28. Therefore, Section 145(1) is attracted to the facts of the present case. Under the mercantile system of accounting, what is due is brought into credit before it is actually received; it brings into debit an expenditure for which a legal liability has been incurred before it is actually disbursed. (see judgment of this Court in the case of United Commercial Bank v. CIT reported in 240 ITR 355). Therefore, the accounting method followed by an assessee continuously for a given period of time needs to be presumed to be correct till the AO comes to the conclusion for reasons to be given that the system does not reflect true and correct profits. As stated, there is no finding given by the AO on the correctness of the accounting standard followed by the assessee(s) in this batch of Civil Appeals.

17. Having come to the conclusion that valuation is a part of the accounting system and having come to the conclusion that business losses are deductible under Section 37(1) on the basis of ordinary principles of commercial accounting and having come to the conclusion that the Central Government has made Accounting Standard-11 mandatory, we are now required to examine the said Accounting Standard ("AS").

19. In view of the above, the ground nos.10 to 18 raised by the assessee are allowed. No other ground was raised by the assessee during the course of hearing, hence, the remaining grounds are dismissed as not pressed.

Order pronounced in the Open Court on 27th June, 2022.

Sd/- (L.P.SAHU) ACCOUNTANT MEMBER	Sd/- (LALIET KUMAR) JUDICIAL MEMBER
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Hyderabad, dated 27th June, 2022.

Vinodan/sps

Copy to:

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5	DR, ITAT Hyderabad Benches
6	Guard File

By Order