

आयकर अपीलीय अधिकरण, चण्डीगढ़ न्यायपीठ "ए", चण्डीगढ़
IN THE INCOME TAX APPELLATE TRIBUNAL, CHANDIGARH BENCH "A", CHANDIGARH

HEARING THROUGH: PHYSICAL MODE

श्री राजपाल यादव, उपाध्यक्ष एवं श्री कृणवन्त सहाय, लेखा सदस्य
BEFORE: SHRI. RAJPAL YADAV, VP & SHRI. KRINWANT SAHAY, AM

आयकर अपील सं. / ITA No. 464/Chd/ 2025

निर्धारण वर्ष / Assessment Years : 2018-19

The DCIT Central Circle-1 Ludhiana	बनाम	Aarti International Ltd. Aarti Complex, GT Road Miller Ganj, Ludhiana-141003 Punjab
स्थायी लेखा सं. / PAN NO: AABCA4454C		
अपीलार्थी/Appellant		प्रत्यर्थी/Respondent

निर्धारिती की ओर से/Assessee by : Shri Ashish Aggarwal, C.A
राजस्व की ओर से/ Revenue by : Shri Manav Bansal, CIT, DR

सुनवाई की तारीख/Date of Hearing : 02/09/2025
उद्घोषणा की तारीख/Date of Pronouncement : 11/11/2025

आदेश/Order

PER KRINWANT SAHAY, AM:

This is an appeal filed by the Revenue against the order of the Ld. CIT(A)-5, Ludhiana dt. 27/12/2024 pertaining to Assessment Year 2018-19.

2. In the present appeal Revenue has raised the following grounds:

1. Whether upon facts and circumstances of the case, the Ld. CIT(A) was justified to delete the addition of Rs.12,15,027191- made by the A.O. on account of disallowance of depreciation & additional depreciation as the assessee company has failed to establish that the assets were put to use before 31.03.2018.

2. Whether upon facts and circumstances of the case, the Ld. CIT (A) was justified in holding that the machinery was put to use during the year and without conducting further enquiry on the nature of bills submitted by the assessee and ignoring its own observation?

3. Whether upon facts and circumstances of the case, the Ld. CIT (A) was justified to delete the addition of Rs.2,47,75,7851 - made by the A.O. on account of excess stock found at the time of survey proceedings by the AO as the assessee has failed to substantiate its claim with evidence and also failed to prove the genuineness of purchase bills and Ld. CIT(A) allowed the claim by assessee without any investigation on genuineness of the documents/purchase bills?

4. Whether upon facts and circumstances of the case, the Ld. CIT(A) was justified to delete the addition of Rs.23,08,56,610/- made by the A.O. on account of Low G.P. declared on total turnover by rejecting books of

accounts of assessee ignoring the fact that excess stock was found during survey and hence, books of the assessee was defective?

5. The appellant craves leave to add, amend, modify, vary, omit or substitute any of the aforesaid grounds of appeal at any time before or at the time of hearing of the appeal.

3. Briefly the facts of the case are that a survey under section 133A was conducted on 14.03.2018. The assessee filed its return of income for AY 2018-19 on 04.10.2018, declaring income of Rs. 7,91,78,480/-. The return was processed u/s 143(1) and later it was selected for scrutiny u/s 143(2). Thereafter, notices and detailed questionnaires u/s 142(1) were issued, to which the assessee made online submissions. During scrutiny, several issues arose related to disallowance u/s 14A, eligibility of depreciation of the Machiwara unit, unexplained excess stock found during survey, and fall in gross profit rate, which led to further verification and additions by the AO.

3.1 During the assessment, the Assessing Officer observed that the assessee had made large investments capable of earning tax-free income while also paying heavy interest on borrowed funds, and since the assessee could not prove that no borrowed funds were used for such investments, the AO disallowed expenses under section 14A amounting to Rs. 72,02,609/-. The AO further noted that the newly established unit at Machiwara was still under construction during the survey and there was no reliable evidence to show that the machinery was actually used before 31.03.2018, so the entire depreciation claim of Rs. 12,15,02,719/- was disallowed. The AO also found a difference in stock during the survey, where 1373 bales of cotton were not properly recorded in the books of accounts, and since the assessee failed to provide satisfactory proof of their purchase, the same were treated as unaccounted investment and added under section 69 at Rs. 2,47,75,785/-. Further, as the gross profit rate of the assessee had fallen significantly compared to earlier years despite an increase in turnover and considering various discrepancies found during the survey, the AO rejected the books of accounts under section 145(3) and estimated the gross profit by applying the average of last three years, resulting in an addition of Rs. 23,08,56,610/-.

Based on these findings, the AO finally assessed the total income at Rs. 46,36,77,743/- and initiated separate penalty proceedings.

4. Against the order of the AO the Assessee went in appeal before the Ld. CIT(A) who has written a detailed and speaking order on various issues.

5. Against CIT(A) order, the Revenue is in appeal before us.

6. Regarding Grounds No. 1 and 2, the issue concerns the deletion of Rs.12,15,02,719/- made by the AO on account of the disallowance of depreciation and additional depreciation. The Ld. CIT(A) addressed this matter in his order and given a finding against the addition, which reads as under:

(v) The appellant has brought a lot of material on record, to substantiate its submission that the plant and machinery was actually put to use. During the appellant proceedings, undersigned raised a query that generator was installed on 31.3.2028. Then how the production can commence without the generator. The appellant was also asked to explain the various processes of manufacturing. The appellant has filed submission alongwith documentary evidence to substantiate its point that the processes are not continuous and were undertaken by using electricity supplied by the electricity board. Had the process required continuous supply of power, generator was must. However, Its processes could be stopped whenever there is power cut and could be resume on the restoration of power supply. During the appellate proceedings, the appellant was asked to submitted details of electricity consumption of this unit, which was submitted. It showed that the process of production has commence during the relevant FY.

(vi) In view of the above facts and discussion I am of the considered view that the plant and machinery was installed and put to use during the current FY. Therefore, the appellant is entitled for depreciation on these plant and machinery. Also, the conditions for claim of additional depreciation are also satisfied. Therefore, the appellant is entitled for additional depreciation on these plant and machinery. Therefore the disallowance of Rs.12,15,02,719/- on account of depreciation is deleted. This ground of appeal is allowed.

7. Regarding Ground No. 3, it pertains to the deletion of the addition of Rs. 2,47,75,785/- made by the Assessing Officer on account of excess stock allegedly found during the course of survey proceedings. On this issue as well, the Ld. CIT(A) has recorded detailed findings in the impugned order, the relevant portion of which is reproduced as under:

I have considered the reasoning given by the AO in assessment order, submissions & documents submitted by the appellant, facts of the case and legal position.

(i) The issue involved is whether these 1373 bales were accounted for and whether there was excess stock or not. The AO held that these 1373 bales were not accounted for and therefore there was excess stock. Whereas, as per the AR these bales were duly accounted for and there was no excess stock.

(ii) On examination of the assessment order, the submission of the appellant and critically examining the statement of the director Sh Vinayak Mittal, it is observed that in his statement Sh Vinayak Mittal a mentioned about these 1373 bales, and then provided the details.

...

...

The AO has not taken any adverse view at that point of time and no further statement was recorded. It is very important to understand that the appellant has been maintaining proper record of receipt and issue of these bales. As per detailed submitted 1373 bales were received on the day of survey i.e on 14.3.2018 out of which 758 bales were issued on 14.3.2018 and 748 bales were issued on 15.3.2018. These details were filed at the time of survey as well as during assessment proceedings. The AO has not taken any adverse view of issue of 1506 (758 +748) bales. However, during assessment the AO has accepted the issues of 1506 bales but has taken an adverse view on receipt of 1373 bales. It is very strange that some part of same document is accepted whereas other part is not. This is not permissible as per settled legal position.

8. Regarding Ground No. 4, it pertains to the deletion by the Ld. CIT(A) of the addition of Rs. 23,08,56,610/- made by the Assessing Officer on account of the lower Gross Profit (GP) ratio declared by the assessee after rejecting the books of account. On this issue as well, the Ld. CIT(A) has provided a clear and detailed finding in the impugned order, relevant contents of which reads as under:

I have considered the reasoning given by the AO in assessment order, submissions & documents submitted by the appellant, facts of the case and legal position.

(i) The issue involved is whether the books of accounts of the Appellant can be rejected, and the enhanced GP rate can be applied. The AO held that there is fall in GP rate for which no acceptable explanation was given, and there was excess stock. Therefore, she rejected books of account u/s.145(3) and applied GP rate by taking average of three years. Whereas the appellant has argued that the books of account are audited, and no defects has been found. There is no excess stock as well. Thus books of account can not be rejected u/s.145(3) of the Act and enhanced GP rate can not be applied.

.....

.....

.....

Thus, the legal position is that if no specific defects having been pointed out then the books of account can not be rejected u/s.145(3) of the Act.

(vi) In view of the above facts and discussion I am of the considered view that there is no material available on record to prove that books of accounts were defective in view of the s 145(3) of the Act. Therefore, the same can not be rejected u/s 145(3) of the Act and GP rate can not be enhanced.. Therefore the addition of Rs.23,08,56,610/- made by applying enhance GP rate is deleted. This ground of appeal is allowed.

9. The Ld. DR vehemently contested the findings given by the CIT(A) on issues discussed above and supported the additions made by the AO.

10. During the course of hearing the Ld. AR relied upon the order of the Ld CIT(A).

11. We have heard the rival contention of both the parties and perused the material available on the record.

11.1 Regarding depreciation and additional depreciation the Ld. CIT(A) has clearly mentioned that the assessee has brought on record through filing of various documents and proofs that the Plant & Machinery were put to use before the commencement of new Financial Year. Therefore keeping in view the various case laws wherein it has been held that Plant & Machinery installed is ready to use or even used for a short period also may qualify for depreciation / additional depreciation. As the assessee has filed documents / proof which were filed before the lower authority to prove that the Plant & Machinery were ready to use and were infact used during the Financial Year under consideration. Therefore we do not find any reason to interfere in the finding given by the Ld. CIT(A). Accordingly, appeal filed by the Revenue on this issue is dismissed.

11.2 Regarding issue of excess stock found at the time of survey proceedings, the Ld. CIT(A) has decided the issue on the basis of bills & vouchers and stock register maintained by the assessee and produced

before him proving that there was no excess stock as claimed by the AO in the assessment order. The Ld. CIT(A) has clearly mentioned in the impugned order that the issue involved is whether 1373 bales of cotton were accounted for in the books of account or they were excess stock found during the survey. He has finally given his finding that as per the detailed submission made before him all 1373 bales of cotton were part of the stock therefore they may not be considered as excess stock. During the proceedings before us the Ld. Counsel for the Assessee also filed the relevant documents and papers which were produced before the authorities below and has shown that the excess stock so claimed by the AO were also part of the stock of the assessee. Therefore on this issue also we do not find any reason to interfere in the findings given by the Ld. CIT(A). Accordingly the appeal of the Revenue on this issue is also dismissed.

11.3 The last ground of appeal i.e; Ground No. 4 is on account of deletion of addition of Rs. 23,08,56,610/- made by the AO on account of low GP declared on total turnover by rejecting books of account. On this issue the Ld. CIT(A) has given his finding that the issue involved is whether books of account of the assessee can be rejected and GP rate be enhanced or not.

11.4 He has given his finding on this issue by clearly mentioning that the legal position is that if no specific defect has been pointed out then the books of account cannot be rejected under section 145(3) of the Act as the books of account cannot be rejected in this case therefore he has held that the GP rate cannot be enhanced without bringing any material on record. The Ld. CIT(A) has further pointed out that this enhancement of GP rate has been done by taking the average of three previous years wherein the addition in the year under consideration has not been considered. Therefore the Ld. CIT(A) has deleted the addition on this issue.

11.5 During the proceedings before us the Ld. Counsel for the Assessee filed a Chart of GP ratio declared in the earlier years which has been accepted by the Department and had shown that there is no much / abnormal

variation of GP rate in the year under consideration therefore we are not inclined to interfere in the findings given on this issue by the Ld. CIT(A) accordingly the same is dismissed.

12. In the result, appeal filed by the Revenue is dismissed.

Order pronounced in the open Court on 11/11/2025

Sd/-
राजपाल यादव
(RAJPAL YADAV)
उपाध्यक्ष/VICE PRESIDENT

Sd/-
कृणवन्त सहाय
(KRINWANT SAHAY)
लेखा सदस्य/ ACCOUNTANT MEMBER

AG

आदेश की प्रतिलिपि अग्रेषित/ Copy of the order forwarded to :

1. अपीलार्थी/ The Appellant
2. प्रत्यर्थी/ The Respondent
3. आयकर आयुक्त/ CIT
4. आयकर आयुक्त (अपील) / The CIT(A)
5. विभागीय प्रतिनिधि, आयकर अपीलीय आधिकरण, चण्डीगढ़/ DR, ITAT, CHANDIGARH
6. गार्ड फाईल/ Guard File

आदेशानुसार/ By order,
सहायक पंजीकार/ Assistant Registrar