IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 24-03-2026

CORAM

THE HON'BLE DR JUSTICE G. JAYACHANDRAN
AND
THE HON'BLE MR.JUSTICE SHAMIM AHMED

Tax Case Appeal Nos. 1390 & 1391 of 2009

In both cases

Commissioner of Income Tax,
Chennai.

..Appellant

Vs

M/s Chentech Computers Services Pvt. Ltd.,
(Formerly known a M/s.Marudhur Finance & Inv.Ltd.)
No 75-A, Dr Radhakrishnan Salai,
Mylapore, Chennai- 4.

..Respondent

COMMON PRAYER: Tax Case (Appeals) are filed under Section 260A of the Income-Tax Act, 1961, against the order of the Income Tax Appellate Tribunal, Chennai "A" Bench, dated 18.05.2009 in I.T.A.Nos.1242 and 1243/Mds/2008 for the Assessment Years 2001-02 and 2002-03.

For Appellant: Mr.T.Ravikumar (In Both Cases)

For Respondent: Mr.R.Sivaraman (In Both Cases)

JUDGMENT

(Judgment of the Court was delivered by Dr.G.Jayachandran J.)

These Tax Case Appeals have been filed by the Revenue Department to challenge the order of the Tribunal, which dismissed the Department's appeal, thereby confirming the order passed by the CIT (Appeals).

2. The short point canvassed before this Court in these appeals is whether the respondent/assessee company is prohibited from following a hybrid system of accounting under Section 43D of the Income Tax Act. The Revenue contends that the assessee company must follow the mercantile system of accounting, under which the interest payable to the assessee is required to be accounted for on an accrual basis rather than on actual cash receipt. However, the assessee contended before the Appellate Authority and the Tribunal that the bad debts on which no interest has been received have been duly debited and that being a private financial institution, they are entitled to adopt the actual receipt basis of accounting.

3. This Court at the time of admitting the appeals has framed the following substantial questions of law:-

> *"1.Whether on the facts and in the circumstances of the case, the Income Tax Appellate Tribunal was right in deleting the addition of interest accrued but not received on loans granted, even though the assessee is following the mercantile system of accounting as required under the Company Law?*
>
> *2.Whether on the facts and in the circumstances of the case, the Appellate Tribunal was right in holding that the assessee is entitled to follow a hybrid system of accounting by showing the interest on sticky loans only on receipt basis, while*

otherwise following the mercantile system of accounting, contrary to the provisions of Section 145 of the Income Tax Act?

3.Whether on the facts and in the circumstances of the case, the Income Tax Appellate Tribunal was right in holding that interest could be shown for Income Tax purposes on receipt basis, though the assessee has accounted for the same in the regular accounts on accrual basis and therefore was not includable in the taxable business income, ignoring the special provisions contained in Section 43D of the Income Tax Act and Rules made thereunder, specifying the class of assessees and categories of bad and doubtful debts in respect of which such exclusion could be made?"

4. From the material placed on record, we find that the assessee company, being a private limited company, is not governed by Section 43D of the Income Tax Act; therefore, its option of adopting a hybrid system of accounting cannot be faulted. We also find that in an identical factual scenario, this Court had framed similar substantial questions of law after following the case in ***CIT Vs. Vasisth Chay Vyapar Ltd.,*** reported in ***(2011) 330 ITR 440*** and noting the dismissal of the Revenue's appeals by the Hon'ble Supreme Court, this Court answered those substantial questions of law against the Revenue and in favour of the assessee. We see no reason to take an alternate view and therefore, follow the judgment of this Court rendered in ***CIT, Chennai Vs. M/s.Indbank Merchant Banking Services Ltd.,*** (***TCA.Nos.2097 to 2099 of 2008***)

5. As a result, both the Tax Case Appeals stand dismissed. No order as to costs.

(G.J.,J.) (S.S.A.,J.)
24-03-2026

Index: Yes/No
Speaking/Non-speaking order
Neutral Citation: Yes/No

rpl

DR.G.JAYACHANDRAN J.
and
SHAMIM AHMED J.

rpl

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