Different A/c Systems For Different Sources

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There can certainly be different methods of accounting for the same assessee

WITH the advent of multipronged approach to income in the current scenario of dwindling income the following question assumes importance:

- Whether the assessee can choose different methods of accounting for 'income 'from business' and 'income from other sources'. Say cash basis for accounting for income from money lending business and mercantile basis of accounting for other income?
- Whether the assessee is required to maintain two separate sets of accounts?

The assessee's income from money lending (finance) business will be assessed under the head 'business' while interest income from debentures and dividends will be assessed under the head' other sources'.

Sec. 145 applies both for business as well as other sources by providing that the method of accounting regularly employed by the assessee will be accepted by the Aa except where the correct income cannot be deduced therefrom.

But remember, certain categories of income cannot be assessed on the basis of method of accounting rather they are assessable on the basis prescribed by the statutes. Dividend income arises as and when it is declared, distributed or paid or as in the case of interim dividend, when it is unconditionally made available irrespective of the manner of accounting.

In respect of interest on securities, it would appear that either cash or mercantile system can be followed, whether it is assessed under the head 'business or not'.

It is well established that the choice of method of accounting is that of the assessee as has been laid down by the apex Court in CIT vs. McMillan & Co. (1958) 33 ITR 182 (SC) and reiterated in CIT vs. Chunilal V. Mehta & Sons (P) Ltd. 1973 CTR (SC) 470: (1971) 82 ITR 54 (SC). In CIT vs. E.A.E.T. Sundararaj (1975) 99 ITR 226 (Mad), it was pointed out that the assessee may employ one method of accounting for one part of his business or one class of customers and different for the other part depending upon the exigencies of business. If such system is regularly followed it should be accepted.

No doubts the amendment of the Finance Act, 1995 w.e.f. 1997-98 requires that the assessee should follow either cash or mercantile basis ruling out by implication hybrid system of accounting. But this provision does not nullify the rationale of the decision, where the assessee follows either cash system or accrual system for different parts of the business consistently. .

The view that there can be different systems of accounting for different sources of income has been endorsed by Allahabad High Court in J.K. Bankers vs. CIT (1974) 94ITR 107 (All). In this case, the issue was with reference to the' adoption of different systems for business and other sources.

As pointed out by Calcutta High Court in Reform Flour Mills vs. CIT (1980) 19 CTR (Cal) 25 : (1981) 132 ITR 184 (Ca!), hybrid system is different from plural system.

The assessee may maintain cash system and accrual system for two types of transactions in which case he is adopting a plural system and not hybrid system which is an intermixture of both cash and accrual system as a third system.

Hence the fact that the assessee follows one system for accounting of income from debentures and the other for money lending business does no_ necessarily mean that the assessee is following hybrid system which is now not possible from 1997-98. Plural system is not ruled out.

As for change in system of accounting, the matter is now well settled. A bona fide change adopted once for all but consistent with any recognised system of accounting should be acceptable to the IT Department as held in Snowwhite Food Products Co. Ltd. vs. CIT (1983) 1411 TR 847 (Cal), New Victoria Mills Co. Ltd. vs. CIT (1966) 61 ITR 395 (All), CIT vs. Carborandum Universal Ltd. (1984) 39 CTR (Mad) 272: (1984) 149 ITR 759 (Mad) and CIT vs. Mopeds India Ltd. (1988) 173 ITR 347 (AP).

There can certainly be different methods of accounting for the same assessee for different heads of income. It is not necessary that two separate sets of account should be maintained. If the incomes are reported on accrual basis for income from one head and on cash basis for income from other head of income in the same books, there can be no objection, since income has to be computed on the basis of account books for different heads of income as per accounts.