

Commissioner of Income Tax, Delhi v. M/s Woodward Governor India P. Ltd.

Civil Appeal No. 2206 of 2009 and connected proceedings (full list below)

[2009] 5 SCR 738; (2009) 312 ITR 254 (SC) | 2009-04-08

Whether exchange-rate increases in existing revenue liabilities are deductible in the year of fluctuation without repayment, and whether imported capital-asset cost can be adjusted at the balance-sheet date under unamended section 43A before payment of the varied liability.

28(i) | 29 | 37(1) | 43(1) | 43(2) | 43A | 145

Two-judge bench | S.H. Kapadia, J. | Aftab Alam, J.

Assessment years: 1998-99, 1991-92

Historical forex ruling; revenue/capital and payment-date limits

Woodward Governor does not make every unrealised or marked-to-market loss deductible. The revenue holding depends on incurred legal liabilities, mercantile accounting, consistency and the stated recognition tests. The capital holding concerns unamended section 43A; the judgment holds that the substitution effective 1 April 2003 introduces an actual-payment condition. Later statutory, accounting-standard and judicial developments have not been comprehensively verified. No current-law or Income-tax Act, 2025 mapping is certified.

[paragraphs 9-13, especially 10-11 and 12-13 / PDF pages 12, 13, 14, 15 / judicial text](#)

01 FACTS OF THE CASE

The batch comprised separate revenue-account and capital-account controversies. For AY 1998-99 Woodward Governor claimed Rs. 29,49,088 as unrealised foreign-exchange loss at the accounting-year end. The Assessing Officer treated the liability as contingent and disallowed it; the Commissioner (Appeals) agreed. The Tribunal allowed the claim, following its treatment of earlier years, and the Delhi High Court upheld that result. The Revenue appealed (paragraphs 3-5).

The assessees used mercantile accounting. The Court recorded that when the rupee had strengthened in previous years the Revenue had taxed accrued exchange gains; it was the converse loss that the Revenue sought to postpone until payment. For the Maruti Udyog revenue-account example, counsel identified dollar and yen borrowings, the consistently accepted accrual system, and AY 1991-92 as the disputed year (paragraphs 7-10).

The capital-account part, introduced under Honda Siel Power Products, concerned increased existing liabilities for imported fixed assets acquired in foreign currency. The question was adjustment of their actual cost at each balance-sheet date before the varied liability had been paid. The capital-account periods were before the Finance Act, 2002 substitution of section 43A effective 1 April 2003 (paragraphs 22-29).

Source: [reported judgment / paragraphs 3-5 / PDF pages 11, 12, 13 / judicial text](#); [reported judgment / paragraphs 7-10 / PDF pages 14, 15, 16, 17 / judicial text](#); [reported judgment / paragraphs 22-29 / PDF pages 26, 27, 28, 29, 30 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

Revenue account. The Court rejected the proposition that section 37(1) invariably requires money to have irretrievably left the assessee. In the circumstances of a case, expenditure can encompass a business loss although cash has not yet been paid. Sections 37(1), 28, 29 and 145 must be read together, with section 43(2) recognising amounts incurred according to the applicable accounting method. Regularly maintained accounts require substantial reasons before rejection; commercial accounting can nevertheless be superseded by legislation or displaced in the circumstances specified in section 145(3). Here the Assessing Officer had made no finding that the accounts were incorrect or incomplete or that the assessee had failed to comply with accounting standards (paragraphs 13-16).

AS-11, as considered by the Court, required initial recognition at the transaction-date rate and reporting of foreign-currency monetary items at the closing rate. For revenue items, exchange differences were recognised as income or expense in the reporting period. The Court illustrated this by an outstanding raw-material creditor: the closing-date exchange loss entered the profit-and-loss account even though later payment occurred at a different rate. That illustration did not turn a capital-account liability into revenue expenditure. The Court cited the distinction between foreign currency held on revenue account or as circulating capital and foreign currency held as a capital asset or fixed capital (paragraphs 17-20).

Paragraph 21 identifies six matters to examine: mercantile recognition of incurred legal liabilities and accrued credits; continuity of the accounting system and bona fides of any change; symmetrical treatment of losses and gains; consistent and definite book entries; compliance with nationally accepted accounting standards; and a fair, reasonable method rather than one adopted merely to reduce tax. These are substantive qualifications, not a permission to deduct every valuation debit.

Capital account. Section 43A applied to its own specified class of imported-asset liabilities: the asset must have been acquired and the liability must have existed before the exchange-rate change, and a borrowing had to be specifically for acquiring the asset. Under the unamended provision, the exchange movement triggered adjustment to actual cost irrespective of the date of payment, with resulting depreciation consequences; it was not an immediate section 37(1) deduction for capital expenditure. The Court relied on Arvind Mills and the historical administrative material reproduced in its reasons (paragraphs 29-33).

The Finance Act, 2002 substitution effective 1 April 2003 was amendatory, not merely clarificatory. It introduced actual payment of the increased or decreased liability as a condition for adjustment; the earlier provision required no such payment. That structural change could not be read back into the pre-amendment disputes (paragraph 34).

Source: [reported judgment / paragraphs 13-21 / PDF pages 19, 20, 21, 22, 23, 24, 25, 26 / judicial text](#); [reported judgment / paragraphs 29-34 / PDF pages 30, 31, 32, 33 / judicial text](#)

03 JUDICIAL DECISION

The revenue-account exchange loss at the balance-sheet date was an item of expenditure under section 37(1) in the circumstances established, subject to the accounting and consistency considerations stated in the judgment. Under unamended section 43A, qualifying imported-asset cost adjustments did not await actual payment. The substituted provision introduced the payment condition from 1 April 2003 and was not clarificatory. Finding no infirmity in the Delhi High Court judgments, the Court dismissed all of the Department's civil appeals without costs. Delay was condoned and leave granted at the outset; there was no remand (paragraphs 1-2, 15, 21, 29-35).

Source: [reported judgment / paragraphs 15 and 21 / PDF pages 22, 26 / judicial text](#); [reported judgment / paragraphs 29-35 / PDF pages 30, 31, 32, 33 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assesseees

All Revenue civil appeals in the batch dismissed; Delhi High Court judgments sustained; no order as to costs; no remand

Final determination of the revenue-loss timing question and the pre-amendment section 43A cost-adjustment question for the batch

The revenue/capital distinction and paragraph 21 accounting conditions remain essential. The cost-adjustment holding concerns unamended section 43A; the Court expressly distinguishes the actual-payment condition introduced from 1 April 2003. No general derivative or marked-to-market deduction rule is decided.

Source: [reported judgment / paragraphs 35 / PDF pages 33 / judicial text](#)

05 AKHB REVIEW POINT

Start with the use and character of the foreign-currency exposure, not the label "forex loss". For a revenue claim, identify the existing legal liability, the adopted accounting system, recognition date, consistent treatment of both exchange gains and losses, and the applicable accounting requirements. An unrealised closing-date amount is not automatically contingent, but a profit-and-loss debit alone does not establish deductibility. The case does not decide every derivative, hedge, speculative contract or marked-to-market valuation.

Keep imported capital assets on their separate statutory path. This judgment's pre-payment adjustment rule describes unamended section 43A and concerns actual cost with consequential allowances. Its own analysis says that the substitution effective 1 April 2003 requires actual payment. ONGC (15 March 2010) subsequently followed both branches; that checked application must be read with ONGC's express capital-issue limitation to CA 7228/2008, AY 1991-92. These are historical holdings. Later tax-computation provisions, notified standards and subsequent decisions require a separate relevant-year check before any current advice; no present-law or 2025-Act equivalence is certified.

Source: [reported judgment / paragraphs 18-21 / PDF pages 25, 26 / judicial text](#); [reported judgment / paragraphs 29-34 / PDF pages 30, 31, 32, 33 / judicial text](#); [reported judgment / paragraphs 1\(ii\), 9-13 / PDF pages 7, 12, 13, 14, 15 / judicial text](#)

APPEAL AND PROCEEDING NUMBERS

Civil Appeal No. 2206 of 2009 / Civil Appeal Nos. 2207-2235 of 2009 / Civil appeal arising from SLP(C), CC No. 2868 of 2009 (appeal and SLP numbers left blank in the report) / Civil appeal arising from SLP(C), CC No. 3007 of 2009 (appeal and SLP numbers left blank in the report) / Civil appeal arising from SLP(C), CC No. 1999 of 2009 (appeal and SLP numbers left blank in the report)

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Revenue-account loss on balance-sheet-date foreign-exchange remeasurement

Result: Deductible under section 37(1) in the established mercantile-accounting circumstances without waiting for repayment, subject to the six paragraph 21 considerations

In whose favour: Assesseees

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 20; 21; 22; 23; 24; 25; 26

Paragraphs: 13-21

Source role: judicial text

2.

Issue: Imported-capital-asset actual-cost adjustment under unamended section 43A

Result: Qualifying exchange-driven liability increase or reduction adjusted actual cost at the relevant balance-sheet date without actual payment; capital cost/depreciation treatment retained

In whose favour: Assesseees

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 30; 31; 32; 33

Paragraphs: 29-33

Source role: judicial text

3.

Issue: Nature of the Finance Act, 2002 substitution of section 43A

Result: Amendatory structural change effective 1 April 2003, not a clarification to be imposed on the earlier periods; actual payment becomes the condition under the substituted rule

In whose favour: Assesseees on the historical disputes

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 33

Paragraphs: 34

Source role: judicial text

4.

Issue: All grouped civil appeals and costs

Result: Revenue appeals dismissed, no costs and no remand

In whose favour: Assesseees

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 33

Paragraphs: 35

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

32; 35(1)(iv); 35A; 36(1)(ix); 48; 50; 56; 143(1)(a); 143(2); 144

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

VERIFIED RELATIONSHIPS BETWEEN SPECIFIED JUDGMENTS

1.

Earlier case id: sc-2009-04-08-woodward-governor

Later case id: sc-2010-03-15-ongc-forex

Relationship: followed and applied on both revenue account and historical section 43A questions

Evidence

1.

Source url: [Open cited source](#)

Pdf pages: 12; 13; 14; 15

Paragraphs: 9-13, especially 10-11 and 12-13

Source role: judicial text

Scope limit: ONGC expressly agrees with and applies Woodward Governor. Its capital-account issue is confined by paragraph 1(ii) to Civil Appeal No. 7228 of 2008, AY 1991-92. This is a checked relationship between these two judgments only; no comprehensive later-treatment search or present-law audit is claimed.

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 33 PDF pages; SHA-256

895e612599df7f204b19fb57b298a369f6db4a636a4bfd57976f752dc3d21e3. Original bytes preserved.

Judicial paragraphs 1-35 occupy physical PDF pages 11-33 (SCR 748-770). Pages 1-8 and the opening of page 9 are editorial material; jurisdiction and connected appeals are on pages 9-10; appearances and the judicial-text start share page 11. No neighbouring judgment is included in the bounded judicial text.

Open cited source rendition

Full bounded reported judicial text read; editorial headnotes are not treated as the ratio

Source PDF bytes, SHA-256 and physical page count verified against preserved corpus

No source modification, external upload or publication performed

Public source URL retained from the corpus; live retrieval was not successfully reverified in this review

No comprehensive later-treatment or current-law certification

SCR citation is printed in this source. The ITR citation is independently visible in ONGC (2010), physical page 11, footnote 1. Corpus neutral identifier 2009INSC470 is metadata and is not represented as a printed neutral citation.

AY 1998-99 is the lead Woodward Governor dispute in paragraph 5. AY 1991-92 is expressly identified for Maruti Udyog in paragraph 9. Prior Woodward years 1995-96 to 1997-98 and prior Maruti years 1985-86 to 1990-91 are historical consistency context. Individual years for Honda Siel and all remaining companion appeals are not supplied in the reasons; paragraph 29 confines the capital-account batch to the pre-amendment period.

Physical pages 9-10 list every numbered civil appeal from 2206 through 2235 of 2009 and three additional unnumbered civil appeals identified by their CC numbers. The reasons identify Woodward Governor by SLP(C) 593/2008, Maruti Udyog by SLP(C) 18967/2008 and Honda Siel Power Products by SLP(C) 7632/2008; no unsourced mapping of those SLPs to individual civil-appeal numbers is supplied.

Revenue-account deductibility is decided through sections 37(1), 28, 29 and 145, with section 43(2) informing the meaning of payment under the adopted accounting method. Imported-capital-asset adjustment is decided under historical section 43A read with section 43(1). Other listed provisions occur as consequential, quoted or procedural context, not separately adjudicated claims.

The preserved SCR rendition is the source reviewed; a separately retrieved signed original is not claimed. Its hash and physical-page references are rendition-specific.; The report leaves three civil-appeal and SLP numbers blank and supplies CC Nos. 2868/2009, 3007/2009 and 1999/2009 instead. Those blanks have not been filled by inference.; Paragraph 5 prints a return-filing date of 28 January 1998 for AY 1998-99; the chronology is not silently corrected and the potentially erroneous filing date is not used in the note.; Paragraphs 5 and 7 differ in the total profit-and-loss debit (Rs. 41,06,746 versus Rs. 41,06,748). The note uses only the consistently stated disputed loss of Rs. 29,49,088.; The historical AS-11 statements and statutory quotations are reported as the Court's analysis, not certified as present-day accounting or tax-computation requirements.; The full judgments in Sutlej Cotton Mills, Arvind Mills and the other authorities cited in Woodward were not separately reviewed for this deliverable; their treatment is described only as it appears in Woodward.

STATUTORY SCOPE

Historical foreign-exchange decisions. The judgments themselves distinguish pre-1 April 2003 section 43A from its prospective payment-based substitution. No automatic mapping to the Income-tax Act, 2025 and no certification of present-day deductibility.

LATER TREATMENT

Source checked 2026-10-04. Only the bounded relationship between Woodward Governor (2009) and ONGC (15 March 2010) has been checked against both complete judicial texts. Later statutory/accounting developments and comprehensive subsequent judicial treatment have not been verified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 33](#)

SHA-256: 895e612599df7f204b19fb57b298a369f6db4a636a4bfd57976f752dc3d21e3

[reported judgment - PDF pages: 15](#)

SHA-256: f93ce1758afd66bd2f3f2eb00b993957f317acd7203d47c7d08aa5b140905c4b

[Related note: Oil and Natural Gas Corporation Ltd., Dehradun through Managing Director v. The Commissioner of Income Tax, Dehradun](#)

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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