

There is no dispute that the assessee holds derivatives as its stock-in-trade and there is also no dispute that it follows the principle “cost or market price, whichever is lower” in valuing the derivatives. **When the derivatives are held as stock-in-trade then whatever rules apply to the valuation of stock-in-trade will have to be necessarily apply to their valuation also. It is a well settled position in law that “while anticipated loss is taken into account in valuing the closing stock, anticipated profit in the shape of appreciated value of the closing stock is not brought into the account, as no prudent trader would care to show increased profit before its realization.** This is the theory underlying the rule that the closing stock is to be valued at cost or market price whichever is the lower, and it is now generally accepted as an established rule of commercial practice and accountancy”.