

**IN THE INCOME TAX APPELLATE TRIBUNAL
KOLKATA BENCH 'SMC', KOLKATA
(Before Shri P. M. Jagtap, Accountant Member)**

ITA No. 1209/Kol/2013 : Asstt. Year : 2006-2007

DCIT, Circle-8, Kolkata (APPELLANT)	Vs	M/s. Orient Copper Industries Ltd. PAN: AAACO 5337K (RESPONDENT)
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**Appellant by : Shri Subhrajit Bhattacharyay, JCIT, Sr.DR
Respondent by : Shri Anil Kochar, Advocate**

Date of Hearing : 10.09.2015	Date of Pronouncement : 16.09.2015
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ORDER

This appeal is preferred by the Revenue against the order of the Commissioner of Income-Tax (Appeals)-VIII, Kolkata dated 11.02.2013 for the assessment year 2006-07, whereby he deleted the disallowance of Rs.17,34,218/- made by the AO on account of assessee's claim for loss in respect of valuation of closing stock.

2. The assessee in the present case is an investment and finance company. The return of income for the year under consideration was filed by it on 30.11.2006 declaring a loss of Rs.5,93,678/-. During the course of assessment proceedings, it was noticed by the AO that there are no purchase and sale of shares made by the assessee during the year under consideration and the loss of Rs.17,34,218/- was claimed by the assessee as a result of change in the method of valuation of closing stock of shares adopted by it. He, therefore, required the assessee to offer its explanation in the matter. In reply, it was submitted on behalf of the assessee company that the valuation of stock all along was adopted at cost. However, the statutory auditors during the year under consideration pointed out that the valuation of stock in trade should be

adopted at cost or market price whichever is lower. Since this opinion of the auditors was based on guidelines issued by the Reserve Bank of India for non-banking finance companies as well as accounting standard issued by the Institute of Chartered Accountants of India, the assessee changed the method of valuation of stock of shares from "at cost" to "cost or market price whichever is the lowest", which resulted into loss. This explanation offered by the assessee to justify the change in the method of valuation of stock by the assessee was not found acceptable by the AO. According to him, the method earlier followed by the assessee regularly could not be changed without any justifiable reason and the assessee could not be allowed to arbitrarily change such method to suit his purpose. He, therefore, rejected the change of method of valuation of stock adopted by the assessee and took the valuation of closing stock of shares at cost, which resulted in the disallowance of assessee's claim for loss of Rs.17,34,218/-.

3. The disallowance made by the AO on account of its claim for loss due to change in the method of valuation of stock of shares was challenged by the assessee in the appeal filed before the Id. CIT(A) and after considering the submissions made by the assessee as well as the materials available on record, the Id. CIT(A) deleted the addition made by the AO on this issue and allowed the claim of the assessee for loss for the following reasons given in his impugned order.

I have gone through the working made out by the appellant in respect of valuation of these shares and also considered the facts relating to the guidelines of the Reserve Bank of India and the advice of the Auditors according to which it had become necessary to fall in line with the accepted procedure in regard to the valuation of such shares.

Some decisions which the A.O. has referred in the order of assessment have been considered and it is seen that these are very old decisions whereas the guidelines of the

Reserve Bank of India by which the appellant made the change in the valuation of shares has been done to fall in line with the present day requirements.

In the light of the above discussion and finding, after considering the facts of the case and the submissions made, I am of the considered opinion that the change in the system of valuation of shares which has been effected in this year in relation to those shares which have been appearing in the Books of the appellant under the head 'quoted shares' is as per the guidelines of the Reserve Bank of India and, accordingly, also viewed in the context of the subsequent years system of valuing the shares & there being no change effected, I uphold the working of the closing stock as made out by the appellant and delete the addition of Rs.17,34,218/- made by the A.O. Thus, these grounds of appeal of the appellant are allowed.ö

Aggrieved by the order of the Id. CIT(A), the Revenue has preferred this appeal before the Tribunal.

4. The Id. DR strongly relied on the order of the AO in support of the Revenue's case on the issue involved in this appeal. He submitted that the change in the method of valuation of closing stock as adopted by the assessee was not satisfactorily justified and since it was done by the assessee to suit its purpose, the same was rightly rejected by the AO. He also contended that the guidelines of Reserve Bank of India and the Accounting Standard-2 (AS-2) relied upon by the assessee in support of its action in changing the method of valuation of stock of shares are not applicable in the facts of the assessee's case and the reliance of the assessee thereon thus was clearly misplaced. He contended that all these relevant aspects, however, are not properly appreciated by the Id. CIT(A) while allowing the claim of the assessee for loss as a result of change in the method of valuation of stock, which is not justified.

5. The Id. Counsel for the assessee, on the other hand, strongly supported the impugned order passed by the Id. CIT(A) allowing the claim of the assessee for loss as a result of change in the method of valuation of closing stock of shares. He contended that although the stock of shares was earlier valued by the assessee at cost, the said method was changed on the basis of the opinion of statutory auditors, which was duly supported by the relevant RBI guidelines as well as AS-2 issued by the ICAI. According to him, the change in the method of valuation of closing stock thus was fully justified by the assessee and since the same was consistently followed in the subsequent years, there was no justification on the part of the AO to reject the same merely because it has resulted in loss. He contended that the Id. CIT(A) has rightly accepted the change in the method of valuation of closing stock of shares as the new method adopted by the assessee is duly recognized.

6. I have considered the rival submissions and also perused the relevant material available on record. It is a basic principle for accounting that the valuation of stock in trade has to be done at cost or market price, whichever is lower and the same is in consonance with other important accounting principle that anticipated loss is required to be considered, while drawing the final accounts. In the present case, the assessee however was earlier following the method of valuing the stock of shares at cost which, in my opinion, was not correct method followed by the assessee, as the shares represented its stock in trade. As per the advice of the statutory auditors, which was duly supported by the relevant guidelines issued by the RBI as well as Accounting Standard-2 issued by the ICAI, the assessee, therefore, changed the method of valuation of stock of shares from at cost to either cost or market price whichever lower and since the new method adopted by the

assessee was more proper and correct and the same was consistently followed by the assessee in the subsequent years, I am of the opinion that there was no justification on the part of the AO to reject the same merely because it had resulted in loss. The Id. CIT(A), on the other hand, has appreciated all the relevant facts of the case in proper perspective and allowed the claim of the assessee for loss as a result of change in the method of valuation of closing stock, which was fully justified. I therefore do not find any justifiable reason to interfere with the order of the Id. CIT(A) giving relief to the assessee on this issue. Upholding the same, I dismiss this appeal of the Revenue.

7. In the result, the appeal filed by the Revenue is dismissed.

Order Pronounced in the Open Court on 16th September, 2015.

Sd/-
(P.M.Jagtap)
ACCOUNTANT MEMBER

Dated: 16/09/2015

Talukdar/Sr.PS

Copy of order forwarded to:

- 1 M/s. Orient Copper Industries Ltd., 113, Park Street, Kolkata ó 700 016
- 2 DCIT, Circle-8, Kolkata
- 3 The CIT(A),
- 4 CIT,
- 5 D.R.

True Copy,

By order,

Asstt. Registrar, ITAT, Kolkata