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WESTERN INDIA REGIONAL COUNCIL
THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)

Follow us on:

Glimpses of "Symposium on Costing and AI" organized by Jawaharlal Nehru Port Authority in Association with WIRC on 29th April at JNPA

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Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The Cost and Management Accountant professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

Written by,
CMA Arindam Goswami
Chairman, ICMAI-WIRC

Dear Professional Colleagues,
A very vibrant and energizing greeting to all of you!

“Energy and persistence conquer all things.” — Benjamin Franklin

With unbounded enthusiasm and gratitude, I pen this May edition of the WIRC Communique, where knowledge, celebration, and progress harmonize to define the rhythm of our dynamic profession.

The present edition throws light on “Income Tax & Tax Audit” with a special sub-theme — “Inventory Valuation under the Income Tax Act.” As professionals, the accuracy and consistency in valuing inventory plays a vital role in determining the correct taxable income. The Income Tax Act, 1961, provides specific rules for inventory valuation, often differing from the Accounting Standards. This divergence has practical implications for tax audit and financial reporting. Through this bulletin, our contributors shed light on real-life case studies, common pitfalls, and expert interpretations that will enhance your professional competence in this domain.

It gives me immense pleasure to congratulate our entire CMA fraternity on the successful shifting of our Institute’s Headquarters to the capital of our country — New Delhi. This strategic relocation will significantly enhance the outreach and stature of our profession across policymaking corridors and foster greater institutional synergy.

I’m pleased to share that the Institute signed a Memorandum of Understanding (MoU) with the Department of Management Studies, Bhilai Institute of Technology, Durg, Chhattisgarh. This MoU will facilitate academic cooperation, research collaboration, and industry-oriented engagement for mutual benefits.

On 6th May 2025, our Institute commemorated International Management Accounting Day at Delhi, recognizing the indispensable role of Cost and Management Accountants in driving value, ethics, and strategy in organizations. The event celebrated thought leadership, professionalism, and innovation — qualities that define us CMAs!

I am delighted to inform you about one of the most awaited events of the year – the 62nd National Cost and Management Accountants’ Convention (NCMAC) to be held from 23rd to 25th May 2025 at the Convention Centre, Campus-2, SOA University, Bhubaneswar, Odisha. With the inspiring theme “दिव्य-दृष्टि: Corporate Excellence – CMA Vision”, this national platform will be a confluence of knowledge, experience, and networking. I urge all members to participate in large numbers, contribute to the deliberations, and make the event a grand success.

On 27th April, we celebrated the achievements of over 700 students who cleared the CMA Foundation, Intermediate, and Final exams in Dec 2024. The Felicitation Programme was graced by our esteemed Chief Guest, CMA Chitralee Goswami Madam, Chief General Manager and Head- Corporate Finance Services in the energy giant of the country, ONGC, who inspired the students with her words of wisdom and professional journey. The event was a wonderful platform to recognize the hard work and perseverance of our students as they embark on the next phase of their careers.

In a significant first, WIRC in collaboration with JNPA (Jawaharlal Nehru Port Authority) hosted a Symposium on "Costing and Artificial Intelligence" on 29th April 2025. The event aimed at bridging the gap between industry and profession, fostering dialogue on the adoption of AI in cost optimization. Special thanks to CMA RajashreeDabke, Director Finance, JNPA, for her enthusiastic support. CMA Neeraj Joshi, Central Council Member was the speaker for the session. Also CMA Mihir Vyas, CMA Nanty Shah, and CMA Chaitanya Mohrir for gracing the occasion.

Our Career Counselling and Placement Committees successfully organized the Campus Placement Programme for December 2024 qualified CMAs on 28th, 29th, and 30th April 2025 in Mumbai. With over 24 leading companies participating, the programme witnessed a record placement of over 120 candidates, with the highest package offered at ₹20.10 Lakhs per annum. Congratulations to all the successful candidates.

For the benefit of students preparing for the upcoming June 2025 examination, WIRC has launched a dedicated MCQ Mobile App featuring curated questions for Foundation, Intermediate, and Final levels. I strongly encourage students to make the most of this valuable resource. We are also organizing intensive crash courses to further aid in their preparation. Best wishes to all our students for their upcoming exams.

As we move through the vibrant month of May, I extend warm wishes for Buddha Purnima. May this season bring prosperity, knowledge, and continued excellence in our professional journey.

"Don't watch the clock; do what it does — keep going." – Sam Levenson

Together, let's keep the wheels of progress in motion — with integrity, innovation, and inspiration!

With warm regards,
CMA Arindam Goswami
Chairman
ICMAI-WIRC

ICMAI
THE INSTITUTE OF
COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act Of Parliament)
WESTERN INDIA REGIONAL COUNCIL

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26h April, 2025

NOTIFICATION

Sub: Gazette Notification dated 25.04.2025 - Amendment to Regulation 89 of the Cost and Works Accountants Regulations, 1959.

This is to inform all concerned that the Cost and Works Accountants (Amendment) Regulations, 2025 have been notified in the Official Gazette of India and have come into force with effect from 25th April, 2025.

Pursuant to the said amendment to Regulation 89 of the Cost and Works Accountants Regulations, 1959, the Headquarters of the Institute has been shifted to Delhi.

All Departments/Directorates of the Institute, Regional Councils, Chapters, Overseas Centres of Cost Accountants, Section 8 Companies promoted by the Institute and other stakeholders are hereby requested to take note of this amendment and ensure necessary compliance, and update the address of the Headquarters of the Institute in their official records, as follows:

The Institute of Cost Accountants of India
CMA Bhawan, 3, Institutional Area,
Lodhi Road, New Delhi - 110003

The Gazette Notification is available for reference on the official website of the Institute at:
https://icmai.in/upload/institute/Updates/Gazette250425.pdf.

CMA (Dr.) D.P. Nandy
Secretary (Officiating)

Written by,

CMA Mihir Narayan Vyas

Vice Chairman ICMAI -WIRC & Chief Editor,
WIRC Bulletin

Dear Professional Colleagues,

Infinite patience, infinite purity, and infinite perseverance are the secret of success.”
Swami Vivekananda

As we step into the heart of the financial year, I am pleased to present to you the May 2025 edition of the WIRC Bulletin, thoughtfully curated around the theme “Income Tax & Tax Audit” and sub-theme “Inventory Valuation under the Income Tax Act”—topics of immense relevance in today’s regulatory and economic environment.

This edition is a compact yet power-packed collection of knowledge and insights. The articles featured span across a wide spectrum—from the evolving concept of RODTEP (Remission of Duties and Taxes on Exported Products) and the new paradigms in inventory valuation, to updates on Income Tax Laws, GST, and government initiatives for farmers’ welfare in line with the vision of “Viksit Bharat”. Adding a global dimension, we explore the influence of digital currencies on international banking, providing a futuristic view of financial systems.May this issue of the bulletin continue to ignite your thoughts, enrich your knowledge, and inspire you to strive with purpose.

It was a privilege to represent the profession alongside Central Council Member CMA Dr. Ashish Prakash Thatte in a meeting with Hon’ble Shri Sanjay Shirsat, Minister for Social Justice, Government of Maharashtra, todiscuss avenues of collaboration and expansion of the profession in public service domains.

Felicitation Programme – December 2024 Term

It gives me immense joy to share that WIRC successfully conducted the Felicitation Programme for students who cleared the Foundation, Intermediate, and Final levels of the December 2024 term. The event was graced by CMA Chitralee Goswami as the Chief Guest. Her inspiring words and interaction with the students created a memorable experience. The programme was a celebration of perseverance, hard work, and the bright future of the CMA fraternity.

CMA Campus Placement Programme – April 2025

The Career Counselling and Placement Committee of the Institute successfully organized the Campus Placement Drive from 28th to 30th April 2025 in Mumbai. We witnessed participation from 24 reputed companies across sectors, with the highest package offered being an impressive ₹20.10 lakhs. Over 120 candidates have already been placed, reflecting the growing trust in the CMA talent pool.

Pioneering Symposium on Costing and Artificial Intelligencewith JNPA:

Under the leadership of our dynamic Chairman CMA Arindam Goswami, WIRC in association with Jawaharlal Nehru Port Authority (JNPA), hosted a first-of-its-kind “Symposium on Costing and Artificial Intelligence” on 29th April 2025. The event, graced by central council member CMA Neeraj Joshi and my professional collegues CMA Nany Shah, and CMA Chaitanya Mohrir, was a true convergence of industry and academia. A special word of thanks to CMA RajashreeDabke, Director Finance, JNPA, for her enthusiastic support in this groundbreaking collaboration.

MCQ Mobile App & Crash Courses:

To assist our aspiring CMAs in their preparation for the upcoming June 2025 term, WIRC has launched a dedicated MCQ Mobile App — a powerful tool for exam readiness. In addition, intensive Crash Courses for Foundation, Intermediate, and Final levels will commence by the end of May 2025. I urge students to make the most of these resources. Best wishes to all examinees — your hard work and resilience will surely bear fruit.

International Management Accounting Day:

The Institute proudly celebrated International Management Accounting Day on 6th May at New Delhi, reaffirming the global relevance of the profession in driving corporate strategy and sustainable practices.

Shifting of Headquarters of the Institute to Delhi:

Hearty congratulations to the entire CMA fraternity on the successful shift of our Institute's Headquarters to New Delhi — a strategic move that will foster stronger ties with the government, industry, and international partners.

62nd National Cost and Management Accountants' Convention (NCMAC) – 2025

It is with great enthusiasm I urge all members to participate in the 62nd National Cost and Management Accountants' Convention (NCMAC) scheduled from 23rd to 25th May 2025 at the Convention Centre, SOA University, Bhubaneswar, Odisha. The convention theme "दिव्य-दृष्टि: Corporate Excellence – CMA Vision" promises a powerful convergence of knowledge, strategy, and leadership.

Wishing all our readers and their families joy, prosperity, and blessings during the auspicious festivals of the month of May. May these occasions inspire renewed energy in all our endeavors.

As we continue our journey of knowledge sharing and professional development, I encourage all members to contribute articles, ideas, and feedback to enrich future editions of this bulletin.

Let us all work together towards building a stronger profession, rooted in ethics, competence, and continual learning.

With warm regards,
CMA Mihir Narayan Vyas
Vice Chairman &
Chief Editor – WIRC Bulletin
ICMAI-WIRC

Theme of June 2025
"SAP S/4 Hana: The Cost Accountant's New Frontier"

Articles on the theme as well as other professional matters are invited along with scanned copies of their recent passport size photograph, email id, mobile no and scanned copy of declaration stating that the articles are their own original and have not been considered for anywhere else.

Please send your articles by e-mail to wirc.admin@icmai.in before 25th May 2025.

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Revisiting the Concept of RoDTEP: The CMA Perspective

Introduction

The Remission of Duties and Taxes on Exported Products (RoDTEP) is a mission-critical scheme introduced to reimburse embedded taxes that were previously non-refundable, thereby boosting export competitiveness in a WTO-compliant manner. A Cost and Management Accountant (CMA) is strategically positioned to ensure the benefits of RoDTEP are accurately claimed, well-documented, and effectively integrated into the cost structure of export-oriented businesses.

1. Background and Need – Strategic Advisory Role of CMAs

- WTO Compliance: CMAs can assist companies in transitioning from schemes like MEIS, SEZ, and EPCG to RoDTEP by analysing financial impacts and identifying cost neutralisation pathways.
- Example: A CMA guiding an exporter on restructuring costing models to include RoDTEP benefits.

2. Objective of RoDTEP – Ensuring Real Cost Neutralisation

- Hidden Taxes Identification: CMAs are skilled in identifying and quantifying hidden and embedded taxes like Mandi (local) tax, coal cess, electricity duty and VAT on fuel, using techniques like Activity-Based Costing (ABC).
- Example: Calculating the VAT on diesel used for outbound logistics by tracking per-kilometre fuel consumption data and aligning it with export dispatch records.

3. Eligibility – Maximising Entitlement Strategically

- CMAs ensure businesses are classified correctly and maintain proper documentation to avoid disqualification.
- E-Commerce & Merchant Exporters: CMAs can build costing templates for merchant exporters to justify claims where direct manufacturing cost data is not available.

4. Creating E-Scrip Accounts – Compliance Gatekeepers

With their expertise in documentation and digital signatures, CMAs assist in:

- CEGATE registration
- Tracking scrolls and generating e-scrips
- Maintaining audit-ready documentation

5. Rates under the Scheme – Product Mapping and HS Code Accuracy

- CMAs map product HS codes to applicable RoDTEP rates to ensure accurate percentage claims.
- Example: For a leather footwear exporter, a CMA identifies that a 2.4% RoDTEP rate is applicable and uses export price trends to validate claim accuracy.

> “A Cost and Management Accountant is not just a compliance officer, but a strategic enabler under the RoDTEP scheme—unlocking hidden value, optimising cost structures, and ensuring global competitiveness for exporters.”

6. General Instructions & ARR – Analytical Oversight by CMAs

- CMAs oversee whether Annual Rate Revision (ARR) is mandatory based on total claims and HS code-wise thresholds.

- CMA can file or guide ARR preparation, using justified input apportionment logic (e.g., proportionate fuel consumption, electricity per unit).

7. Input Tax Apportionment – Core Competency of CMAs

- This area is central to CMA expertise: rational allocation of embedded taxes (diesel, electricity duty, stamp duty, etc.).

- Approach: Use cost drivers like tonne-kilometres, machine hours, or electricity units for tax allocation.

- Example: Apportioning VAT on inbound diesel used for transporting raw cotton to the ginning factory on a per-kilogram basis.

8. Cost Components – Holistic Coverage

- CMAs are involved in quantifying and apportioning:
  - Electricity duty across production lines
  - Captive power fuel VAT
  - Stamp duty on documentation
  - CGST/SGST from unregistered vendors

- Example: Reconciliation of electricity consumption for the production of each product. Identify the export sales from the total production and calculate the electricity duty involved, for claiming under the RoDTEP scheme, plant-wise (in case of an organisation having multiple locations).

9. Best Practices – Data Governance and Reporting

- CMAs set up internal systems for:
  - Maintaining supporting documents
  - Logical cost allocations
  - Reconciliations with Shipping Bills, GST returns, ARR, purchase records and other relevant documents.

- Example: Creating a RoDTEP Claim Validation Sheet for each export order.

10. Return Filing: The Compliance Backbone of RoDTEP

Why Accurate Returns Matter

Exporters are required to file structured returns (Application for Remission of Duties and Taxes on Export Products – ARR) to substantiate their RoDTEP claims. Incorrect or unsupported filings can lead to rejection, scrutiny, or reversal of benefits.

How CMAs Add Value in Return Filing & Documentation

CMAs, with their domain expertise in cost analysis, indirect taxation, and statutory compliance, are ideally positioned to:

1. Extract and analyse relevant cost data from the company's ERP systems.

2. Prepare supporting workings and cost sheets to substantiate embedded taxes.

3. Ensure reasonable and logical apportionment of input taxes to export products.

4. Coordinate across departments (accounts, logistics, procurement) for data collation.

5. Ensure reconciliation of RoDTEP claims with Purchase Records, extraction and compilation of various quantitative data and corresponding value relevant to the return.

Documentation Areas Where CMAs Play a Crucial Role

Field in ARR	CMA's Contribution
Inbound Transport Taxes	Allocation of VAT/Excise on fuel used for transporting raw materials to the factory.
Outbound Logistics	Estimation of VAT/Excise on diesel for shipments to port – using ton/km basis.
Electricity Duty	Allocation based on electricity consumption patterns linked to export volumes.
Captive Power Fuel Costs	Documentation of VAT/Excise on diesel used for internal power generation.
Embedded CGST/SGST from Unregistered Dealers	System-based extraction and proportionate apportionment to export transactions.
Stamp Duties and Misc. Taxes	Cross-verification with vendor bills and documentation.
Farm Sector-specific Duties	Documentation of VAT/GST on farm-related inputs, where applicable.
Tax Exemptions	Disclosure and analysis of all concessions availed to prevent overclaiming.

Conclusion:

The Cost and Management Accountant is not just a compliance officer, but a strategic enabler under the RoDTEP scheme. By meticulously tracking embedded costs, managing digital systems, and ensuring regulatory alignment, CMAs ensure that export organisation can:

- Claim maximum entitlements
- Avoid penalties
- Optimise costing models
- Remain globally competitive

References:

- https://www.dgft.gov.in
- https://www.indiantradeportal.in
- https://www.india-briefing.com
- https://fieo.org

Themes for the month of July to October 2025

July 2025 - GST@8: Reflect, Reform, Reimagine

August 2025 - Digital Bharat & the Tech - ready CMAs

September 2025 - Cost Audit Generation-X: Leveraging Data Analytics and Forensics for Governance and Compliance

October 2025 - Internal Audit

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Income Tax & Tax Audit: Inventory Valuation under the Income Tax Act, 1961

The New Paradigm of Inventory Valuation and Its Far-Reaching Tax Implications

Inventory is more than just stock on hand. In the eyes of the Income Tax Department, it is a **tax-sensitive asset**—a key player in determining profits, losses, and ultimately, how much tax a business pays. Historically, inventory valuation was considered a matter of internal accounting discretion, subject to review during tax audits. But things have changed.

With the **Finance Act, 2023**, a significant shift has been introduced under **Section 142(2A)** of the Income Tax Act, 1961. This amendment formally empowers the Assessing Officer (AO) to direct an assessee to **get their inventory valued by a practicing Cost Accountant,** and mandates the submission of an **Inventory Valuation Report in Form 6D.**

Let's break down what this means, why it matters, and how businesses should prepare for this new era of valuation compliance.

What Changed: The 2023 Amendment to Section 142(2A)

Traditionally, the AO could order a **special audit** of the accounts of an assessee in complex cases. The 2023 amendment goes a step further by allowing the AO, with prior approval from senior tax authorities, to:

"Direct the assessee to get the inventory valued by a cost accountant nominated by the department and to submit the valuation report in the prescribed Form 6D."

This means that if the AO suspects irregularities or inconsistencies in inventory figures—be it **overvaluation (to understate profit) or undervaluation (to overstate losses)**—they can now legally enforce an independent valuation by a qualified professional.

Why Inventory Valuation Is a Tax Hotspot

Here's the logic: inventory valuation directly impacts the **Cost of Goods Sold (COGS).** COGS affects gross profit. Gross profit affects taxable income. Taxable income determines tax liability.

A small tweak in inventory values at the end of a financial year can swing profits up or down—leading to either underpaid taxes or unjustified refunds. This makes inventory a **critical variable** in accurate income computation.

Misstatements—whether by error or design—can lead to:

- **Revenue leakage for the government**
- **Tax litigation and reassessments**
- **Penalties and interest charge**
- **Loss of credibility for the assessee**

By introducing the provision for third-party valuation, the tax department now closes a major compliance gap.

Role of the Practicing Cost Accountant (PCMA)

The amended law recognizes that Cost and Management Accountants (CMAs) are uniquely equipped for inventory valuation. Their expertise lies in:

- Cost allocation and apportionment
- Overhead analysis
- Manufacturing process analysis
- Variance analysis
- Valuation of by-products, joint products, and WIP

A PCMA is expected to go far beyond surface-level financials. They must assess **physical inventory, cost records, conversion costs, process loss data, quantitative reconciliations**, and more—leading to a fair and true value of the inventory.

Form 6D: Bringing Structure and Transparency

As part of the new requirement, the CBDT has notified **Form 6D**—a standardized format that must be submitted by the Cost Accountant conducting the valuation.

This form captures:

- Nature and scope of inventory
- Method of valuation adopted (FIFO, weighted average, etc.)
- Compliance with **ICDS-II** (the Income Computation and Disclosure Standard on inventory)
- Adjustments for taxes, duties, subsidies, etc.
- Allocation of fixed and variable overheads
- Verification of physical inventory and reconciliation with books and GST filings

Key Regulatory Frameworks in Play

Inventory valuation under income tax is governed by a convergence of three key regulations:

1. Section 145 & 145A of the Income Tax Act

These sections govern the method of accounting (cash or mercantile) and require valuation of inventory at cost or **NRV (net realizable value), whichever is lower**, adjusted for taxes and duties.

2. Income Computation and Disclosure Standards (ICDS-II)

ICDS-II, which is **statutorily binding**, outlines how inventory should be valued for tax purposes. It emphasizes:

- Mandatory use of cost or NRV (whichever is lower)
- Consistent application of valuation method year to year
- Allocation of conversion costs
- Exclusion of abnormal costs and finance charges
- Use of FIFO or weighted average method (LIFO not permitted)

3. Cost Accounting Records under Companies (Cost Records and Audit) Rules, 2014

For companies required to maintain cost records, inventory valuation must follow **detailed formats (Form CRA-1)** including:

- Production, sales, and wastage records
- Work-in-progress valuation
- Cost statements for each product line
- Allocation of overheads
- Inventory reconciliation with GST and financial accounts

Who Can Be Asked to Get Inventory Valued?

Any assessee undergoing **scrutiny assessment, reassessment, or survey-based verification** may be directed to get their inventory valued—especially in cases where:

- The nature of business is complex (e.g., manufacturing, EPC, pharma)
- There is a mismatch in stock values across GST, income tax, and cost records
- The AO doubts the correctness of inventory figures
- The assessee has reported large stock fluctuations or losses

The AO must, however, offer the assessee a reasonable opportunity of being heard before issuing such a direction

Common Mistakes in Inventory Valuation That Trigger Scrutiny

1. **Using inconsistent valuation methods** year-on-year
2. **Not adjusting inventory for duties, cess, and GST**
3. **Not maintaining reconciliation with cost records and GST filings**
4. **Ignoring WIP and scrap in valuation**
5. **Non-compliance with ICDS norms**
6. **Overstating losses from obsolete stock**
7. **Failure to disclose valuation changes in Form 3CD (Tax Audit Report)**

Case Law & Departmental Observations

Several tax tribunals have ruled that incorrect inventory valuation can amount to **income suppression.** The department's experience shows many businesses manipulate stock figures to defer taxes, inflate losses, or smoothen profit curves. This legal provision now arms AOs with an authoritative mechanism to verify inventory from a qualified, independent source.

What Should Businesses Do Now?

To stay on the right side of this new requirement:

- Maintain clean, reconciled **cost records** as per Companies Act rules
- Use consistent and ICDS-compliant valuation methods

- Maintain **detailed records of physical verification**
- Train internal teams on **inventory costing standards**
- Engage with a qualified **Cost Accountant** early for mock valuations
- Ensure inventory figures match across **financials, tax filings, GST returns, and cost audit reports**

Conclusion: A New Era of Tax Compliance and Professional Trust

The amendment to Section 142(2A) is more than legislative housekeeping. It's a **systemic reform**. It empowers the government to tackle manipulation head-on and equips CMAs with a larger role in **nation-building through fair taxation.**

Inventory valuation is no longer a back-office formality—it's a front-line compliance function that directly impacts tax exposure. The message is clear: get your house in order, maintain robust records, and work with certified professionals who understand the nuances of cost and tax.

In the end, it's not just about valuing stock—it's about valuing integrity, accuracy, and trust in the tax system.

References

- Institute of Cost Accountants of India, Guidance Note on Inventory Valuation under the Income Tax Act, 1961, April 2024
- Section 142(2A), Section 145, and ICDS-II under the Income Tax Act, 1961
- Form 6D, as notified by CBDT for inventory valuation reporting

CAMPUS PLACEMENT

Career Counselling & Placement Committee ofThe Institute of Cost Accountants of India conducted Campus Placement for the December 2024 Final Passed Students during 28th to 30th April 2025 at NagindasKhandwala College, Malad, Mumbai.

Total24 Companies participated in Campus and selected/shortlisted 117 students. The highest package was from Bharat Petroleum Corporation Ltd amounting to Rs.20.10 lakh perannum.

Name of the Companies Participated

Bharat Petroleum Corporation Limited
Indian Oil Corporation Limited
Vedanta Limited
Pidilite Industries Limited
L&T Construction
Tata Motors Ltd
Nestlé India Limited
Marico India Limited
CEAT LIMITED
Star Union Dai-Ichi Life Insurance Company Limited
Kalpataru Projects International Limited
KD Practice
Prism Johnson Limited
Sumilon Industries Private Limited
RSM Astute Consulting Pvt. Ltd
EXPOUNDTECHNIVO
Corporate Service Company
Capgemini
Globela Pharma Pvt. Ltd
Sterling Green Power Solutions
JSW Steel Ltd
Afcons Infrastructure Limited
Saraswat Co-Op. Bank Limited
Jawaharlal Nehru Port Authority

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Inventory Valuation Under Indian Income Tax Act, 1961 and Role of CMAs

Introduction

Inventory valuation is a fundamental element in financial statement preparation and taxable income computation. Under the Indian Income Tax Act, 1961, and the Indian Accounting Standards, specific principles govern the valuation of inventory to ensure consistency, transparency, and fairness. This article consolidates the legal framework, methods of inventory valuation practices and accepted methods of cost calculation, practical applications in Industry, Tax Implications & Penalties for Wrong Valuation and Role of Cost Accountants under the Income Tax Act, 1961 in Inventory Valuation.

Inventory valuation is a critical aspect of tax computation under the Income Tax Act, 1961 because it directly impacts taxable income through the Cost of Goods Sold (COGS). The Income tax Act and rules has defined certain guiding provisions and processes as explained below

1. Governing Provisions:

1. Section 145 - Method of Accounting

2. ICDS-II (Income Computation and Disclosure Standard on Valuation of Inventories) - specific standard for inventory valuation

Section 145: Method of Accounting

- **Section 145(1):** Income is computed based on the method of accounting regularly employed by the assessee (cash or mercantile).

- **Section 145A:**
  - Inventory must be valued at **Cost** or **Net Realizable Value (NRV)**, whichever is **lower**.

  - The value includes:
    - Duties and taxes (e.g., GST)
    - Cess
    - Excise
    - Freight inward

2. Methods of Inventory Valuation Allowed:

The **Central Board of Direct Taxes (CBDT)** prescribes that inventory must be valued using:

- **Cost or at Net Realizable Value (NRV), whichever is lower**
  This follows **conservatism principle**—meaning you recognize lower profits if inventory value drops.
  "Cost" includes **purchase price + direct expenses (like freight, duty, wages, etc.)**
  "NRV" = Estimated selling price – Expenses needed to sell.

- Accepted Methods for Cost Calculation:
  1. FIFO (First-In, First-Out): Oldest stock sold first, latest stock remains.
  2. Weighted Average Cost: Average cost per unit is applied across inventory.
  3. Specific Identification: For custom or high-value items (jewelry, cars, real estate).

LIFO (Last-In, First-Out) is NOT allowed in India!

3. ICDS-II (Income Computation and Disclosure Standards) for Inventory

The **CBDT issued ICDS-II,** which applies to taxpayers who follow **mercantile accounting**. Key points:

- Inventory should be valued at cost or at **NRV, whichever is lower.**

- **Cost elements include:**
  - **Raw materials:** Purchase price + freight + other costs
  - **Finished goods:** Cost of raw materials + direct labor + factory overheads

- **Exclusions from cost:**
  - Abnormal costs (e.g., wasted materials)
  - Storage costs (unless necessary for production)
  - Interest & borrowing costs (unless required for long production cycles)

1. **Difference between valuation as per AS-2 (Accounting Standard) and ICDS-II:**
   - AS-2 (Accounting Standard): Allows different valuation to account & tax.

   - ICDS-II: Mandates uniformity-whatever method you use for books, you must follow for tax.

2. **Inventory Valuation for Different Businesses:**
   a. **Manufacturing Companies:**
   Raw Materials, Work-in-Progress (WIP), and Finished Goods valued separately.

   b. **Trading Businesses:**
   Stock-in-trade (purchased goods for resale) is valued at cost or NRV.

   c. **Builders & Real Estate:**
   Land & buildings treated as stock-in-trade; valued per ICDS standards

4. Income Tax Implications & Penalties for Wrong Valuation

- **Undervaluing stock** → Reduces taxable income → May lead to **tax scrutiny & penalties.**

- **Overvaluing stock** → Increases taxable income → Results in higher tax outflow.

- **Non-compliance with ICDS-II** → Can result in tax adjustments by the AO (Assessing Officer).

Role of Cost Accountants under the Income Tax Act, 1961 in Inventory Valuation

Cost Accountants (CMA - Cost and Management Accountants) play an important role when it comes to **inventory valuation** under the Income Tax Act, 1961, by ensuring the accuracy and reliability of inventory valuation for minimizing tax risks, enhancing audit readiness, especially because inventory valuation directly affects **taxable profits.**

Their **roles and responsibilities** include:

a. **Certification and Audit Support**
   - In some cases, particularly for manufacturing and production-intensive businesses, tax authorities **may require certificates from Cost Accountants** for:
     - Correct **valuation of the inventories** (raw materials, WIP, finished goods).
     - Proper **allocation of cost elements** (material, labor, overheads).

   - Under special audit orders (Section 142(2A)), if the AO suspects complexity in the books (including inventory), he can order an audit by a Cost Accountant.

b. **Ensuring Compliance with ICDS-II**
   - Cost Accountants ensure that inventory valuation:
     - Follows **Cost or Net Realizable Value (NRV)** whichever is lower principle.
     - Correctly includes **duties, taxes, and other costs** as per Section 145A.

- They make sure that the taxpayer is **following consistent methods** (e.g., FIFO, Weighted Average) as prescribed.
- Proper compliance reduces the risk of **additions to income** during assessment.

c. Designing and Implementing Cost accounting and Preparation of Cost Records

- Under certain industries (regulated under **Companies (Cost Records and Audit) Rules, 2014)**, companies must maintain **Cost Records** and also Industry start voluntary maintaining cost records for cost measure and decision making
- Cost Accountants prepare detailed cost sheets, which:
  - Help in calculating **accurate inventory valuation.**
  - Support the **reconciliation** of tax records with financial records.

d. Helping During Assessments and Appeals

- If the tax officer challenge the inventory valuation, Cost Accountants:
  - Prepare detailed **cost audit reports, inventory valuation reports, or explanations.**
  - Assist during **Income Tax assessments** or **appeals** by providing technical justification.

e. Advisory Services

- Advising clients on:
  - **Optimization of inventory valuation** without violating tax norms.
  - **Impact of inventory methods** on taxable income.
  - **Best practices** in cost allocation (direct vs. indirect costs).

Summary Table

Role	Activity	Purpose
Certification	Certify inventory valuation	Proof for tax records
ICDS Compliance	Check adherence to ICDS-II	Avoid tax penalties
Cost Records	Prepare detailed costing	Support accurate stock valuation
Tax Audit Support	Assist in explaining valuations	Protect client's tax position
Advisory	Recommend inventory methods	Strategic tax planning

Important Legal Backing:

- **Section 142(2A):** Special audit can be ordered by AO by a Cost Accountant.
- **Section 145:** Cost records must match the method of accounting.
- **Companies Act + Income Tax Act:** For certain industries (like pharma, fertilizers, electricity) — cost records and audits are mandatory and connected with tax filing.

Case Study

Tata Steel’s 2022-23 Annual Report exemplifies the significance of appropriate inventory valuation. The company employs the weighted average method for valuing raw materials and the FIFO method for finished goods. During the FY2023 tax audit, their transparent valuation practices resulted in no significant adjustments to the declared profits. Their experience highlights the benefits of adhering to prescribed norms and maintaining proper documentation.

A sample Inventory Valuation Certificate

(by Cost Accountant)

To Whomsoever It May Concern

This is to certify that I have examined the books of account, cost records, and other relevant documents maintained by [Name of the Company/Firm], having its registered office at [Address], for the financial year ended [31st March, 20XX].

Based on the examination and information provided, I hereby certify that:

1. The method of inventory valuation adopted by the entity is [FIFO / Weighted Average Cost], consistently followed during the financial year.
2. The inventory has been valued at **Cost or Net Realizable Value (NRV), whichever is lower**, in accordance with the requirements of:
    - **Section 145 of the Income Tax Act, 1961,**
    - **ICDS-II on Valuation of Inventories**, and
    - Accounting Standards/Guidelines as applicable.

Category	Amount (₹)
Raw Materials	XX,XX,XXX
Work-in-Progress (WIP)	XX,XX,XXX
Finished Goods	XX,XX,XXX
Stores and Spares (if any)	XX,XX,XXX
Total Inventory Value	**XX,XX,XXX**

4. The cost of inventories includes all direct material costs, direct labor costs, and appropriate production overheads, and excludes abnormal costs, interest, and borrowing costs not attributable to production activities.
5. The valuation has been carried out in accordance with generally accepted cost accounting principles and applicable provisions of Indian law.

Place:

[City]
Date: [DD/MM/YYYY]

For [Name of the Cost Accountant's Firm]
(Cost Accountants)
(Seal)
(Signature)
[**Nameof Cost Accountant]**
Membership No.: [CMA Membership Number]
Firm Registration No.: [FRN, if applicable]

Notes:

- **Seal/stamp** of the practicing Cost Accountant or Cost Firm is compulsory.
- If the certificate is issued for Income Tax Assessment or Scrutiny, attach a detailed annexure explaining how valuation was done (optional but recommended).
- You can tweak this slightly depending on whether it's issued voluntarily, or in response to a tax authority's request (like a Section 142(2A) Special Audit).

Conclusion

Accurate and consistent inventory valuation is essential for fair taxation and financial reporting. While Indian and international frameworks aim for reliability and transparency, businesses must navigate nuanced differences carefully to ensure compliance, minimize tax risks, and maintain financial integrity. The involvement of qualified CMAs, especially with recent legal mandates like Form 6D, can significantly strengthen inventory valuation processes and bolster overall financial governance.

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WIRC WELCOMES NEW ASSOCIATE MEMBERS – April 2025

Sr.No.	Member No.	Name	City
1	57116	Jainil Bhaveshbhai Patadiya	Ahmedabad
2	57189	Nikunj N Thakkar	Ahmedabad
3	57251	Akshay Bansidas Godeshvar	Ahmedabad
4	56909	Yatendra Kumar Gajpal	Bhilai
5	57001	Ujjwal Menon	Bhopal
6	57181	Sachin Dm Motwani	Bhopal
7	56986	Anil Baburao Adhave	Chh. Sambhajinagar
8	57222	Pawan Babanrao Gaikwad	Chh. Sambhajinagar
9	57234	Aarti Rajani	Indore
10	57210	Sumant Gajanan Sathe	Kalyan
11	57097	Harisharan Kashyap	Korba
12	56910	Rahul Sharma	Mumbai
13	56918	Mandar Vijay Kadam	Mumbai
14	56950	Prathamesh Suhas Madav	Mumbai
15	56952	N Rangarajan	Mumbai
16	56973	Nutan Mahendrapratap Gupta	Mumbai
17	57010	Linus Liguory Crasta	Mumbai
18	57022	Sakshi Hemant Doshi	Mumbai
19	57031	Monika Manibhushan Yadav	Mumbai
20	57075	Rishiraj Maity	Mumbai
21	57088	Sayali Chintaman Karangutkar	Mumbai
22	57107	Digvijay Jayant Ghadge	Mumbai
23	57123	Mayur Mahadev Patil	Mumbai
24	57137	Ankita Shailesh Bait	Mumbai
25	57154	Vidhi Rakesh Chaturvedi	Mumbai
26	57160	Patil Yogesh Madhukar	Mumbai
28	57236	Aditya Sandeep Takle	Mumbai
29	57037	Alan Antony Cherian	Nagothane
30	56945	Ankit Prabhuji Kulurkar	Nagpur
31	56965	Priyanka Anil Sawant	Navi Mumbai
32	57133	Yogesh Ramesh Shedge	Palghar
33	57170	Dnyaneshwar Ramdas Hinge	Pimpri Chinchwad
34	56916	Aabha Sagar Jadhav	Pune
35	56934	Nisha Shaw	Pune
36	56954	Nalwade Rutuja Akshay	Pune
37	56963	Chaitrali Chandrashekhar Adawadkar	Pune
38	57000	Madhushree Gopal Shettigar	Pune
39	57034	Yadav Gauri Anil	Pune
40	57044	Ashutosh Bhalchandra Kulkarni	Pune
41	57108	Prasad Dipak Deshmukh	Pune
42	57131	Kuntuprakash Harish Katariya	Pune
43	57167	Sanjay Vilas Dhavale	Pune
44	57194	Vineshkumar Reddy	Pune
45	57011	Karan Wadhwani	Raipur
46	57057	Lokesh Bapu Kambala	Silvassa
47	57061	Dinesh Anand Tulshigar	Solapur
48	57109	Gaurav Jugalkishor Narang	Surat
49	57149	Bhavisha Parbatbhai Vadher	Surat
50	57213	Ashruta Jayantibhai Monpara	Surat
51	57229	Riddhimaa Ashok Agrawal	Surat
52	57036	Rohit Govind Oza	Thane
53	57020	Dhiraj Uttam Kumar Sharma	Ulhasnagar
54	57118	Aniketkumar Indravadanbhai Bhatia	Vadodara
55	57150	Rahul Rajeshbhai Prajapati	Vadodara
56	57175	Shubham Yogendrabhai Parmar	Vadodara
57	56961	Mittal Nilesh Machhar	Vasai Road

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Decoding HUF: Concepts, Case Laws & Taxation under the Income Tax Law

Hindu Undivided Family- Introduction

Family connotes a group of people related by blood or marriage, "family" always specifies a group. Plurality of persons is an essential attribute of a family A Family consisting of a single individual is a contradiction. Section 2(31)(ii) of The Income Tax Act,1961 treats a Hindu Undivided Family as an entity distinct and separate from an individual and it would be wrong not to keep that difference in view as held by The Hon'ble Supreme Court of India in **Krishna Prasad C. v CIT (1974) 97 ITR 493 (SC)**

Definition of Person under The Income Tax Act, 1961

Section 2(31) of The Income Tax Act, 1961
"Person" includes—

(i) an individual,

(ii) Hindu undivided family,

(iii) a company,

(iv) a firm,

(v) an association of persons or a body of individuals, whether incorporated or not,

(vi) a local authority, and

(vii) every artificial juridical person, not falling within any of the preceding sub-clauses.

Explanation.—For the purposes of this clause, an association of persons or a body of individuals or a local authority or an artificial juridical person shall be deemed to be a person, whether or not such person or body or authority or juridical person was formed or established or incorporated with the object of deriving income, profits or gains;

Legal Definition of Hindu

Article 25(2)(b) of the Constitution stipulates that "the reference to Hindus shall be construed as including reference to persons professing the Sikh, Jain or Buddhist religion
In the case of CWT Vs Champa Kumari Singh (1972) 83 ITR 720, theHon'ble Supreme Court held that the HUF includes Jain Undivided Family

Inter Religion Marriage

An important question which arises for the consideration is whether Inter Religion Marriage will affect the status of an Individual as a Hindu and HUF, in this connection Courts have opined as follows:-

Where a Hindu marries a Non-Hindu and brought up his child as Hindu and form HUF, would be governed by Hindu Law and family will continue to be an HUF- CWT v Late R. Sridharan 104 ITR 436 (SC)

Where a Hindu marries a Christian and their daughter brought up as Christian,it was held that individual,his wife and daughter would not constitute HUF- Addl.CITvG. Venkatraman 109 ITR 247 (Mad)

The Important point for consideration is that child should be brought as Hindu,for constitution of HUF

Whether 2 Male Members required to form a HUF?

Under the Hindu Law a joint family may consist of a single male member and widows of deceased male as held by the Hon'ble Supreme Court of India in the case of **C Krishna Prasad v CIT (1974) (SC)**

The expression HUF in The Income Tax Act, 1961 is used in the sense in which a joint Hindu Family is understood under the various schools of Hindu Law

In The case of **CIT v RM.AR.AR.Veerappa Chettiar (1970)** the Hon'ble Supreme Court held that under Hindu Law it is not predicated of a joint Hindu Family that there must be a male member. It was accordingly held that so long as property which was originally of the Hindu Joint Family remains in the hands of widow of the member of the family and it is not divided among them, the joint family continues.One significant point is that under the Act the assessment in the status of HUF can be made only when there are two or more members of HUF.

Two Schools of Hindu Law

In India Hindus are mainly governed by two schools of law namely Mitakshara and Dayabhaga

Mitakshra applicable to Whole of India except the States of West Bengal and Assam

Dayabhaga applicable to the States of West Bengal and Assam

Under Mitakashra School Coparcener status attained by Birth and HUF is formed by operation of Law. Unity of Ownership is the essence of Mitakshara Co-Parcenary

Under Dayabhaga Co-Parcener status not attained by birth. HUF does not automatically come into existence by the operation of Law, it comes into existence by voluntary decision of Legal Heirs. Only unity in possession no unity in ownership as far as ancestral property is concerned.

Hindu Coparcenary

Co-parcerner word has not been defined under any act of codified Hindu LawA Hindu Coparcenary is a much narrower body within the Hindu Undivided Family (HUF) Coparcenary consists of common male ancestor and his lineal descendants with 4 degrees After the amendment of Hindu Succession Act in 2005, daughter by birth becomes a coparcenary in her own right in same manner as a son

Basic requirements for existence of HUF

Only one coparcener or Member cannot form HUF.Family is a group of people related by blood or marriageJoint Family Property does not lose its character of Joint Family Property solely for the reason that there is no other male or female member at a particular point of time. Once the coparcener marries, an HUF comes into existence as he along with his wife constitute a Family as held in- **Prem Kumar v CIT (All)**

In **CIT v. VeerapaChettiar,(1970) 76 ITR 467(SC)** it is held that even after the death of the sole male member so long as the original property of the Joint Family remains in the hands of the widows of the members of the family and the same is not divided amongst them; the Joint Hindu Family continues to exist.

A Father and his unmarried daughter can also form an HUF as held in the case of **CIT v HarshavadanMangaldas (Guj)**

Rights of an Unborn Child

An important question arose for consideration whether Section 20 of Hindu Succession Act,1956 apply in respect of Income Tax Law in dealing with the Issue The Hon'ble Supreme Court of India Held as under in the case of **T.S Srinivasan v CIT (1966) (SC)**

Facts of the Case

A son was born to the assessee, a Hindu, on December11, 1952, and it was common ground that the conception of the child must have taken' place sometime in March 1952. For the assessment year 1953-54 (accounting year April 1, 1952 to March 31. 1953) the assessee claimed that certain income received by him should be assessed as the income, of a Hindu undivided family, Which, according to him had come into existence in or about March 1952 when the son was conceived. The Income Tax Officer however recognized the family as a Hindu undivided family only from the date of the birth of the child. This view was upheld by the appellate authorities and the High Court, upon a reference, also answered the question against the assessee. It was contended on behalf of the assessee that under the Income-Tax Act, a Hindu undivided family is a separate unit and in determining whether a Hindu undivided family exists or not, and if it exists, from what date it has come into being, regard must be had to the principles of Hindu Law, for the Act does not lay down any principles on this, point; that it is well settled and it is a substantive rule of Hindu Law that a son conceived has the same rights of property as a living son and that a joint Hindu family comes into existence from the date the son is conceived (Section 20 of Hindu Succession Act,1956)

Ruling of the Supreme Court

The doctrine of Hindu Law that a son conceived is equal in, many respects to a son actually in existence is not of universal application and it applies mainly for the purpose of determining the rights of property and safeguarding such rights of the son. This doctrine does not fit in with the scheme of the Income Tax Act and it could not have between the intention of the legislature to have incorporated this special'doctrine into the Act. Even if a Hindu undivided family was in existence towards the end of the accounting year, the whole income received or accrued in the accounting year did not thereby become the assessable income of the Hindu undivided family; till the child was born, the income was the assessee’s income- [T.S Srinivasan v CIT (1966) (SC)]

Can a Junior Member become the Karta of the HUF?

Held Yes, in the case of Narendrakumar J Modi 1976 SC if all coparceners agree. Co-parcenars may withdraw their consent anytime.

In Tribhuvan Das Haribhai Tamboli v Gujarat Revenue Tribunal and others it was held that it would be evident that a younger member of the joint family can deal with joint family property as manager in the following circumstances :-

- If senior member or Karta is not available
- Wherekarta relinquishes his right expressly or by necessary implication
- In circumstances such as distress or calamity affecting the whole family and for supporting the family in absence of manager of the family
- In absence of father whose whereabouts were not known or who was away in remote place and return with reasonable time unlikely or not anticipated

Hindu Succession Act 2005 amendment and status of females in HUF

There can be three types of female members in HUF:

1. Daughter-in-Law
2. Unmarried daughter
3.. Married daughter

However it is important to note that the amendment seeks to admits only daughters as in the coparcenary

> Hindu Undivided Family (HUF) is more than tradition, it's a strategic tax-saving tool, enriched by legal interpretations, case laws, and financial foresight under India's evolving income tax landscape.

Status of HUF under Income Tax Law

The expression Hindu Undivided Family (HUF) occupies an important place in the provisions of The Income Tax Act, 1961 but that expression is not clearly defined in the Act. Section 4 of The Income Tax Act, 1961, Income Tax is payable by every person. Person as defined in Section 2(31) includes a Hindu Undivided Family. The reason of omission evidently is that the expression has a well-known connotation under the Hindu Law and being aware of it, the Legislature did not want to define the expression separately in the Act. The expression Hindu Undivided Family (HUF) occupies an important place in the provisions of The Income Tax Act, 1961 but that expression is not clearly defined in the Act. Section 4 of The Income Tax Act, 1961 Income Tax is payable by every person. Person as defined in Section 2(31) includes a Hindu Undivided Family

The reason of omission evidently is that the expression has a well-known connotation under the Hindu Law and being aware of it, the Legislature did not want to define the expression separately in the Act.The expression ‘ Hindu Undivided Family’(HUF) must be construed in the sense in which it is understood under the Hindu law **[Surjit Lal Chhabda v CIT 101 ITR 776 SC].**

HUF is a body consisting of persons lineally descendent from a common ancestor, including their wives, who are staying together jointly **GowliBuddana v Commissioner of Income Tax (1966) (SC)**- No requirement of more than one co-parcener in the family,a husband and wife can validly constitute a HUF.An HUF can be composed of a large number of branch families, each of the branches itself being an HUF and so also the sub-branches of more branches - **CIT v M.M Khanna (Bom)**E.g. Like Grandfather HUF, Father HUF, Sons/Grandsons HUF etc.

Remuneration Paid to Karta

In **Jugal Kishore Baldev Sahai vs CIT (1967)** it was held that remuneration paid to karta by the family for services rendered to the family business shall be treated as an expenditure for carrying on the business of the family and deductible U/S 37(1) of The Income Tax Act,1961

Vineeta Sharma v Rakesh Sharma (SC)

The verdict of the Supreme Court in the case of **Vineeta Sharma v Rakesh Sharma** clarified several crucial aspects regarding thecoparcenaryrightsof daughters in Hindu joint family property. The court emphasized that joint Hindu family property is considered unobstructed heritage, where the right to partition is inherent from birth. This means that whether the father coparcener was alive or dead on the date of the amendment to the Hindu Succession Act in 2005 is immaterial to the daughter’s right to inherit. The court ruled that the amendment granting equal coparcenary rights to daughters is retroactive, meaning it applies from the date of birth of the daughter, not from the date of the amendment.

Property received by a male member after his marriage but before child is born

CIT v Vishnukumar Bhaiya (1983) Properties classified into two categories:

- Property that has already characteristics of Joint Family Property e.g.Property received on partition-can be received and treated as HUF property even without other co-parcener

- Other property received from outside source shall be treated as HUF property only if there are two co-parcener

Blending of Self-Aquired property into joint family property-Tax Implication

Section 64(2) of The Income Tax Act,1961clubbing provisions shall apply in respect to if property blended without adequate consideration:Income received from such blended propertyIncome received by spouse from such blended property after partition of HUF (treated as deemed transfer to spouse)

Gifts

Gifts received from HUF is a Gift received from relative, held HUF is a group of relatives- VineetkumarRagahvbaiBalodia v ITO (2011) (ITAT Rajkot)

In Pankil Garg v Principal Commissioner of Income Tax, Karnal (2019)(ITAT Chandigarh) it was held that Gifts received from HUF is not Taxable

Relative meaning under The Income Tax Act, 1961:

- In case of an Individual does not include HUF
- In case of HUF include any member thereof

Section 10(2) of The Income Tax Act, 1961-subject to the provisions of sub-section (2) of section 64, any sum received by an individual as a member of a Hindu undivided family, where such sum has been paid out of the income of the family, or, in the case of any impartible estate, where such sum has been paid out of the income of the estate belonging to the family

Income received by a co-parcener of HUF

Income received by a co-parcener of HUF whether assessable as income of the family or that of the Co-Parcener in individual capacity?

Followings tests are relevant to understand the same: 1.Income received by coparcener had any real connection with the investment of the joint family funds. 2. Income received directly related to utilization of family assets. 3. Whether the family had suffered any detriment in the process of realization of incomeIncome received with the aid and assistance of family funds

If Income earned as a result of funds invested by HUF- assessable as HUF incomeIf income earned is essentially a remuneration rendered for services rendered by the co-parcener-it is assessable as individual income- **Raj Kumar Singh Hukum Chandji v CIT (1970) (SC).**Source from which income is derived becomes relevant onus of proof heavily lies on the HUF to claim as HUF income

Can HUF enter into partnership?

In CIT v Kalu Babu Lal Chand (1959) (SC) the Hon'ble Supreme Court of India held that HUF cannot enter into a contract of partnership with another person or persons. The Karta may enter into partnership with outsiders on behalf and for the benefit of his family or in his individual capacity. Whether Karta acting on behalf of HUF or in his individual capacity for his own benefit is a question of fact. If contribution of share of capital in the firm made out HUF money,then income assessable in hands of HUF. Other members of the family cannot interfere in the management of firm or exercise any rights of a partner or claim any account of partnership business

If there is direct nexus between the investment from HUF funds into partnership business and the remuneration paid to the karta shall be Taxable as income of HUF- **(Dhanwatey V.D v CIT) (1968)(SC), Lachman Das Bhatia & Sons v CIT (2007) (Del)**

Interest, salary etc. paid by firm to partner in a firm, even though as a karta,is an individual working partner is allowable as a deduction while computing income of firm-**[CIT v Jugal Kishor & Sons (2011) (All)] the Court referred the decision of Supreme Court in case ofRashik Lal & Co. v CIT (1998) (SC)**

Clubbing of Shares Held by Karta and HUF for purpose of Sec 2(22)(e)

In case of Dy.CIT-2 v Krishna Mohan Agarwal (2019), Lucknow Bench of ITAT held that shares held by Karta in his individual capacity and on behalf of HUF cannot be clubbed for purpose of Section 2(22)(e) to determine 10% beneficial holding in case of loan advanced by Company to Karta

In case of **Gopal & Sons (HUF) v CIT (2017) (SC)** held that Loan to HUF by Private Limited Company, where Karta of HUF is having substantial in the Company, shall be covered under the ambit of Section 2(22)(e) and will be taxable as deemed dividend

Exemption of Capital Gains under Section 54B of The 1961 Act if New Agricultural Land Purchased in the Name of the Co-Parcener?

In the case of Babubhai Arjanbai Kanani (HUF) v DCIT (2021) (Surat-Trib.) held that Purchase Deed is in the name of the Coparcener (one of the HUF members). However, the property (land) is owned by HUF. The property (land) is shown in the Balance Sheet of HUF. The Co-Parcerner of the HUF may hold property on behalf of the HUF. The HUF money was utilized to purchase the said agricultural land. The HUF is doing agricultural activities. In substance, the HUF is owner of the said agricultural land though it is registered in the name of the Coparcener, as the HUF is enjoying all the fruits of the said agricultural land. Thus, the HUF is entitled to claim exemption/deduction under section 54B of the Act

As per Hindu Succession Act, property purchased out of HUF funds or earning of HUF always remained under ownership of HUF and all members of HUF has right in that property. Thus, in the instant assesses's case, the fruit of the property is enjoyed by the HUF.

In the case of **CIT vs. K. S. Subbiah Pillai HUF (1984) 147 ITR 87 (Mad.)** pronounced by Madras High Court wherein it has been held that:-"It is one of the fundamental principles of Hindu law that property acquired by the Karta or a coparcener with the aid or assistance of Joint family assets, is impressed with the character of joint family property. To constitute self-acquired property in the hands of the karta or a coparcener, it should not have been acquired with the assistance, or aid of joint family property".

Partition of a HUF

Partition under Hindu Law can be total or partial. Partition is severance of status of Joint Family, known as HUF under Tax Laws. In Total Partition all members cease to members of HUF and all the properties cease to be properties belonging to HUF. Partial partition may vis-a-vis a members or Vis-a Vis properties

Under Hindu Law for an effective partition it is not necessary to divide the properties in metes and bounds. But under the Tax Laws for an effective partition it is necessary to divide the properties in metes and bounds.Partition under the Income Tax Act is the ascertainment of individual shares of co-parceners in the HUF and later division by allotting separate properties to the members.

Partial Partition is not recognized under the Income Tax Act,1961 for Tax purposes-Section 171(9).Only completed partition of HUF is The Income Tax Act,1961 as a measure to counteract the tendency to tax avoidance. Multiple HUFs were created by effecting partial partition which resulted in Tax reduction or evasions (31st December,1978)

Property received by a member on total partition of HUF

Property received by a member on total partition will retain its character as a joint family property. If he is single, it will be HUF property on marriage. The distribution of assets of an HUF, in the course of partition will not attract any Capital Gains Tax Liability, as it does not amount to transfer. One of the main reasons for partition of HUF is to reduce the tax liability

Whether Distribution of Capital Assets on Total or Partial Partition of HUF treated as Transfer under The Income Tax Act,1961?

As per Section 47(i) of The Income Tax Act,1961 any distribution of Capital Assets on the total or partial partition of Hindu Undivided Family is not regarded as transfer.

Physical division of property by way of book entry not permissible. Partition must be made by physical division only to the extent possible to make valid claim for recognizing the partition for Income Tax .Where property not capable of physical division book entries showing division of property may be good evidence of partition, Business held by a HUF can be portioned by making book entries as business not capable of physical division **[R.B Bansidhar Dhandhania v CIT, Motilal Shyam Sunder v CIT],[CIT v R.G Ramakrishnier]**

Procedures for recognition of partition

The HUF, which has been hitherto assessed, must make a claim to the Assessing Officer that the HUF properties have been subjected to total partitionAssessing Officer after making an inquiry after giving notice to all members of the HUF and record a finding that there was total partition of the HUF and the date on which it had taken place

Order under Section 171 not required where HUF has not been assessed to tax **[(CIT v Hari Krishnan Gupta (2001)(Del),Roshan Di Hatti v ITO(1968) (SC)]**

"Understanding the Hindu Undivided Family (HUF) is key to unlocking unique tax benefits, preserving ancestral wealth, and navigating the intersection of tradition and taxation in India's legal landscape."

Responsibility to pay tax after partition of HUF up to the date of partition

Section 171(6)-every member of HUF before partition shall be jointly and severally liable for the tax on the income assessed of the HUF

Section 171(7)-several liability of the member depend according to the portion of joint family property allotted at the time of partition

Member of a HUF before partition is not personally liable, after partition in respect of liability of HUF, ex-members liability is personal as held by **the Hon'ble Supreme Court in Govindas v ITO (1976)**

Notional partition under the provisions of Section 6 of The Hindu Succession Act,1956 is not sufficient for recognizing partition under The Income Tax Act,1961.To Claim partition under The Income Tax Act,1961 it must fulfil the conditions laid down in Section

Effective date of Partition

Partition of HUF shall be effective from the date of partition as mention in partition deed filed with the A.O and not from date of passing the Order recognizing the partition under Section 171 of the Income Tax Act, 1961 as held in **Smt. Sudha V. Iyer v Income Tax Officer (Mum) ITAT,** in thesaid case Partition was effected on 31-03-2005 as per partition deed dated 01-04-2005 but Order under Section 171(1) was passed on 14-10-2008

Summary

The current Article discusses only a select issues and Case Laws with reference to Hindu Undivided Family (HUF) under Income Tax Act, 1961, there are lot of Case Laws and debatable issues addressed with reference to HUF by various Legal Forums like ITAT, High Court and Supreme Court Taxpayers and Professionals should carefully arrive at the conclusion after having a through understanding of the various rulings.

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INVENTORY VALUATION UNDER I.T. ACT

Introduction

Prima-facie it is construed that Inventory is 'Unsold Stock' at the year end, literally meaning 'a quantity of goods in stock'. It is also a known fact that Inventory is an Asset and it will have different values as per different methods of accounting followed.An assessee as per Income tax act 1961 is allowed to value its inventories following any of the three methods viz., 1) FIFO (First-in-First-Out), 2) LIFO (Last-in-First –Out) and 3) Weighted Average.

Any of the Method followed once, must consistently be followed. It is seen that FIFO is suitable where Inflationary conditions are prevalent, as we know that in Inflationary Conditions, the price of material tend to increase from period to period. Similarly, LIFO is followed when it is pertinent to price the product at current prices and Weighted Average Method is a conservative approach.

Accounting Standard 2 prescribed for Valuation of Inventories for the purpose of Financial Accounting. Cost Accounting Standard 25 specifies the Valuation of Inventories for the purpose of Cost Accouning, since marginal differences exist in Valuation of Inventories, justifying the purpose for which they are maintained.

What forms part of Inventories

The following items forms part of Closing Inventory, for treating as Current Assets and placed in Balance sheet.

(i) Raw Materials - Each type of Raw Material should be valued separately, and to ensure adequate supply of raw materials for continuous production, it is required to maintain stock of Raw Material following the principles of a) Minimum Stock level, b) Maximum Stock level, and c) Re-ordering level and this allows to have Raw Material at the year- end.Supply line as per following Economic Order Quantity also lead to Inventory of Raw Material, together with host of Managerial decisions.

(ii) Work-in-Process – Particularly in a Process Industry occur at the period end, since it is not possible to have Completed Units of Production, but is required to be taken as part of Inventory since significant amount of Material, Labour and Overhead costs have been incurred and shall form part of production in next financial year.

(iii) Finished Goods – It is practical that manufacturing companies shall have unsold stock for various economic reasons viz., to meet the sales schedule of each month and to meet the situation of a slip in production and the Company should have adequate stock of finished goods, otherwise maylose the market.

(iv) Stores, Spares & Consumables: For regular maintenance and repairs of Equipment used in manufacturing, Stores, Spares & Consumables are held in stock continuously but, by following the Inventory Management Principles.

The Scope of Accounting Standard (AS) 2 (revised2016) states:

1. 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 (AS) 7, Construction Contracts);

b. Work in progress arising in the ordinary course of business of service providers;

c. Shares, debentures and other financial instruments held as stock-in-trade; and

d. **Producer's 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.**

2. **The in inventories referred to in paragraph 1(d) are measured at net realisable value at certain stages of production. This occurs, for example, when agricultural crops have been harvested or mineral oils, ores and gases have been extracted and sale is assured under a forward contract or a government guarantee, or when a homogeneous market exists and there is a negligible of failure to sell. These inventories are excluded from the scope of this Standard.**

Valuation of Inventories in Financial Accounts vs Cost Accounts

As per (AS) 2 Inventories should be valued at the lower of cost and net realisable value and should comprise all costs of purchase, costs of conversion (at normal capacity) and other costs incurred in bringing the inventories to their present location and condition.

The word location is of paramount importance since cost of transportation and other handling charges, varies from location to location. Similarly the word condition denotes to include overheads other than production overheads or the costs of designing products for specific customers in the cost of inventories.

But from Cost Accounting point of view, the Inventories are strictly valued at Cost price irrespective of its Net Realisable Value (NRV).

As per Cost Accounting Standard on Valuation of Inventory (CAS-25), Inventory is an integral part of Working Capital, and its proper valuation is important in consideration of its impact on profitability of the organisation and as well as for planning material procurement and other such operational activities. This standard shall not be applied for valuation of Inventories of the categories similar for exclusion as mentioned in (AS) 2.

As per definition of Inventories 4.6 of CAS-25, Inventories are assets:

a. **Held for sale in the ordinary course of business.**

b. **In the process of production for such sale.**

c. **In the form of materials or supplies to be consumed in the production process or in the rendering of services.**
Inventory refers to the goods and materials in a business holds for the purpose of production or manufacture and for sale to its customers.

Valuation of Inventories as per Income Tax Act 1961

ICAI Guidance Notes on Inventory valuation under Income Tax Act 1961 is of paramount importance, together with Sec.145 of the I.T.Act 1961.

Sec. 145(2) notified Income Computation and Disclosure Standards (ICDS-II), which specifically deal with the Valuation of Inventories. If any deviation from the ICDS notified under this section is noticed, then the effect should be reported in form 3CD in the audit report. It clearly mentioned that the metod of accounting may be i) Cash basis or ii) Mercantile basis. But, it should be borne in mind that whichever method followed should be consistently followed. But, in general all the big organisations follow mercantile accounting.

The following are the set rules of practice:

(i) The accounting policies adopted in measuring Inventories along with total carrying amount of invntories should be disclosed in financial accounts.

(ii) Inventories are valued at Cost, or net realisable value, whichever is low.

(iii) Cost of inventories shall be assigned by using the FIFO or Weighted Average Cost.

a. Purchase Cost which includes Purchase Price+Directly Related Expenses+Duties

b. Service Cost which includes LabourCost+Other cost directly related to the service

c. Conversion Cost

d. Other Cost to bring in to present condition

(iv) Abnormal Waste & Selling Expenses do not form part of Inventory Valuation

(v) In arriving at the Net Realisable Value, Trade Discounts & Rebates should be ignored, and reasonable estimate of costs associated with Sale of the Asset is allowed as a deduction.

(vi) Administrative Overheads which do not bring the inventories to their present condition should not be included in the Cost of Inventories.

(vii) Similarly, Storage Costs, unless they are necessary in the production process prior to a further production process are to be excluded.

For valuation of Inventories for assessee engaged in Construction Contracts is dealt by the Income Computation and Districution Standard III.

Inventory valuation for assessee engaged in the trading of Securities is dealt by the Income Computation and Distribution Standard VIII.

Sec.142(2A) of I.T. Act, 1961 was ammended by Union Finance Act 2023 giving effect from 01.04.2023 and the ammended provision is cited hereunder for ready reference:

"(2A) if, at any stage of the proceedings before him, the Assessing Officer, having regard to the nature and complexity of the accounts, v olume of the accounts, doubts about the correctness of the a ccounts, multiplicity of transactions in the accounts or specialised nature of business activity of the assessee, and the interest 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 Commissioner, direct the assessee to get either or both of the following, namely:-

1. 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 orPrincipalCommissioner 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;

2. To get inventory valued by a cost accountant, nominated by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner in this behalf 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".

The Report by a Chartered Accountant/Cost Accountant as required u/s 142(2A) to the Assessee, who in turn will submit the same to the Assessing Officer within such period as may be specified by the Assessing Officer. The time limit can be extended for a maximum of 180 days by an application of the Assessee or by the Assessing Officer (suo motu). 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 Department and paid by the Central Government. A new form 6C is introduced for the purpose of inventory valuation to be carried out by a Cost Accountant, together with Annexures.

Sec. 145(2) deals with the valuation of purchase and sale of goods or services and Inventory shall be adjusted to include the amount of any tax, duty, cess or fee (by whatsoever name called) actually paid or incurred by the assessee to bring the goods or services to the present location and condition as on the date of valuation notwithstanding any right arising as a consequence to such payment of taxes, fees or cess as the case may be. This section is favourable to the assessee, and the assessee either can follow Exclusive or Inclusive method in respect of taxes, fees or cess while valuing the Inventory and the Gross Profit will be same.

Sec. 145(3) provides for Best Judgement Assessment, where, the Assessing Officer is not satisfied about the correctness or completeness of the accounts of the assessee.

Conclusion

Barring some extra ordinary situations, normally the Cost Price is less than the Realisable Value and (AS) 2 specifically provides for taking the lower of Cost Price or Realisable Value. When Cost Price is low, the Inventory Valuation as per Financial Accounts and Cost Accounts shall be the same and reconciliation allows to see where there is a difference and can be mentioned in the Audit Report.

Ammendment to Sec. 142 (2A) of the I.T. Act permits for a Scruitiny and Certification of Inventories by Cost Accountant and this is a unique feature of I.T. Act, 1961. The provision ensures for correctness of inventory value together with accuracy of the Net Profits arrived and tureness of Income Tax payable by the assessee and safe guards the Revenue.

References

1. The Income Tax Act , 1961 as ammended up to date

2. Accounting Standard (AS) 2 (revised 2016)

3. Guidance Note on Inventory Valuation under I.T. Act, 1961 prepared by the Cost Accounting Standards Board (CASB of ICMAI), March 2024

4. Exposure Draft CAS-25 : Cost Accounting Standard on Valuation of Inventory

Hearty Congratulations

CMA S M Ramanathan, (M/21307) the Past Chairman of Bhopal Chapter of Cost Accountants has been appointed as Director (Engineer, Research & Development) of Bharat Heavy Electricals Limited (BHEL).

> Inventory valuation is a vital link between accounting accuracy and tax compliance. It determines true business profitability, ensures fair asset reporting, and forms the basis for transparent tax assessments. Under the Income Tax Act, it's not just a figure—it's a foundation for fiscal integrity.

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Income Tax & Tax Audit - Inventory Valuation

The whole discussion is divided into Four Separate Parts(Part A to Part D)to understand the meaning & intention of Income Tax Department in such an Important Topic.

Part A: - This includes the definition, importance, Valuation and allied part of Inventories: -

Inventories of any business organisation represents one of the most important assets because the turnover of inventory represents one of the primary sources of revenue generation and subsequent earnings for the company's shareholders.

A.1. Definition of Inventory: -

Inventory, in a business context, refers to the stock of goods a business organisation holds for the purpose of sale, production, or utilization. It refers to the raw materials used in production as well as the goods produced that are available for sale. There are three types of inventory, including raw materials, work-in-progress, and finished goods. It is categorized as a current asset on a company's balance sheet.

Here is a more detailed breakdown:Key aspects of inventory:

- **Raw materials:** The basic components used in the production of goods.
- **Work-in-progress (WIP):** Products that are partially completed and have undergone some stages of production but are not yet finished.
- **Finished goods:** Items that are ready to be sold.
- **Maintenance, repair, and operating (MRO) goods:** Materials used to maintain and operate the production facilities.

A1.1. Importance of Inventory Valuation: -

Inventory valuation is an accounting practice that is followed by business organisations companies to find out the value of unsold inventory stock at the time they are preparing their financial statements. Inventory stock is an asset for an organization, and to record it in the balance sheet, it needs to have a financial value. This value can help to determine inventory turnover ratio, which in turn will help to plan your purchasing decisions.

So, we can summarise the Importance in the following points.

- **Meeting customer demand: -**
  Proper inventory levels ensure a business can fulfil customer orders and avoid stockouts.
- **Optimizing costs: -** Effective inventory management minimizes holding costs and reduces the risk of obsolescence.
- **Improving efficiency: -** Efficient inventory flow streamlines the production process and reduces delays.
- **Strategic advantage: -** Understanding inventory levels and trends can provide insights into customer preferences and market demand, allowing businesses to adapt their strategies accordingly.

A2. Reasons for carrying out Valuation of Inventories: -

1. **Determining Income and Profitability: -**
   Accurate inventory valuation is essential for calculating the cost of goods sold (COGS), which directly impacts the gross profit or loss for a period. This helps in understanding how effectively a business is managing its inventory and its impact on overall profitability.

2. **Reflecting Financial Position: -**
   Inventory valuation is crucial for determining the value of unsold goods, which is a significant part of a company's current assets. Accurate valuation ensures that the balance sheet reflects the true value of the business organisation's assets. This ultimately helps in showing to the stakeholders about the true & fair view of state of affairs of the business organisations at the particular period ending, normally the Financial Year ending.

3. **Liquidity Analysis: -**
   By understanding the value of unsold inventory, businesses can assess their ability to quickly convert assets into cash. This helps in evaluating a company's ability to meet its short-term obligations.

4. **Statutory Compliance: -**
   Many accounting standards and tax regulations require businesses to use specific inventory valuation methods. Proper valuation ensures compliance with these requirements and helps avoid potential penalties or audits.

5. **Decision-Making and Management: -**
   Inventory valuation provides insights into stock levels, turnover rates, and product profitability. This information helps businesses make informed decisions about purchasing, pricing, and sales strategies.

6. **Risk Management: -**
   Accurate inventory valuation helps identify potential issues like obsolescence, spoilage, or theft. This allows businesses to take proactive measures to mitigate these risks and minimize potential losses.

Part B: - Accounting Standard 2 i.e. AS-2

This standard is issued by the Institute of Chartered Accountants of India and is concerned with the Valuation of Inventories.

B.1. Valuation of Inventories: -

This accounting standard is applicable to all business organisations which are carrying out manufacturing as well as trading activities.This standard prescribes the accounting treatment for inventories and sets the guidelines to determine the value at which the inventories are carried in the financial statements.

It explains the different methods of accounting the inventory or closing stock which has a huge impact on the business revenue and the assets.

B1.1 Definition: -

Definition of the Inventory includes the following: -

i. Held for sale in the normal course of business i.e. finished goods

ii. Goods which are in the production process i.e. work in progress

iii. Raw materials which are consumed during production process or rendering of services (including consumable stores item)

This Standard should be applied in accounting for all inventories except the following :

(a) work in progress in the construction business, including directly related service contracts;

(b) work in progress of service business (consulting, banking etc);

(c) shares, debentures and other financial instruments held as stock in trade;

(d) Inventories like livestock, agricultural and forest products, mineral oils etc.

These inventories are valued at net realizable value.

Inventories should be valued at lower cost and net realizable value. Following are the steps for valuation of inventories:

(a) Determine the cost of inventories

(b) Determine the net realizable value of inventories

(c) On Comparison between the cost and net realizable value, the lower of the two is considered as the value of inventory.

B.2.1 Net Realisable Value (NRV): -

"Net realizable 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".

Example: -NRV:

- Cost is 500 and NRV is 300 then Inventory value as per AS-2 is 300
- Cost is 500 and NRV is 600 then Inventory value as per AS-2 is 600
- Cost is 500, Sale Price is 700 and 30% commission, NRV is 490 (700-30%*700) then, Inventory value as per AS-2 is 490.

B.3. Important items of Inventory valuation: -

B.3.1. Cost of Inventories: -

The cost of inventories includes the following

i. Purchase cost

ii. Conversion cost

iii. Other costs which are incurred in bringing the inventories to their present location and condition.

B.3.1.i. Cost of Purchase: -

While determining the purchase cost, the following should be considered:

1. Purchase cost of the inventory includes duties and taxes (except those which are subsequently recoverable from the taxing authorities)
2. Freight inwards
3. Other expenditure which is directly attributable to the purchase
4. Trade discounts, rebates, duty drawbacks and other similar items are deducted in determining the costs of purchase

B.3.1.ii. Cost of Conversion: -

Cost of conversion includes all cost incurred during the production process to complete the raw materials into finished goods. Cost of conversion also includes a systematic allocation of fixed and variable overheads incurred by the enterprise during the production process.

B.3.1.ii. a. Categories of conversion cost: -

i. **Direct Costs**
All the costs directly related to the unit of production such as direct labour

ii. **Fixed Overhead Costs: -**
Fixed overheads are those indirect costs which are incurred by the enterprise irrespective of production volume. These are the cost that remains relatively constant regardless of the volume of production, such as depreciation, building maintenance cost, administration cost etc.

The allocation of fixed production overheads is based on the normal capacity of the production facilities. In case of low production or idle plant allocation of these fixed overheads are not increased consequently.

iii. **Variable Overhead Costs: -**
Variable overheads are those indirect costs of production that vary directly with the volume of production. These are the cost that will be incurred based on the actual production volume such as packing materials and indirect labour.

B.3.iii. Other Costs: -

All the other cost which are incurred in bringing the inventories to the current location and condition. For (e.g.) design cost which is incurred for the specific customer order. If there are by-products during the production of main products, their cost has to be separately identified. If they are not separately identifiable, then allocation can be made on the relative sale value of the main product and the by-product. Some of the cost which should not be included are:

(a) Cost of any abnormal waste materials cost.

(b) Selling and distribution cost unless those costs are necessary for the production process.

(c) A normal loss which occurs during the production process is apportioned over the remaining no of units and abnormal loss is treated as an expense.

Example: -
Treatment of Normal loss and abnormal loss: Company A purchased 100 items at the cost of Rs.10 each. Of which 10% is normal loss in general, there were no sales in that period and closing stock was 80. Calculate the Inventory value:
Normal Loss = 100*10% = 10
Cost per item considering normal loss = 100*10/ 90 = RS 11.11
Abnormal Loss is 90-80 (Normal – closing stock) = 10
Cost of abnormal loss = Rs 111.11
Closing stock Value = Rs 888.89

The assessee can get an allowance in respect of future unrealised loss, the Department is not entitled, by putting on the stock the market value where it exceeds cost, to bring in and charge the unrealised notional profit, unless the assessee's regular basis of valuation is the market rate right from the inception of his business.

To the same effect is the judgment in the case of C.I.T. vs. British Paints India Ltd (188 I.T.R. 44) it was held that 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.

B.4. Methods of Inventory Valuation: -

The cost of inventories of items which can be segregated for specific projects should be assigned by specific identification of their individual costs (Specific identification method). All other items cost should be assigned by using the first-in, first-out (FIFO), or weighted average cost (WAC) formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.

However, when it is difficult to calculate the cost using above methods, Standard cost and Retail cost can be used if the results approximate the actual cost.

B.5. Accounting Disclosure: -

The following should be disclosed in the financial statements:

1. Accounting policy adopted in inventory measurement.
2. Cost formula used.
3. Classification of the of inventory such as finished goods, raw material & WIP and stores and spares etc.
4. Carrying amount of inventories carried at fair value less sale cost.
5. Amount of inventories recognized as expense during the period.
6. Amount of any write-down of inventories recognized as an expense and its subsequent reversal if any.

Part C: -Tax Audit under Income Tax Act, 1961: -

C.1. Meaning of Tax Audit: -

As the name itself suggests, tax audit is an examination or review of accounts of any business or profession carried out by taxpayers from an **income tax** viewpoint. Any company or an individual exceeding certain limits of turnover is liable to get the accounts audited within the Income tax Act, 1961. There are various kinds of audits being conducted under different laws such as company audit/statutory audit conducted under company law provisions, cost audit, stock audit etc. Similarly, income tax law also mandates an audit of certain taxpayers called as 'Tax Audit'.

C.2. Objectives of Tax Audit: -

Tax audit is conducted to achieve the following objectives:

- Ensure proper maintenance and correctness of books of accounts and certification of the same by a Chartered Accountant(tax auditor)
- Reporting observations/discrepancies noted by the tax auditor after a methodical examination of the books of account
- To report prescribed information such as tax depreciation, compliance of various provisions of income tax law, etc.
- Computation of tax and deductions becomes easy with auditing.

The major role is to verify the information filed in the income tax return regarding income, tax, and deductions by the taxpayer.

C.3. Turnover Limit for Income Tax Audit: -

A taxpayer is required to have a tax audit carried out if the sales, turnover or gross receipts of business exceed Rs 1 Crore in a financial year or Rs 10 Crores in case cash transactions do not exceed 5% of the total transactions (i.e., Cash receipts/payments does not exceed 5% of the total receipts/total payments). In case of profession, a tax audit is mandatory if gross receipts exceeds Rs 50 lakhs in the financial year. However, a taxpayer may be required to get their accounts audited in certain other circumstances also. We have categorized the various circumstances in the tables mentioned below:

Under section 44AB of the Income Tax Act, 1961, Categories of taxpayers who are mandatorily required to conduct tax audit of their records:

> Accurate inventory valuation isn't just an accounting necessity—it's a strategic imperative that ensures compliance, enhances financial transparency, and empowers informed decision-making across taxation, reporting, and business planning.

Category of Person	Limit for Income Tax Audit
Business: -	
Carrying on business (not opting for presumptive taxation scheme*)	Total sales, turnover or gross receipts exceed Rs.1 crore in the FY (or)
	If cash transactions are up to 5% of total gross receipts and payments, the threshold limit of turnover for tax audit is Rs.10 Crores (w.e.f. FY 2020-21)
Carrying on business eligible for presumptive taxation under Section 44AE, 44BB or 44BBB and opted for the same in previous year	Claims profits or gains lower than the prescribed limit under the presumptive taxation scheme.
Carrying on business eligible for presumptive taxation under Section 44AD and opted for the same in previous year	Declares taxable income below the limits prescribed under the presumptive tax scheme and has income exceeding the basic exemption limit (i.e., Rs. 2.5 lakhs).
Carrying on the business and is not eligible to claim presumptive taxation under Section 44AD due to opting out for presumptive taxation in any one financial year of the lock-in period i.e. 5 consecutive years from when the presumptive tax scheme was opted	If income exceeds the basic exemption limit in the subsequent 5 consecutive tax years from the financial year when the presumptive taxation was not opted.
Profession: -	
Carrying on profession	Total gross receipts exceeds Rs 50 lakh in a year
Carrying on the profession eligible for presumptive taxation under Section 44ADA	1. Claims profits or gains lower than 50% of the total receipts from such profession and
	2. Income exceeds the basic exemption limit
Business loss: -	
In case of loss from carrying on of business and not opting for presumptive taxation scheme	Total sales, turnover or gross receipts exceed Rs 1 crore
If taxpayer's total income exceeds basic exemption limit but he has incurred a loss from carrying on a business (not opting for presumptive taxation scheme)	In case of loss from business when sales, turnover or gross receipts exceed 1 crore, the taxpayer is subject to tax audit under 44AB

C.4. Cases where the Accounts of a Person are Required to be Audited Under Other Laws

In such cases, the taxpayer need not get his accounts audited again for income tax purposes. It is sufficient if accounts are audited under such other law before the due date of filing the return. The taxpayer can furnish this prescribed audit report under Income tax law.

C.5. Constitutes an Audit report: -

Tax auditor shall furnish his report in a prescribed form which could be either Form 3CA or Form 3CB where:

- Form No. 3CA is furnished when a person carrying on business or profession is already mandated to get his accounts audited under any other law.

- Form No. 3CB is furnished when a person carrying on business or profession is not required to get his accounts audited under any other law.

- Form No. 3CE is furnished when Non-residents and foreign companies receive royalties or fees for technical services from the government or an Indian concern.

In case of either of the aforementioned audit reports, the tax auditor must furnish the prescribed particulars in Form No. 3CD, which forms part of the audit report.

C.6. Filing Tax Audit Report with Income Tax Department: -

The tax auditor shall furnish a tax audit report online by using his login details in the capacity of 'Chartered Accountant'. Taxpayers shall also add CA details in their login portal.

Once the tax auditor uploads the audit report, the same should either be accepted/rejected by the taxpayer in their login portal. If rejected for any reason, all the procedures need to be followed again till the audit report is accepted by the taxpayer.

C.7. Last date of filing Tax Audit Report: -

Last date for filing of income tax audit report is 31st October of the subsequent year in case the taxpayer has entered into an international transaction and 30th September of the subsequent year for other taxpayers. The subsequent year itself is the assessment year.

One must file the tax audit report on or before the due date of filing the return of income. It is 31st October of the subsequent year in case the taxpayer has entered into an international transaction and 30th September of the subsequent year for other taxpayers. The subsequent year itself is the assessment year.

Part D. ICDS: -

D.1. Income Tax Act, 1961 – Directives to all its Assessees with respect to Inventory Valuation: -

As there are more & more complications in the operating of business organisations, and litigations in arriving at correct profit earned during the operating business cycle, (particularly at the end of a Financial Year), Income Tax Department has come forward to help itself to correctly arriving at the Profit from business in the form of asking the assessees to measure its year end profit under section 145(2a) of Income Tax Act, 1961.

For that purpose, it has introduced the Income Computation & Disclosure Standards (ICDSs) with effect from 27.09.2023. This has been notified by CBDT vide Notification No. 82/2023 dated 27.09.2023 wherein a comprehensive & detailed Report from the assessee to be certified by the Accountant or Cost Accountant has been sought for a particular financial year end. The Accountants or Cost Accountants should be nominated by the by the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner of Income-tax under clause (i) of section 142(2A) of the Income-tax Act, 1961.

It has further stated that the Assessee has to submit such Audit Report in the form of Form 6D. The report contains item-wise Inventory and its calculations, differences, etc. to correctly arrive Profit Figure on which Assessee has to pay the taxes for that financial year. This Audit Report must be signed by an Accountant or Cost Accountant which is appointed by the Income Tax Department.

D.2. Reasons behind bringing out ICDS:-

While carrying out the Assessment of the income tax returns filed by the assessee for a particular financial year, it has been observed that in the most of the cases, the assessees used to get the Working Capital limits sanctioned from the Banks wherein the inventories value was stated to be on the higher side to get more Working Capital funds at the disposal of assessee. However, while scrutinising the income tax returns, closing & opening inventories were stated to be less than the figures given to the banks. There was always disparity between the figures of inventories given to the bank and that was stated in the income tax returns. In such cases, statutory auditors were not throwing much light for this disparity, and so the ICDS came into force.

D.3. ICDS - Income Computation and Disclosure Standards: -

As per Section 145 of the Income Tax Act, any assessee having taxable income under the heads “Profits and gains from business or profession” or “Income from Other Sources” has to compute their taxable income in accordance with cash or mercantile system of accounting.

Furthermore, the section states that the Central Government may notify from time to time if it is to be followed by any class of taxpayer or in any class of income.

D.4. Key Aspects of ICDS: -

- It is applicable to all taxpayers (corporate/non-corporate or resident/non-resident) irrespective of the turnover or income.

- It will not have any impact on the minimum alternate tax (MAT) for corporate assessees as it will be based on the book profits to be determined as per the current applicable AS. It will only be applicable for computation of income chargeable under the heading “Profits and gains of business or profession” or “Income from other sources”.

- It is applicable only on the computation of the income and not for maintenance of the books. If there is any conflict, then the Income Tax Act will prevail over ICDS.

- **Income Tax Authorities have the power to assess the income on the best judgment basis on non-compliance of ICDS.**

- All ICDS (except VIII relating to Securities) contains transitional provisions which in general provide for recognition of outstanding contracts and transactions as on 1st April 2015 in accordance with it after taking into account income/expenditure/loss already incurred in the past. There is no ‘grandfathering’ for outstanding contracts or transactions as on 31st March 2015.

- It does not provide any explanations or illustrations like AS. It only lays down the principles to be adopted for computing Income.

- Revenue or Expenses on which there is no ICDS will continue to be governed by existing AS.

D.5. List of ICDS notified under the Income Tax Act: -

Standard No.	Particulars of Standards
I	Accounting Policies
II	Valuation of Inventories
III	Construction Contracts
IV	Revenue Recognition
V	Tangible Fixed Assets
VI	The Effects of Changes in Foreign Exchange Rates
VII	Government Grants
VIII	Securities
IX	Borrowing Costs
X	Provisions, Contingent Liabilities and Contingent Assets

D.6. Below is the list of ICDS and corresponding notified AS: -

Sl. No.	ICDS No.	Linked Accounting Standard
1	I – Accounting Policies	AS 1 – Disclosure of Accounting Policies
2	II – Valuation of Inventories	AS 2 – Valuation of Inventories
3	III – Construction Contracts	AS 7 – Construction Contracts
4	IV – Revenue Recognition	AS 9 – Revenue Recognition
5	V – Tangible Fixed Assets	AS 10 – Accounting of Fixed Assets
6	VI – Effects of Changes in Foreign Exchange Rates	AS 11 – The Effects of Changes in Foreign Exchange Rates
7	VII – Government Grants	AS 12 – Accounting for Government Grants
8	VIII – Securities	AS 13 – Accounting for Investments
9	IX – Borrowing Costs	AS 16 – Borrowing Costs
10	X – Provisions, Contingent Liabilities and Contingent Assets	AS 29 – Provisions, Contingent Liabilities and Contingent Assets.

D.7. Income Computation & Disclosure Standard (ICDS) II shall be applied for valuation of inventories, except:

- Work-in-progress arising under construction contract, dealt with by the ICDS III on construction contracts
- Work-in-progress which is dealt with by any other ICDS
- Shares, debentures and other financial instruments held as stock-in-trade, dealt with by the ICDS VIII on securities
- Producers' inventories of livestock, agriculture and forest products, mineral oils, ores and gases to the extent that they are measured at net realisable value
- Machinery spares dealt with by ICDS V on tangible fixed assets.

D.8. Measurement of Inventories: -

Inclusions in the cost of inventories: -

- Inventories shall be valued at cost, or net realisable value, whichever is lower.
- Cost of Inventories shall include all purchase costs, service costs, conversion costs and all other costs which is incurred to bring the inventories to their present location and condition.
- Purchase cost shall include purchase price inclusive of duties and taxes, freight inwards and other expenses directly related to purchase. Trade discounts, rebates, etc. will not be included
- Service cost shall consist of labour and other costs of personnel directly engaged in providing the service.
- Conversion cost of inventories shall include costs directly related to the units of production.
- 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 ICDS IX on borrowing cost.
- **Exclusions from the cost of inventories: -**
- 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.
- Administrative overheads that do not bring the inventories to their present location and condition.
  Selling costs.
- **Cost of inventories** shall be assigned by using the First-in First-out (FIFO) or weighted average cost formula.
- 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
- In case of **dissolution**, whether business is continued or not, the cost of inventories shall be valued at the net realizable value.
- **Disclosure:** The accounting policies adopted in measuring inventories along with the total carrying amount of inventories should be disclosed in the financial statements.

D.9. Reporting under ICDS II: -

As stated earlier the assessee is required to give each & every information as stated in the Form 6D duly certified by an Accountant or Cost Accountant. The Report is so exhaustive that there is very little room for the assessee to escape from giving the required information. This information is required to be given once the appointment of an Accountant or Cost Accountant is cleared by the Appointing Authority of Income Tax Department.

There are total 12 points that are relevant for the valuation of inventories to be reported in the given formats and to be attached with Form No. 6D.(Due to limitation, these formats are not given here). After filling up all the relevant information in the required formats with, same is to be certified with UDIN in Form No. 6D and to be given to the Income Tax Department.

D.10. Comparison between AS 2 and ICDS: -

Given below are some of the key differences between Income Computation and Disclosure Standards (ICDS) and AS2: -

Sl. No.	Basis	ICDS	AS2
1	Work in Process	ICDS II does not deal with Work-in-progress which is dealt with by any other ICDS. It does not specifically provide for work in progress arising in business of service provider	Work in progress arising in the ordinary course of business of service providers is not covered by AS
2	Machine Spares	ICDS II does not deal with machinery spares, which are dealt with by ICDS V on tangible fixed assets	Stores and spares are one of the classification of inventories. AS 2 does not specifically exclude machine spares
3	Borrowing Costs	It includes interest and other borrowing cost in inventory cost, if they satisfy the condition of ICDS IX on borrowing cost	It does not include interest and other borrowing cost to the cost of inventory
4	Value of opening inventory	Provides for the valuation of opening inventory	Does not provide for the valuation of opening inventory
5	In case of dissolution	Cost of inventory will be valued at net realizable value	Does not specifically provide for the valuation of inventory in case of dissolution

D.11. Relevance of Inventories Valuation under Section 44AB i.e. Tax Audit Report:-

There are 44 different Clauses of information to be reported in Form No. 3CD and this form is to be attached with the main Tax Audit Report.

Clauses No. 13(d) to 13(f) & 14(a) & 14(b) are relevant, stating in the Form No. 3CD, details of Inventories Valuation and requesting the Assessee the Report of ICDS.

We give below the excerpts of both these clauses for the knowledge of the readers.

Clause No.	Particulars of Clauses	Information required to be reported
13(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)	The Income Tax Act has prescribed certain Income Computation and Disclosure Standards (ICDS) ranging from ICDS I to ICDS X. The effect of these ICDS must be taken in the computation of tax to arrive at the net tax liability – The increase in profit, decrease in profit and net effect is mentioned as per each ICDS.
13(e)	If answer to (d) above is in the affirmative, give details of such adjustments	
13(f)	Disclosure as per ICDS	The ICDS also contain certain disclosure requirements and this is the clause under which such disclosures are ultimately made.
14(a)	Method of valuation of closing stock employed in the previous year.	This method of valuation would be on the basis of the method of accounting regularly employed by the assessee subject to certain prescribed adjustment on account of tax, duty, cess, etc. (like excise duty, VAT) incurred in procuring the inventory.
14(b)	In case of deviation from the method of valuation prescribed under section 145A, and the effect thereof on the profit and loss	

Miscellaneous Information: -

Benefits to the Income Tax Departmentin carrying out the Inventory Calculations:-

1. There is very little room for the assessee to escape in concealing or hiding of income and therefore the Department enables to recover the tax liability with applicable interest thereon escaped income.

2. The assessee cannot challenge the Assessment Order of Income tax Department, if the assessment is done under ICDS.

3. The assessment of income will be in a more scientific and logical manner and therefore the assessee is required to abide by the ICDS Order of Income Tax Department.

4. Income Tax Authorities have the power to assess the income on the best judgment basis on non-compliance of ICDS. That means if the assessee does not co-operate or does not submit the required information in the prescribed time limit or does not co-operate with the Accountant or Cost Accountant for giving the required information within time limit, Department can carry out the Assessment under Section 144 as Best Judgment Assessment.

5. Seeing with the results of positive nature, the Income Tax Department may come up with the Notification about maintenance of Cost Accounting Records for the assessees which are covered under ICDS.

Benefits to the Cost Accountant Fraternity: -

Seeing this opportunity, The Institute of Cost Accountants of India has brought out its publication on the subject of Inventory Valuation for the benefit of Cost Accountants Fraternity. The real benefits are -

1. The Cost Accountants will be in a position to showcase their expertise, skill, dedication, devotion etc. in auditing the Inventories which will benefit to them as well as to the whole fraternity.

2. This will pave the way for the Income Tax Department for trusting the skills & expertise of the Cost Accountants thereby assigning more and more work of professional nature to them.

3. Due to the skill and expertise of the Cost Accountants, the Central Government may amend the definition of Accountant within the meaning of Income Tax Act, 1961 and this may help the Cost Accountants fraternity in the years to come.

4. The Central or State Government may think for allotment of future assignments of similar or some other nature to the pool of Cost Accountants already empanelled for the Income Tax Department.

Sources:

1. Income Tax Act, 1961.

2. Publication on Inventory Valuation of The Institute of Cost Accountants of India.

3. Accounting Standard 2 i.e. AS-2 issued by The Institute of Chartered Accountants of India.

4. ICDS issued by the Central Board of Direct Taxes.

> Inventory valuation serves as a crucial link between accurate financial reporting and fair tax assessment. It not only determines the true financial position of a business but also ensures regulatory compliance, prevents revenue leakage, and upholds transparency. Proper valuation methods influence profitability, tax liabilities, and stakeholder trust—making it a cornerstone of responsible accounting and audit practices.

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Salient Features of Income Computation and Disclosure Standard II - (ICDS II) Related to Valuation of Inventories under Income Tax Act, 1961

Section 142 (2A) of Income Tax Act,1961 has been amended vide Finance Act 2023.

It was passed by the both houses of parliament on 24.03.2023 and got assent of the honourable President of India on 31.03.2023.

This amended section 142 (2A) empowers the Assessing Officer (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 the valuation of inventory done by practising cost accountant as nominated by Principal Chief Commissioner of Income Tax (PCCIT) or Chief Commissioner of Income Tax (CCIT) or Principal Commissioner of Income Tax (PCIT) or Commissioner of Income Tax(CIT).

Under amended section 142 (2A), the Assessing Office shall cause the Inventory Valuation verified and certified by a practising cost accountant if AO deems it necessary to do so in the interest of the revenue due to any or all of the following :
Nature and complexity of accounts of the assessee or
Volume of the accounts or
Doubts about correctness of accounts or
Multiplicity of transaction in accounts or
Specialised nature of business activity of the assessee
Cost and Management Accounting is the core area of CMA (Cost and Management Accountant)
CMA profession uses 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) and empowered the Assessing Officer to take assistance of a practising 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 curbtax evasion and concealment due to over or under valuation of inventory

Salient features of amended section 142 (2A)

1. The assessing officer shall give an opportunity to the assessee to submit his grounds as to why valuation of inventory is not required.

2. 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
   Audited for financial audit under section 139 and cost audit under section 148 of companies act,2013 or audit under society or trust act etc

3. 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.
   However, total period 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.

4. Expenses and incidental expenses for inventory valuation including remuneration of the cost accountant, qualified assistant, semi qualified assistant and other assistant who may be engaged by the cost accountant shall be determined by PCCIT or CCIT or PCIT or CIT as the case may be.

5. The amount referred to in 4) above shall be in between Rs3750 to Rs 7500 per hour as specified under section 142 (2C)

6. The cost accountant is required to maintain time sheet and is required to submit it to the CCIT or CIT along with bill

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

Mode of Engagement and criteria for empanelment of PCMAs

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

1. The applicant should be reputed partnership firm or proprietary concern or a limited liability partnership (LLP)
   Having his office in the area falling within the territorial jurisdiction of principal chief commissioner of income tax
   Having a staff of at least 5, including a minimum of 2 cost accountants working with the applicant for at least 1 year as on 31.03.2023

2. The applicant should have filed returns of income regularly up to AY 2023-24 and gross professional receipts exclusively from cost accounting practise should not be less than Rs 15 lakhs in any 2 out of last 5 preceding financial years i.e. from 2018-19 to 2022-23

3. The applicant should have professional experience of minimum 5 years as on 31,03.2023

4. The applicant should have audited cost records of at least 1 business entity having turnover of Rs 50 crore or more in any 2 out of last 5 preceding financial years i.e. 2018-19 to 2022-23

5. There should not be any proceedings related to income tax evasion / demand/penalty/prosecution against the applicant or any of the partners under the provisions of income tax act,1961

6. The applicant should not have indulged / found indulged in any unethical practices

7. The applicant should not have indulged in any professional misconduct nor should have faced any complaint under section 21 of the cost and works accountants act,1959.

Salient Features of Income Computation and Disclosure Standard II related to Inventory Valuation (ICDS II)

Central government has notified income computation and disclosure standards in the year 2016 under section 145 (2) of the income tax,1961 wef the assessment year 2017-18

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

In the case of conflict between the provisions of income tax act,1961 and the income computation and disclosure standard, the provisions of the act shall prevail.

Preamble to the guidelines mention that computation of inventory valuation shall form part of computing Income under the head profits and gains of business or profession or

As per definition in ICDS-II inventories may be In the form of finished products – manufactured or produced

Stock in trade

Semi-finished goods / intermediate products

WIP

Raw materials, process materials, packing materials

Stores and consumables, chemicals, fuels

Jigs, tools & tackle

Joint products

By products

Use of Cost Accounting Standards and CCRA Rules

Cost Accountant may use costing techniques with reference to CRA -1 as prescribed in Companies (Cost Records and Audit) Rules, 2014, cost accounting standards, generally accepted cost accounting principles to the extent they are in conformity with the relevant provisions of the Income Tax Act and ICDS.

Net Realisable Value

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.

Cost of Purchase

As per invoice value but excluding ITC under GST or duty drawback under customs Act etc
Freight inward shall be included to the cost of purchase

Other direct cost like loading / unloading , material / goods handling cost which are directly attributable to the purchase shall be included in the cost of purchase

Cost of Conversion

It shall include indirect material cost (consumable stores), direct and indirect employee cost, cost of utilities, repairs and maintenance cost, cost of tools, jigs and fixtures, machine depreciation, fixed and variable production overheads, quality control cost, research and development cost, other manufacturing or producing cost.

Exclusion from Cost of Inventories

Abnormal amounts of wasted materials, labour or other production cost Storage Cost, unless these cost are necessary to facilitate production process Administrative Overheads that do not contribute to bring the inventories to their present locations and conditions Selling costs Interest.

Cost Formulae

The FIFO or Weighted average method shall be used to deal with the cost of inventory items.

Format 6D

The Form 6D contains inventory valuation report part consisting of
Particulars, observations, findings and qualifications if any with proper justification and evidence, details of inventory with quantity and value as per ICDS II

This shall interalia include quantitative details of Raw Materials and Products manufactured / traded

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GST - Really an Ease of Doing Business?

Introduction

The Goods and Services Tax (GST) was introduced with the vision of creating a unified national market and simplifying the complex indirect tax structure in India. It promised to enhance transparency, compliance, and promote the "Ease of Doing Business." However, certain recent judicial and quasi-judicial pronouncements, particularly concerning government-related projects and certificates, reveal gaps between the law's intent and its practical interpretation.

The Indian Hume Pipe Ruling: A Wake-Up Call

In the matter of Indian Hume Pipe Company Limited (Advance Ruling No. KAR/ADRG 23/2022), the Karnataka Authority for Advance Rulings (KAAR) examined whether works contract services provided to the Bangalore Water Supply and Sewerage Board (BWSSB) were eligible for the concessional GST rate of 12%.The applicant contended that BWSSB is a "local authority" and that its GST registration certificate classified it accordingly. However, the AAR ruled that merely having a GST certificate showing 'local authority' does not automatically grant eligibility for concessional tax rates. The nature of the entity and its statutory functions must be examined independently.

Notifications Applicable: 11/2017 and 15/2021

Notification No. 11/2017-Central Tax (Rate) dated 28th June 2017 initially provided that works contract services supplied to the following were taxable at a concessional GST rate of 12% (6% CGST + 6% SGST):

- Central Government
- State Government
- Union Territory
- Local Authority
- Governmental Authority

Change Introduced by Notification No. 15/2021-Central Tax (Rate)
Notification No. 15/2021 issued on 18th November 2021 amended Notification No. 11/2017.

Crucial change:

- The term "Governmental Authority" was deleted from the concessional rate category.
- Now, only services provided to the Central Government, State Government, Union Territory, and Local Authority qualify for 12% GST.

Thus, after 1st January 2022, Governmental Authorities (like many Development Authorities, Housing Boards, etc.) do not qualify for concessional rates and are subject to the standard rate of 18% unless classified otherwise.

Further Reference: Karnataka Appellate Authority for Advance Ruling (KAR/AAAR/01/2023)

In Order No. KAR/AAAR/01/2023 dated 07-02-2023, the Karnataka Appellate Authority for Advance Ruling (AAAR) upheld the AAR ruling passed in KAR/ADRG 23/2022.

The AAAR confirmed:

- GST registration certificates are important documents but are not conclusive evidence of an entity's classification under the CGST Act.
- Substance over form principle must apply.
- Entities claiming the benefit of concessional tax rates must prove their eligibility by demonstrating their statutory constitution, functions, and powers under relevant legislations.

Thus, AAAR reaffirmed that BWSSB could not be considered a "local authority" simply based on its GST certificate.

The Core Issue: Trust on Government-Issued Certificates

This line of rulings highlights a worrying reality for taxpayers:
If basic government documents like the GST Certificate cannot be relied upon fully, the principle of "Ease of Doing Business" is severely weakened.

A GST Registration Certificate contains critical information like:

- GSTIN
- Legal Name
- Trade Name
- Constitution (Company, Local Authority, Partnership, etc.)

However, taxpayers are now expected to independently verify whether classifications like "Local Authority" or "Governmental Authority" are truly applicable in law, not just based on the certificate.

Needed Clarification from the Government
Authorities must clarify whether:

- GST Registration Certificates are fully reliable or partially indicative,
- Taxpayers need to perform independent legal evaluations of governmental classification,
- If mistakes exist, whether taxpayers will be penalized even after relying on certificates issued by GST authorities themselves.

A simple government clarification could save thousands of man-hours, unnecessary litigation, and costs.

Conclusion

The Indian Hume Pipe Ruling and the subsequent Karnataka AAAR order of 2023 expose deep contradictions within the GST framework.

While GST was meant to create "ease" for businesses, ambiguous classifications and divergent expectations from taxpayers pull in the opposite direction.

Clearer guidelines, consistent policies, and accountability in document issuance are crucial for restoring the original spirit behind GST.

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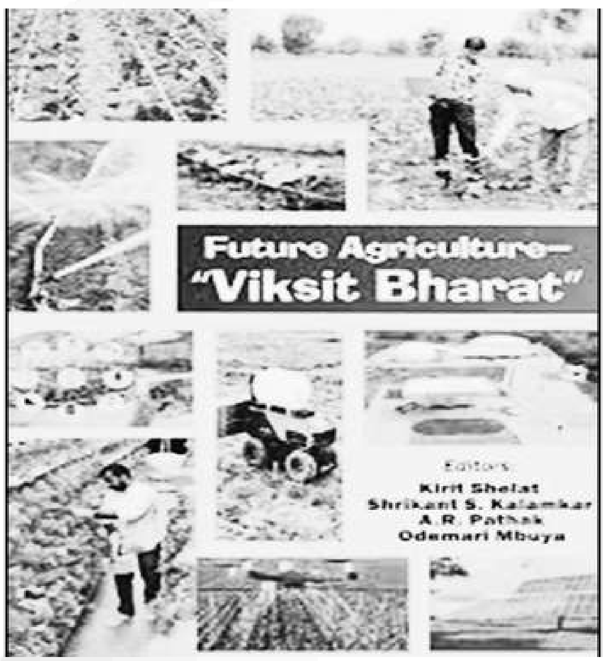
Government initiatives for farmer’s welfare to build “VIKSIT BHARAT”

1. Abstract-

The vision for "Viksit Bharat 2047," articulated by the government, it is a comprehensive roadmap aimed at propelling India to achieve sit in the category of developed nations by the year 2047. We all knows that India is an agricultural country. Central to this ambitious vision is the agricultural sector, recognized not merely as an economic activity but as a fundamental driver of holistic national development. Recently all sectors are badly affected due to covid-19 except agriculture, agriculture showcased resilience and even growth, underlining its importance to the Indian economy.Government has taken many initiatives for strengthening Indian agriculture sector to achieve the aim of “VIKSIT BHARAT”, this article will highlight these initiatives.



2. The reasons why government considering that agriculture sector is significant to the "VIKSIT BHARAT 2047" vision:

2.1 Economic Contribution:

Agriculture sector contributes significant contribution in GDP around 18% to the country's GDP. Off course the sector's growth impacts overall economic health significantly. For instance, during the COVID-19 pandemic, when other sectors suffered, agriculture showcased resilience and even growth, underlining its importance to the economy, hence Indian Economy has not impacted more compare to other countries. Therefore, for "Viksit Bharat 2047," enhancing agricultural productivity and sustainability is crucial for economic growth.

2.2 Employment:

Role of agriculture sector to provide employment in developing country like India is so much crucial. Agriculture is critical for India’s development as it still engages about 45.8% of the working population. Transforming the sector with modern technologies and practices can improve livelihoods and reduce poverty, which are key objectives for a developed India.

2.3 Food Security:

Despite India reaching a record food grain production of 296.65 million tonnes in the 2019-2020 crop year, ensuring sustainable food security remains a critical challenge in the vision of Viksit Bharat 2047. The agricultural sector plays a pivotal role in this endeavour, necessitating advancements in farming techniques and systemic improvements in post-harvest and distribution channels to sustainably nourish the world's largest population.

2.4 Export Potential:

Developing the agriculture sector can turn India into a global food basket, enhancing its export potential. This can lead to better trade balances, foreign exchange earnings, and a stronger position in international trade negotiations. For example, India is one of the largest exporters of spices, rice (particularly Basmati rice), and tea in the world. In FTP 2021-26 ,The "District Export hub initiative" will be a significant part of the new policy which aims to help farmers in providing export opportunities through e-Commerce and digital marketing platforms.

2.5 Rural Development:

Agriculture sector is central to rural development. Improving agricultural infrastructure, market access, and value chain efficiencies can drive rural prosperity, reducing the urban-rural divide and leading to a more equitable development model.

2.6 Sustainability and Climate Change:

In aiming for Viksit Bharat, prioritizing sustainable agriculture is crucial for climate resilience. As agriculture heavily uses groundwater and impacts greenhouse gas emissions and land degradation, shifting to sustainable practices is vital. This approach can help India manage resources, reduce its carbon footprint, and enhance biodiversity for a sustainable future.

2.7 Innovation and Technology Adoption:

Leveraging technology and innovation in agriculture—such as precision farming, biotechnology, and digital agriculture—can boost productivity, reduce waste, and make farming more resilient and efficient.

2.8 Cultural and Social Significance:

Agriculture is deeply intertwined with the cultural and social fabric of India. Preserving this heritage while modernizing the sector is important for social cohesion and national identity.

3. Issues And Challenges In The Agriculture Sector:

3.1 Reduction in budgetary allocation:

The allocation for agriculture in the union budget has been declining in recent years: from 3.78% of the total budget share in 2021-22 to 3.36% in 2022-23, and 2.78 % in 2023-24.

3.2 Declining size of landholding:

Small land holders can't enjoy benefit available for larger land holders. Around 86% of agrarian landholdings in India are of size less than two hectares. They have diverse farming practices and many lack title deeds. So, a one-size-fits-all approach is not suited for these farmers.

3.3 Groundwater depletion:

Monoculture of water intensive crops in the semi-arid Punjab plains has resulted in groundwater depletion and desertification.

3.4 Excessive use of Chemical fertilizers and pesticides:

Indian farmers use fertilizers without taking into consideration the actual requirement of the crops and existing composition of soil nutrients. For instance, while the desirable ratio of N-P-K application is 4:2:1, it is 31.4:8:1 in Punjab. Excessive use of chemical fertilizers and pesticides is one of the reason on land degradation, hance need to focus on organic farming.

3.5 Access to formal agricultural credit:

As per the NABARD All India Rural Financial Inclusion Survey 2016-17, more than half the agricultural households in the country have outstanding debt. In this, a large share is indebted to informal sources such as moneylenders.Suicide due to indebtness of farmers is one of highlighted issue in some states like Maharshtra.

3.6 Uncertainties in agriculture:

Indian agriculture is vulnerable to various factors like erratic monsoon, MSP regime, buffer stock levels and government policies on imports. This, coupled with the rainfed and subsistence nature of farming, makes agriculture less attractive for the youth.

3.7 Limited level of mechanisation:

Mechanization continues to be limited in the late stages of agriculture, such as harvesting and threshing.

3.8 Fragmented supply chain:

Due to storage of storage facilities, cold storages and transportation system, the supply chain system in India remains highly fragmented. This has resulted in low price realization, poor quality and wastage of products.

3.9 Conflicts in WTO:

India's agricultural subsidy policies, particularly those falling under the WTO's restrictive "Amber Box" category, have been scrutinized, limiting the country's capacity to offer robust support to its farmers and traders within the global trade rules.

4. Government Initiatives For Farmers Welfare:

4.1 Pradhan Mantri Krishi Sinchai Yojana (PMKSY):

This scheme aims to extend the coverage of irrigation 'Har Khet ko Pani' and improve water use efficiency 'Per Drop More Crop' in a focused manner. PMKSY was launched during the year 2015-16 to enhance physical access of water on farm and expand cultivable area under assured irrigation, improve on-farm water use efficiency, introduce sustainable water conservation practices, etc.

PMKSY is an umbrella scheme, consisting of two major components being implemented by Ministry of Jal Shakti, namely, Accelerated Irrigation Benefit Programme (AIBP), and Har Khet Ko Pani (HKKP). HKKP, in turn, consists of four sub-components: (i) Command Area Development & Water Management (CAD&WM); (ii) Surface Minor Irrigation (SMI); (iii) Repair, Renovation and Restoration (RRR) of Water Bodies; and (iv) Ground Water (GW) Development (approval only till 2021-2022, and thereafter only for ongoing works). Further, in 2016, CAD&WM sub-component of HKKP was taken up for pari passu implementation with AIBP.

4.2 Soil Health Card Scheme:

A Soil Health Card is used to assess the current status of soil health and, when used over time, to determine changes in soil health that are affected by land management. A Soil Health Card displays soil health indicators and associated descriptive terms. The indicators are typically based on farmers' practical experience and knowledge of local natural resources. The card lists soil health indicators that can be assessed without the aid of technical or laboratory equipment.

Farmers do not know which types of crops they should grow to get maximum yield. Basically, they do not know the quality and the type of their soil. They might know by experience what crops grow and what crops fail. But they don't know what they can do to improve the condition of the soil.

Soil Health Card Scheme was introduced in the year 2014-15 to optimize usage of nutrients. The following numbers of cards have been issued to farmers;

(i) Cycle-I (2015 to 2017) – 10.74 crore

(ii) Cycle-II (2017 to 2019)- 11.97 crore

(iii) Model Village Programme (2019-20)- 19.64 lakh

> Empowering farmers through progressive policies is not just welfare—it's the foundation of a self-reliant, prosperous, and Viksit Bharat.

4.3 Pradhan Mantri Fasal Bima Yojana (PMFBY):

The Pradhan Mantri fasalbima yojana (PMFBY) launched on 18 February 2016 by Hon. PM Narendra Modi is an insurance service for farmers for their yields. It aims to reduce the premium burden on farmers and ensure early settlement of crop assurance claim for the full insured sum. It aims to provide a comprehensive insurance cover against failure of the crop thus helping in stabilising the income of the farmers. The scheme is implemented by empanelled general insurance companies. Selection of Implementing Agency is done by the concerned State Government through bidding. In past 6 Years of implementation – 38 crore farmer applications has been enrolled and over 11.73 crore (Provisional) farmer applicants have received claims. During this period nearly Rs. 25,185 crore were paid by farmers as their share of premium against which claims of over Rs. 1,24,223 crore (Provisional) have been paid to them. Thus for every 100 rupees of premium paid by farmers, they have received about Rs. 493 as claims.

4.4 National Agriculture Market (e-NAM):

National Agriculture Market (NAM) is a pan-India electronic trading portal launched on 14th April, 2016 completely funded by Central Government and implemented by Small Farmers Agribusiness Consortium (SFAC). NAM portal networks the existing APMC (Agriculture Produce Marketing Committee) / Regulated Marketing Committee (RMC) market yards, sub-market yards, private markets and other unregulated markets to unify all the nationwide agricultural markets by creating a central online platform for agricultural commodity price discovery.

- ✓ Transparent online trading with enhanced accessibility to the market.
- ✓ Real time price discovery for better & stable price realization for producers.
- ✓ Reduced transaction cost for buyers.
- ✓ The details of price of commodity sold along with quantity are received through SMS. More efficient supply chain & warehouse based sales.
- ✓ Online payment directly to the bank accounts of the farmers.

(i) 1410 mandis of 23 States and 04 UTs have been integrated to e-NAM platform.

(ii) As on 30.11.2024, more than 1.78 crore Farmers, more than 4250 Farmer Producer Organisation,2.62 Lakh traders have been registered on e-NAM portal.

(iii) Total volume of 8.96 crore MT &30.99 crore numbers (bamboo, betel leaves, coconut, lemon & sweet corn) collectively worth approximately Rs. 3.19 lakh crore of trade has been recorded on e-NAM platform as on December 2023.

4.5 Paramparagat Krishi Vikas Yojana (PKVY):

PKVY launched in 2015, is an extended component of Soil Health Management (SHM) under the Centrally Sponsored Scheme (CSS), National Mission on Sustainable Agriculture (NMSA). PKVY aims at supporting and promoting organic farming, in turn resulting in improvement of soil health.

Funding pattern under the scheme is in the ratio of 60:40 by the Central and State Governments respectively. In case of North Eastern and Himalayan States, Central Assistance is provided in the ratio of 90:10 (Centre: State) and for Union Territories, the assistance is 100%.

4.6 Mission for Integrated Development of Horticulture (MIDH):

It is a Centrally Sponsored Scheme aims at the holistic growth of the horticulture sector covering fruits, vegetables, root & tuber crops, mushrooms, spices, flowers, aromatic plants, coconut, cashew, cocoa, and bamboo.

Under MIDH, Government of India (GOI) contributes 60%, of total outlay for developmental programmes in all the states except states in North East and Himalayas, 40% share is contributed by State Governments. In the case of North Eastern States and Himalayan States, GOI contributes 90%.

The Cluster Development Programme (CDP) is designed to leverage geographical specialisation of horticulture clusters and promote integrated and market-led development of pre-production, production, post-harvest, logistics, branding, and marketing activities. DA&FW has identified 55 horticulture clusters, of which 12 have been selected for the pilot phase of the CDP.

4.7 Agricultural Infrastructure Fund (AIF):

This financing facility will have numerous objective for all the stakeholders in the agriculture eco-system. Improved marketing infrastructure to allow farmers to sell directly to a larger base of consumers and hence, increase value realization for the farmers. This will improve the overall income of farmers. With a dedicated source of funding, entrepreneurs will push for innovation in agriculture sector by leveraging new age technologies including AI. With reduced inefficiencies in post-harvest ecosystem, key benefit for consumers will be a larger share of produce reaching the market and hence, better quality and prices. Overall, the investment via the financing facility in agriculture infrastructure will benefit all the eco-system players. With Credit Guarantee, incentive and interest subvention lending institutions will be able to lend with a lower risk. This scheme will help to enlarge their customer base and diversification of portfolio.

Since inception of AIF in the year 2020, the scheme has sanctioned an amount of Rs.13681 crore worth agriculture infrastructure in the country for more than 18133 projects. With the support of the scheme, various agriculture infrastructures were created and some of the infrastructure are at the final stage of completion. These infrastructures include 8076 warehouses, 2788 primary processing units, 1860 custom hiring centres, 937 sorting & grading units, 696 cold store projects, 163 assaying units and around 3613 other kinds of post-harvest management projects and community farming assets.

4.8 PM-KISAN (Pradhan Mantri Kisan Samman Nidhi):

Provides financial support to farmers with a direct income support of Rs .6,000 per year in three equal instalments.PM Kisan is a Central Sector scheme with 100% funding from Government of India.It has become operational from 1.12.2018.Under the scheme an income support of 6,000/- per year in three equal instalments will be provided to all land holding farmer families.State Government and UT administration will identify the farmer families which are eligible for support as per scheme guidelines.The fund will be directly transferred to the bank accounts of the beneficiaries.There are various Exclusion Categories for the scheme.According to PM Kisan Portal, 10.32 Crs farmers are getting financial benefits under PM-KISAN for the period of April to Jul 2024-25.

4.9 Kisan Credit Card (KCC) scheme:

Designed to provide farmers with timely access to credit at reasonable interest rates, this scheme has been expanded to cover all farmers.

Its objective was to meet the comprehensive credit requirements of the agriculture sector and by 2019 for fisheries and animal husbandry by giving financial support to farmers. Participating institutions include all commercial banks, Regional Rural Banks, and state co-operative banks. The scheme entails short-term credit for crops and term loans. KCC credit holders are also covered under personal accident insurance up to ₹50,000 for death and permanent disability, and up to ₹25,000 for other risks. The premium is borne by both the bank and the borrower in a 2:1 ratio. The validity period is five years, with an option to extend it up to three more years. Kisaan Credit Card (KCC) credit to the farmers is of two types, viz., 1. Cash Credit (for working capital) and 2. Term Credit (for capital expenditure such as the purchase of cattle, pump sets, land development, plantation, drip irrigations, etc.

4.10 Digital Agriculture:

Initiatives under the Digital India program aim to integrate technology into agriculture, including the use of artificial intelligence, remote sensing, and mobile applications for farm management.

Conclusion-

Considering the above mentioned government initiatives towards agriculture development to achieving aim of "VIKSIT BHARAT", We can conclude that Indian agriculture sector will be shown significant growth by contributing more in GDP, Employments, Exports, rural development etc. And it has been done before.

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WIRC Students Felicitation Programme

WIRC has organised Students' Felicitation Programme for the students who have completed Foundation, Intermediate and Final from Mumbai in December 2024 examination on 27thApril 2025 at SNDT Patkar Hall, Mumbai.

CMA Chitralee Goswami, Chief General Manager and Head- Corporate Finance Services, ONGC was the Chief Guest for the programme.

CMA Arindam Goswami, Chairman WIRC, CMA Mihir Vyas, Vice Chairman & Chairman Students Co-ordination Committee, WIRC, CMA Nanty Shah Hon. Secretary, WIRC, CMA Chaitanya Mohrir, Treasurer, WIRC, CMA (Dr) Ashish Thatte, Central Council Member, CMA Harshad Deshpande, Central Council Member, CMA Mahendra Bhombe, RCM-WIRC, CMA Vivek Bhalerao, RCM-WIRC, CMA Manisha Agrawal, RCM-ICMAI were present on the occasion.

More than 700 students and some of their parents attended the programme. Mementos were distributed to all successful students. WIRC also felicitated all the Rank holders from the Western Region & Fresh CMAs who were attending 11 Days Pre Placement Orientation Programme on this occasion.

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Digital Currencies and their Influence on International Banking

Abstract:

The development of digital currencies, including cryptocurrencies and central bank digital currencies (CBDCs), is fundamentally transforming international banking. These innovations promise enhanced efficiency in cross-border transactions, financial inclusion for unbanked populations, and increased transparency and security through blockchain technology. However, they also present challenges, such as regulatory uncertainty, potential financial instability, and the risk of illicit activities. The adoption of digital currencies disrupts traditional banking models and necessitates a comprehensive regulatory framework to ensure consumer protection and financial stability. In this background, this article puts an effort to the profound implications of digital currencies on global finance and the strategic adaptations required for a digital currency-integrated financial system.

Introduction:

The rise of digital currencies, including cryptocurrencies and central bank digital currencies (CBDCs), is reshaping the landscape of international banking. This transformative shift presents both significant opportunities and challenges, making it crucial to examine their influence on traditional banking systems and financial practices. Digital currencies offer enhanced efficiency in cross-border transactions by reducing transaction costs, processing times, and reliance on traditional banking intermediaries. They promise to increase financial inclusion by providing access to financial services for unbanked and underbanked populations. Additionally, innovations such as blockchain technology underpinning these currencies introduce greater transparency and security in financial transactions, potentially reducing fraud and improving trust in financial systems. However, the integration of digital currencies into international banking also poses substantial challenges. Traditional banking systems face disruption as digital currencies introduce new competitors and alternative financial models. The regulatory landscape is complex and fragmented, with varying degrees of acceptance and regulation across jurisdictions, raising concerns about compliance, consumer protection, and financial stability. Moreover, the volatility of cryptocurrencies and the potential for cyber threats introduce risks that could undermine the stability of financial institutions and the broader economic system. The emergence of digital currencies raises questions about their impact on monetary policy and central banks' control over national currencies. Central banks must navigate the implications of CBDCs on their ability to implement effective monetary policy and maintain financial stability. Additionally, the regulatory framework needs to evolve to address issues related to anti-money laundering (AML), combating the financing of terrorism (CFT), and overall market integrity. Understanding consumer adoption patterns and preferences towards digital currencies is crucial for financial institutions aiming to adapt their services and remain competitive. The shift towards digital currencies necessitates strategic adjustments by banks to integrate these new technologies while managing associated risks and ensuring regulatory compliance. While digital currencies offer substantial benefits to the international banking sector, their influence brings about significant disruptions and challenges. An in-depth analysis of their impact is essential to address the regulatory, operational, and strategic implications for financial institutions and policymakers. Understanding these dynamics will help stakeholders navigate the evolving financial landscape and leverage digital currencies effectively while mitigating potential risks.

Digital Currencies – A Conceptual Framework

The idea of digital money was explored with systems like David Chaum'sDigiCash and e-gold. These early attempts focused on creating electronic cash that could offer privacy and security but faced challenges such as regulatory hurdles and lack of widespread adoption.The global financial crisis highlighted the vulnerabilities of the traditional financial system, spurring interest in alternative forms of money.Bitcoin was introduced by an anonymous entity known as Satoshi Nakamoto. The publication of the Bitcoin white paper, "Bitcoin, A Peer-to-Peer Electronic Cash System," and the subsequent launch of the Bitcoin network marked the inception of the first decentralized cryptocurrency. Bitcoin utilized blockchain technology to achieve a secure, transparent, and immutable ledger of transactions without the need for a central authority

The first real-world transaction using Bitcoin took place, where a programmer paid 10,000 BTC for two pizzas. This event, known as Bitcoin Pizza Day, demonstrated Bitcoin's potential as a medium of exchange.Alternative cryptocurrencies, or altcoins, began to emerge, offering variations and improvements on Bitcoin's model. Examples include Litecoin (2011), which aimed to provide faster transaction confirmations, and Ripple (2012), which focused on real-time cross-border payments.Bitcoin reached a significant milestone when its price exceeded $1,000 for the first time, garnering mainstream media attention and increasing public interest.The cryptocurrency landscape expanded with the introduction of Ethereum (2015), which brought smart contracts and decentralized applications (dApps) to the blockchain ecosystem. Ethereum's ability to execute programmable contracts revolutionized the use of blockchain technology beyond simple transactions.The Initial Coin Offering (ICO) boom saw numerous new projects and tokens being launched, raising significant capital and further expanding the cryptocurrency market. However, this period also highlighted the need for regulatory oversight due to instances of fraud and failed projects.Bitcoin's price surged to nearly $20,000, driven by increased investor interest and media coverage. This period also saw the launch of Bitcoin futures trading on major exchanges like CME and CBOE, marking a significant step towards institutional acceptance.The market experienced a significant correction, with many cryptocurrencies losing substantial value. Despite the volatility, this period underscored the resilience and growing maturity of the digital currency market.Stablecoins like Tether (USDT) and USD Coin (USDC) gained prominence, offering a stable value pegged to fiat currencies. These assets provided a bridge between volatile cryptocurrencies and traditional financial systems.Central banks around the world began exploring and piloting Central Bank Digital Currencies (CBDCs). Notable examples include China's Digital Yuan and Sweden's e-Krona. These efforts aim to modernize payment systems, enhance financial inclusion, and maintain monetary sovereignty in the digital age.Major financial institutions, corporations, and even governments began to embrace digital currencies. Companies like Tesla and Square announced significant investments in Bitcoin, while payment processors like PayPal and Visa started offering cryptocurrency services.The regulatory environment has become a focal point as governments and regulatory bodies seek to establish frameworks to ensure consumer protection, financial stability, and compliance with anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations.As digital currencies continue to evolve, their influence on finance, commerce, and monetary policy is likely to expand, presenting both opportunities and challenges for the future.

Financial Inclusion, Cross-Border Payments and Remittances – A Changing Banking Models

Financial inclusion is a significant challenge, particularly in developing countries where access to traditional banking services is limited. Digital currencies can play a crucial role in addressing this issue by providing a cost-effective and accessible means of storing and transferring value. Mobile phones and internet access can enable individuals to participate in the digital economy through digital wallets. Cryptocurrencies and stablecoins can serve as alternatives to traditional banking services, offering a way to save, send, and receive money without the need for a bank account. This is particularly beneficial for the unbanked and underbanked populations, who may lack access to formal financial institutions. CBDCs, if designed with inclusivity in mind, can further enhance financial inclusion. For example, a retail CBDC can be accessible to all citizens, providing a digital alternative to cash. China's digital yuan pilot projects, for instance, have explored ways to increase financial access in rural and underserved areas.

This is true, even in the case of cross-border payments are a critical component of international banking, facilitating global trade and investment. However, traditional cross-border payment systems are often slow, expensive, and complex, involving multiple intermediaries and currency conversions. Digital currencies, particularly cryptocurrencies and stablecoins, offer a more efficient alternative. Blockchain technology enables real-time settlement of transactions, reducing the time and cost associated with cross-border payments. For example, Ripple's XRP and Stellar's XLM are designed to facilitate quick and cost-effective international transactions. These digital assets can eliminate the need for correspondent banks, reducing fees and enhancing transparency.CBDCs also hold promise for improving cross-border payments. A multi-CBDC arrangement could streamline currency conversions and enhance the efficiency of international transactions. For instance, the Bank for International Settlements (BIS) and several central banks are exploring the potential of CBDCs in cross-border payments through projects like the "Multiple CBDC (m-CBDC) Bridge".

The rise of digital currencies, particularly cryptocurrencies and decentralized finance (DeFi) platforms, has the potential to disrupt traditional banking models. These digital assets enable peer-to-peer transactions without the need for intermediaries, challenging the traditional role of banks in payments, lending, and asset management.DeFi platforms leverage blockchain technology to offer financial services such as lending, borrowing, and trading without relying on centralized entities. This disintermediation could reduce the need for banks as intermediaries, potentially leading to a decline in their market share and profitability. However, banks are also adapting to the evolving financial landscape by exploring blockchain technology and digital assets.

Many financial institutions are investing in blockchain research and development, launching their own digital currencies, or partnering with fintech companies to offer innovative financial products. For example, JPMorgan Chase launched JPM Coin, a digital token used for instant settlements between institutional clients.

Regulatory Compliance of Digital Currencies – A Few Challenges

The integration of digital currencies into the global financial system poses significant regulatory challenges. The decentralized and pseudonymous nature of many cryptocurrencies raises concerns about their use in illicit activities, such as money laundering, terrorism financing, and tax evasion. Regulators must balance the need for innovation with the imperative to maintain financial stability and protect consumers.International regulatory bodies, such as the Financial Action Task Force (FATF), are working to establish global standards for the regulation of digital currencies. The FATF has issued guidelines recommending that countries implement anti-money laundering (AML) and counter-terrorism financing (CTF) measures for virtual asset service providers (VASPs).Countries are also developing their own regulatory frameworks to address the risks associated with digital currencies. The European Union, for example, is working on the Markets in Crypto-assets (MiCA) regulation, which aims to provide a harmonized framework for the regulation of digital assets across the EU. The United States has also seen increasing regulatory scrutiny, with the Securities and Exchange Commission (SEC) and other agencies actively overseeing the cryptocurrency market.

In the meantime, India's relationship with digital currencies has been complex and evolving, marked by a mixture of caution and exploration. The Indian government and regulatory bodies, such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI), have expressed concerns about the risks associated with digital currencies, including their potential misuse for illegal activities, financial stability implications, and consumer protection issues. However, there has also been a growing recognition of the need to harness the benefits of digital currency innovation.One of the primary challenges in regulating digital currencies in India is the lack of a comprehensive legal and regulatory framework. The legal status of digital currencies has been a subject of debate, with no clear categorization under existing laws. This ambiguity creates uncertainty for investors, businesses, and consumers, complicating compliance efforts.

The RBI has historically been cautious about digital currencies. In 2018, it issued a circular prohibiting regulated entities, such as banks, from providing services to businesses and individuals dealing in cryptocurrencies. This effectively banned the use of banking channels for cryptocurrency transactions. However, in March 2020, the Supreme Court of India lifted this ban, ruling that the RBI's circular was disproportionate. This decision reignited interest in digital currencies, but the regulatory landscape remains unclear. Similarly, the Indian government has also proposed the Cryptocurrency and Regulation of Official Digital Currency Bill, which aims to create a framework for the regulation of digital currencies and the issuance of an official digital currency by the RBI. The bill reportedly seeks to prohibit all private cryptocurrencies while allowing for certain exceptions to promote the underlying technology. However, as of now, this bill has not been enacted, leaving a regulatory vacuum.

Another major concern for Indian regulators is consumer protection. The volatility of cryptocurrencies can result in significant financial losses for investors, especially retail investors who may lack a comprehensive understanding of the risks involved. The absence of regulation increases the risk of fraud, Ponzi schemes, and other forms of financial misconduct in the cryptocurrency space.The proposed legislation seeks to protect consumers by potentially banning private cryptocurrencies, although this approach has sparked debate. Critics argue that a blanket ban could stifle innovation and drive the cryptocurrency market underground, making it even harder to regulate. Instead, there is a growing call for a balanced approach that allows regulated digital currency activities while ensuring robust consumer protection measures.

In response to the growing interest in digital currencies, the RBI has been exploring the possibility of launching its own CBDC, often referred to as the "Digital Rupee”. A CBDC could provide a regulated and stable digital currency option, addressing some of the risks associated with private cryptocurrencies while leveraging the benefits of digital innovation.The introduction of a CBDC would require significant regulatory and infrastructural developments. The RBI would need to consider issues related to data privacy, cybersecurity, and the impact on the existing financial system. Further, the coexistence of a CBDC with private cryptocurrencies would need to be carefully managed to prevent market disruptions and ensure financial stability.

Moving forward, particularly the global nature of digital currencies, international cooperation and regulatory harmonization are crucial. Indian regulators must collaborate with their counterparts in other countries to develop consistent standards for digital currency regulation, particularly concerning AML and counter-terrorism financing (CTF) measures.

The Financial Action Task Force (FATF) has set global standards in this area, and India's compliance with these standards is essential for maintaining its position in the global financial system.

Monetary Policy and Economic Implications

The proliferation of digital currencies, particularly CBDCs, has significant implications for monetary policy and economic management. CBDCs offer central banks new tools to implement monetary policy, such as programmable money, which can have specific conditions attached (e.g., expiration dates or usage restrictions). This could enhance the effectiveness of policy measures, especially during economic crises. However, the widespread adoption of digital currencies also presents challenges. The use of cryptocurrencies as a store of value could reduce the demand for traditional fiat currencies, potentially weakening the effectiveness of monetary policy tools. Additionally, the ease of cross-border transactions with digital currencies might lead to increased capital flows, complicating exchange rate management and financial stability.

Besides, Central banks must carefully consider the design and implementation of CBDCs to ensure they complement existing monetary policy frameworks. The potential for CBDCs to alter the velocity of money, influence interest rates, and impact banking stability are critical factors that policymakers need to address.

Concluding Remarks and Future Prospects

The future of digital currencies in international banking is promising yet uncertain. As digital currencies continue to evolve, they present both opportunities and challenges for the global financial system. Some of the important factors will play a crucial role in shaping the future landscape, such as (i) The establishment of clear and consistent regulatory frameworks is essential for the safe integration of digital currencies into the financial system. Regulations must address issues related to consumer protection, AML, and systemic risks while fostering innovation, (ii) Advances in blockchain and related technologies will enhance the security, efficiency, and scalability of digital currencies. Innovations in privacy, interoperability, and energy efficiency are particularly important for their broader adoption, (iii) The development and implementation of CBDCs will be a key factor in the future of digital currencies. CBDCs have the potential to offer a stable, government-backed digital payment option, bridging the gap between traditional banking and the digital economy and (iv) The acceptance and adoption of digital currencies by consumers, businesses, and financial institutions will determine their impact on international banking. Factors such as ease of use, security, and regulatory clarity will influence adoption rates. Therefore, digital currencies are poised to significantly influence international banking, offering new opportunities for efficiency, inclusivity, and innovation. However, they also present challenges related to regulation, security, and economic management. As the technology and regulatory landscape continue to evolve, stakeholders must work collaboratively to harness the benefits of digital currencies while mitigating the associated risks. The journey towards a digital currency-integrated financial system is complex, but it holds the potential to create a more efficient, inclusive, and resilient global economy.

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Declaration

I confirm that I have not submitted this article for publication elsewhere. It is important to note that the opinions expressed in this article may not necessarily align with those of the Institute or the Journal Editor.

CHAPTER NEWS

AHMEDABAD

IOTP for Final Students

Chapter has organized Industry Orientation Program for final students during 11th April'25 to 21st April'25. Large number of final students participated in the program. Eminent faculties have delivered lectures on various topics i.e. Sophianne Jobs on Critical & Creative thinking skills & Leadership & Teamwork management, TejpalSheth on Practical Knowledge on Formation of a company & contract management, Jignesh Parikh on Direct Taxation, Vishal Dave on Practical Approach on working capital / management, DhavalKataria on soft skills, Jainam Shah on Group discussion – Communication skills & Public speaking, Darshil Meta on Group discussion, Interview skills (Including CV / Resume making) & presentation skills, BhavinGoklani on Presentation skills, KankshitMunshi on Corporate Finance & Fund raising, CA Nirali Desai on Indirect Taxation, CMA MiteshPrajapati on Practical knowledge on Cost Audit, Milin Shah on Process of Finalization of Accounts, Ami Desai on Digital Financial Services during 11th April'25 to 21st April'25 respectively. The group power point presentation on related topics were presented by participant students. The participant students were awarded with participation certification.

BARODA

MS-Office Training Completion

Chapter successfully completed MS-Office training program from 24th March to 19th April 2025. CMA Rupesh Dave was the faculty members. Total 98 students of Intermediate participated in training programme.

IOTP Training Completion

Chapter successfully completed the Industry Oriented Training Program (IOTP) from 1st April to 9th April 2025. Total 65 Students of Final attended the training.

Inter-Chapter Cricket Tournaments

Chapter successfully hosted an exciting Inter-Chapter Cricket Tournament. Nashik Chapter participated in the event, competing against various teams from the Baroda Chapter. Chapter congratulate all the participants on a thrilling tournament and appreciate the sportsmanship displayed throughout the event.

5th International Conference on Leadership in the Digital Era

On 12th April 2025, Chapter had the opportunity to participate in the 5th International Conference on "Leadership in the Digital Era: Driving Change and Building Resilience", organized by the Faculty of Management Studies, Parul University.

This prestigious event brought together academicians, researchers, industry experts, and students from across India and abroad. The conference provided a vibrant platform for discussing the evolving role of leadership in today's digital landscape.

The central theme focused on how leadership can drive meaningful transformation and build resilience in the face of rapid technological advancements and global challenges. Throughout the day, participantsengaged in insightful sessions, expert panel discussions, and knowledge-sharing forums that encouraged collaboration and innovation.

Our participation allowed us to gain fresh perspectives on digital leadership, network with thought leaders, and contribute to the ongoing conversation around sustainable and adaptive leadership models.

Meeting with Political Leaders for inclusion of CMAs in the Direct Tax Code.

We had a productive and insightful meeting with Hon'ble Member of Parliament Shri JasvantsinhSumanbhaiBhabhor to discuss the inclusion of Cost Accountants in the definition of "Accountant" under the Income Tax Act.

During the discussion, we highlighted the critical role Cost Accountants play in financial reporting, cost management, and ensuring transparency in tax compliance. We emphasized the need for their formal recognition under the Income Tax Act to ensure a more inclusive and competent accounting framework.

Shri Bhabhor gave a patient hearing to our concerns and expressed his appreciation for the contributions made by Cost Accountants to the financial ecosystem. He assured us that the matter would be taken up for further consideration at the appropriate level.

The meeting concluded on a positive note, reaffirming our commitment to advocating for the professional recognition and inclusion of Cost Accountants in policy frameworks.

Activity of Placement & Training

Chapter has been actively organizing various activities focused on placement and training. These initiatives have been highly beneficial, with a large number of members and students taking advantage of the placement opportunities provided.

PUNE

CPE on “Mutual Funds Sahi Hai”

Chapter arranged CPE on 29th March 2025 on “Mutual Funds Sahi Hai” at CMA Bhawan, Speaker for the session was CMA Anant Dhavale, Practicing Cost Accountant.

CMA Himanshu Dave, Treasurer, ICMAI-Pune Chapter welcomed all and introduced the speaker to the participants. CMA Pramodkumar Dube felicitated the speaker. Vote of thanks delivered by CMA Himanshu Dave, Treasurer, ICMAI-Pune Chapter. Large number of members and students attended the program.

CPE on “Filling Forms for Amnesty under GST SP-1”

Chapter arranged CPE on Saturday, 12th April 2025 on the topic “Filling Forms for Amnesty under GST SP-1 and SP-2 and Input Service Distributor under GST” at CMA Bhawan, Karvenagar. Speakers for the session were CMA Rahul Chincholkar and CMA Tanuja Mantrawadi. CMA Anagha Moghe welcomed all and introduced the speakers to the participants.

Speaker CMA Rahul Chincholkar delivered a lucid lecture on the topic ‘Filling Forms for Amnesty under GST SP-1’ and CMA Tanuja Mantrawadi on the topic ‘SP-2 and Input Service Distributor under GST’.
Session was very informative and fruitful for the members.

CPE on “Know your Fundamental Rights”

Chapter arranged CPE on 19th April 2025 on “Know your Fundamental Rights” at CMA Bhawan,. Speaker for the session was Adv Shweta Khot.

CMA Himanshu Dave, Treasurer, welcomed all and introduced the speaker to the participants. CMA Nilesh Kekan, Chairman, ICMAI-Pune Chapter felicitated the speaker. Vote of thanks delivered by CMA Himanshu Dave, Treasurer, ICMAI-Pune Chapter.

Large number of members and students attended the program.

> “Digital currencies are redefining the future of global finance—breaking down traditional banking barriers, accelerating cross-border transactions, and compelling central banks and financial institutions to rethink monetary policy, security frameworks, and regulatory ecosystems. As digital assets gain legitimacy, their influence on international banking is not a question of if, but how fast and how far the transformation will go.

Glimpses of Felicitation function organised by WIRC on 27th April 2025 at Pakar Hall, Mumbai

CMA Arindam Goswami, Chairman WIRC felicitating Chief Guest CMA Chitralee Goswami.

Chief Guest CMA Chitralee Goswami lighting the lamp

WIRC Office Bearers, RCMs & CCMs alongwith Chief Guest CMA Chitralee Goswami

Felicitation of Mr. Pankaj Sinyal AIR 11

View of Final Students undergoing IOTP at Ahmedabad Chapter.

CMA (Dr.) Ashish Thatte, CCM-ICMAI, CMA Mihir Vyas, Hon. Secretary, WIRC -ICMAI met Shri Sanjay Shirsat, Minister for Social Justice in the Government of Maharashtra for inclusion of Cost Accountants in the definition of Accountants of Income Tax Bill 2025.

CMA Mihir Vyas, Vice Chairman WIRC alongwith Baroda chapter Managing Committee members met Shri Jasvantsinh Bhabhor, Hon'ble Member of Parliament

CMA Nilesh Kekan, Chairman, ICMAI-Pune Chapter felicitating the speaker Adv Shweta Khot at CPE on Saturday, 19th April 2025.

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