

For computing book profit as per MAT, provision for gratuity not to be considered since it is not an ascertained liability

Summary – The High Court of Kerala in a recent case of Fertilizers & Chemicals Travancore Ltd., (the Assessee) held that for computing book profit as per MAT, provision for gratuity not to be considered since it is not an ascertained liability

Facts

- The assessee followed accounting procedure (AS7) for income and revenue recognition. As per AS7 if expenses incurred were in excess of what was due to the company the said amount was treated as a foreseeable loss. The Assessing Officer added back the same on the ground that the same would not be ascertained liability.
- The Tribunal confirmed the additions.
- On appeal:

Held

- The HC stated that the losses can be determined only at the completion of the contract and even as per the accounting standards, there is a high degree of uncertainty in determining the future loss of a running contract. Clause (c) of section 115J(1A) permits the Assessing Officer to add back the provisions made so as to reflect the correct profits and to determine the income as per section 115J.
- In view of aforesaid, impugned order passed by the Tribunal is upheld.