

IN THE INCOME TAX APPELLATE TRIBUNAL
“B” BENCH, CHANDIGARH

HYBRID HEARING

**BEFORE HON’BLE SHRI RAJPAL YADAV, VICE PRESIDENT
AND
HON’BLE SHRI MANOJ KUMAR AGGARWAL, AM**

**आयकर अपील सं. / ITA No. 797/CHANDI/2023
(निर्धारण वर्ष / Assessment Year: 2016-17)**

ITO Ward 1(3) Ludhiana – 141001	बनाम/ Vs.	Shree Balaji Processors Tajpur Road, Opp. Central Jail Ludhiana - 141010
स्थायीलेखासं./जीआइआरसं./PAN/GIR No. ACTFS-8428-B		
(अपीलार्थी/ Appellant)	:	(प्रत्यर्थी / Respondent)

Assessee by	:	Shri Sudhir Sehgal (Advocate) - Ld. AR
Revenue by	:	Shri Bharat Bhushan Garg (CIT) – Ld. DR (Virtual)

सुनवाईकीतारीख/ Date of Hearing	:	11-11-2025
घोषणाकीतारीख / Date of Pronouncement	:	24/11/2025

आदेश / O R D E R

Manoj Kumar Aggarwal (Accountant Member)

1. Aforesaid appeal by revenue for Assessment Year (AY) 2016-17 arises out of an order of learned Commissioner of Income Tax (Appeals), NFAC, Delhi [CIT(A)] dated 18-10-2023 in the matter of an assessment framed by Ld. Assessing Officer [AO] u/s. 143(3) of the Act on 23-12-2018 rejecting books of the assessee and assessing business profit of Rs.12.81 Crores. The Ld. CIT(A) reversed the action of Ld. AO against which the revenue is in further appeal before us with following grounds of appeal: -

1. That the CIT(A), Ludhiana has erred in law, in deleting addition of Rs.12,01,85,191/- made by the Assessing Officer on account of rejecting the books of accounts u/s 145(3) of the Act.

2. That the CIT(A), Ludhiana has erred in law, in not granting opportunity to the Assessing Officer under rule 46A for verification / comments / counter the addition evidences.
3. That the CIT(A), Ludhiana has erred in law, in rejecting the rational of AO with regard to the rejection of books of accounts of the assessee.

The Ld. CIT-DR advanced arguments on violation of rule 46A and pleaded for confirmation of the assessment order. The Ld. AR also advanced arguments and referred to the findings of first appellate authority in the impugned order. The Ld. AR also filed written submissions in support of its submissions. Having heard rival submissions and upon perusal of case records, the appeal is disposed-off as under.

Proceedings before lower authorities

2. The assessee declared income of Rs.79.85 Lacs which was subjected to complete scrutiny. The hearing notices were issued by Ld. AO u/s 142(1) from time to time which were responded to by the assessee along with various documentary evidences. The outcome / summary of the same has been tabulated by Ld. AO at Pages 2 to 14 of the assessment order. After due consideration thereof, Ld. AO observed that the assessee failed to provide sales and purchases accounts and details of the suppliers and customers. Except for 16 persons, no other employee had registration under EPF/ ESI. The assessee failed to provide copy of cash book. The sales and purchases were not verifiable. The assessee could not file confirmation from 60 out of 67 sundry creditors. On these facts, Ld. AO rejected the books u/s 145(3) and applied net profit rate of 8% on gross receipts and ultimately assessed business income of Rs.12.81 Crores.
3. During first appeal, the assessee assailed rejection of books of accounts and estimation of business income. The Ld. CIT(A), after due

consideration of assessee's submissions, rendered factual findings from para 5.2 onwards of the impugned order. In the submissions, the assessee duly explained the increase in capital and furnished capital accounts and bank statements of its partners. The assessee also furnished documentary evidences with respect to addition to Fixed Assets. The assessee pointed out that the details of sales and purchases were already furnished during assessment proceedings and in further support, the assessee furnished copy of sales and purchases account. The copy of account for power and fuel was already furnished to Ld. AO. Regarding non-filing of confirmation from sundry creditors, the assessee stated that due to insufficient opportunity, the assessee was not able to file the same during assessment proceedings but nevertheless, the remaining confirmation were furnished to Ld. CIT(A). It was explained that GST law was not applicable in this year. The confirmed copies of loan lenders along with their respective Income Tax returns and computation of income was stated to be already furnished to Ld. AO during assessment proceedings. These documents sufficiently discharged the onus of the assessee. It was further pointed out that complete record of wages along with EPF and ESI records was already furnished during assessment proceedings. The said records reflect the name of the employee, their date of joining, Aadhar number, amount of salary and amount of ESI and EPF. These expenses were in line with the expenses incurred in previous assessment year. No adverse inference was drawn by Ld. AO on the same. Similarly, complete details of repair and maintenance expense and commission payment were already furnished to Ld. AO during the course of assessment proceedings itself. Similarly, for other expenditure / items,

sufficient details were already furnished by the assessee to Ld. AO. It was thus contended that rejection of books of accounts was not justified and the assessee accordingly assailed estimation of business income by applying profit rate of 8%.

4. Considering assessee's elaborate submissions as well as documentary evidences, Ld. CIT(A) reversed the rejection of books of accounts by Ld. AO by observing as under: -

5.13 On the merits of the case, the submissions filed by the assessee has been considered and the allegation wise documents filed by the appellant has also been considered and the same are being discussed ere. The copy of the capital account and the bank account statement of the partners regarding the addition in the capital account has been perused and the same is found to be correct and the sources of addition made in the capital account has been verified. The contention of the appellant is correct that the sources in the capital account are from proper banking channels and the sources of the said addition in the capital account are the transfers made from the appellant firm or the transfers made from the inter transfer of the funds within the partners. Therefore, the sources are genuine and verifiable. Regarding the details of the plant and machinery the copies of invoices have been verified and found to be correct. The AO has accepted the said invoices and no adverse remarks in respect of use of such assets have been identified and thus, the same cannot be questioned upon.

5.14 The sales and purchase accounts have also been perused and the same are verifiable from the details in the form of the copies of accounts of the creditors in the books of accounts of the appellant, list of purchases and list of sales made by the appellant along with the list of the creditors and debtors filed by the appellant and in which the AO has not found any flaw/defects. The said details has again not be questioned upon by the AO and the contention of the appellant is also correct that the AO has not verified the said creditors by issuing any notices to them during the course of assessment proceedings and no findings or specific defects on the said copies of accounts have been given by the AO then there is no reason to disregard the same as it is. Further, the balance confirmed copies of accounts have been filed by the appellant during the appellate proceedings and the same set of documents have been perused and verified from the books of accounts filed in the form of the copies of accounts of the same creditors in the books of accounts of the appellant filed by the appellant during the course of assessment proceedings and during the course of appellate proceedings now.

5.15 the appellant filed the confirmed copies of account, copy of the ITR and computation of income and the relevant extracts of the bank statements of the lenders which depicts the identity and creditworthiness of the creditors and the genuineness of the transactions. The AO has not found any defect in the said documents and neither the AO has questioned the creditworthiness of the lenders and the sources from which such lenders have made the payment to the appellant and since the said documents have already been filed during the course of the assessment proceedings, therefore,

there seems no reason to disregard the same and the same is found to be accepted. Moreover, the appellant is also correct that merely because the accounts of the creditors and debtors have been squared off during the year does not mean that the books of accounts of the appellant is flawed as no specific defects has been pointed out by the AO in the same books of accounts.

5.16 The copies of accounts of various expenses have been finished by the appellant before the AO and the same has been furnished now also and again the AO has not given any adverse findings against the expenses and moreover, the said expenses are incurred in parity with the expenses of similar nature incurred in the previous assessment year. Similarly, the details of expenses in the nature of wages paid by the appellant has also been furnished along with the details of ESI and EPF is also furnished. Since the appellant is registered with the ESI and EPF department, therefore, the appellant is mandatorily required to furnish the details of salary paid to each and every employee and the AO has accepted the same without finding any specific defects.

5.17 The entire assessment order depicts a picture that the AO has not given any major defect against the documents furnished by the appellant or any actual specific defects in the books of accounts of the appellant. Thus, no specific defect has been pointed out in the books of accounts then the same cannot be rejected. There has to be a clear-cut flaw and that too a major flaw in the books of accounts which would depict that the books of accounts of the appellant has not been framed in such a manner that it would depict a correct and clear picture of the financial position of the appellant. There is no mention of any such flaw in the assessment order itself which would suggest the same. Moreover, reliance has been placed on the following judgments wherein it has been held that no specific defect or discrepancy in the books of accounts maintained by the appellant has been pointed out by the AO then there is no reason to reject the books of accounts of the appellant.

a. CIT vs. Paradise Holidays (2010) 325 ITR 13 (Del HC)

Where the AO has not pointed out any specific defect or discrepancy in the account books maintained by the appellant which are duly audited by an independent chartered accountant, there was no justification in rejecting the books of accounts and making the addition to the declared income.

b. CIT vs. Smt. Poonam Rani (2010) 326 ITR 223 (Del HC)

Appellant having furnished complete details, including quantitative details in respect of purchase of raw material, manufacture of copper wire and sale of finished products and the AO having not pointed out any particular defect or discrepancy in the books of accounts maintained by the appellant, fall in GP rate alone could not by itself be a ground to reject the accounts by invoking s. 145(3); CIT(A) and the Tribunal having accepted the explanation given by the appellant for the fall in GP rate and the finding of fact recorded by them having not been shown to be perverse in any manner, no substantial question of law arises for consideration.

c. CIT vs. Om Overseas (2009) 315 ITR 185 (P&H HC)

in the absence of any illegality or perversity in the finding of fact arrived at by the CIT(A) and the Tribunal that the appellant's books of accounts were rejected by the AO and the addition was made without pointing out any specific defect in the books of account, impugned addition was rightly deleted and no substantial question of law arises for determination.

5.18 In view of the facts narrated above, it is held that the action of the rejection of the books of accounts made by the AO is incorrect and the contention of the appellant

is accepted. Therefore, the action of the AO of rejecting the books of accounts of the appellant is hereby reversed.

5.19 As the books of accounts of the appellant has been accepted and no other addition has been made in the case of the appellant, then the addition of Rs.12,01,85,191/- made on account of adopting rate of GP @8% is hereby deleted. Accordingly, Ground No.1, 2 & 3 are allowed.

The Ld. CIT(A) rendered factual findings on various details / documents as furnished by the assessee. It was observed that Ld. AO did not point out any specific defect / flaw in the books of accounts of the assessee which would lead to a conclusion that the books were not kept in such a manner so as to give clear picture of the financial position of the assessee. Reference has been made to various judicial decisions of Hon'ble High Courts to support the conclusion. Ultimately, Ld. AO reversed the action of Ld. AO in rejecting the books and estimating business income. The Ld. AO was accordingly directed to accept the returned income of the assessee. Aggrieved as aforesaid, the revenue is in further appeal before us.

Our findings and Adjudication

5. From the fact it emerges that the assessee-firm is engaged in business activities and it declared income of Rs.79.85 Lacs. The constitution of the assessee was changed from proprietorship to the partnership firm in this year. Shri Vivek Kumar Jindal was added as partner along with his father Shri Satinder Kumar Jindal who was earlier managing the firm single handedly. During the course of assessment proceedings, the assessee was served with various hearing notices u/s 142(1) which was responded to by the assessee along with various documentary evidences. The assessee, in its reply dated 08-10-2018, duly explained each entry of capital introduction by Shri Vivek Kumar

Jindal and Shri Satinder Kumar Jindal. The assessee furnished details of addition in fixed assets as well as copy of purchase invoices. The copy of account of sales, purchases, power & fuel, wages, labour, building / machinery repair & maintenance and commission paid was also furnished. The books of the assessee were duly audited u/s 44AB and the assessee furnished audited financial statements and Tax Audit Report along with copy of Income Tax Return with this reply. The confirmed copies of accounts of unsecured loans, their respective Income Tax Returns and computation charts were of various parties was also furnished.

6. In another reply dated 19-12-2018, the assessee furnished bank statements of few of the lenders and copy of power & fuel account. It was explained that the firm was having 135 employees which slightly varied from month to month. So, it was not possible to provide complete details in the manner as required by Ld. AO since the number of pages of cash book was huge. The assessee furnished details of ESI and EPF paid. The bills for building and machinery repair & maintenance expenses exceeding Rs.1 Lacs was also furnished along with this reply. The details of commission payments, staff welfare expenses vouchers, interest capitalization working, copy of account of sundry creditors along with few confirmations was also furnished. The source of unsecured loans, details of party-wise purchases and sales with address of the suppliers and customers was also furnished along with this reply.

7. Upon perusal of all these documents as furnished by the assessee during the course of assessment proceedings itself, it could very well be said that the assessee had substantially proved its financial results and quantum of income as earned by it. Simply because some further details

were required, the said fact alone could not have led to rejection of books of the assessee. No major defect / flaw has been pointed out by Ld. AO in these documentary evidences as submitted by the assessee. Merely because some more documents were awaited by the assessee, the same could not result into rejection of the books of the assessee. The Hon'ble Delhi High Court in the case of **CIT vs. Paradise Holidays (2010) 325 ITR 13 (Del HC)** held that where AO did not point out any specific defect or discrepancy in the audited books of accounts, there was no justification to reject the books. In the case of **CIT vs. Smt. Poonam Rani (2010) 326 ITR 223 (Del HC)**, it was similarly held that where the assessee had furnished complete details and Ld. AO did not point out any particular defect or discrepancy in the books of accounts, fall in GP rate alone could not by itself be a ground to reject the books invoking s. 145(3). Similar is the decision of Hon'ble High Court of Punjab & Haryana in the case of **CIT vs. Om Overseas (2009) 315 ITR 185 (P&H HC)** holding that addition could not be made by rejecting the books without pointing out any specific defect in the books of account. These case laws duly support the conclusion of Ld. CIT(A). Therefore, we concur with the adjudication of Ld. CIT(A) that given the documentary evidences of the assessee as well as in view of the fact that no specific defect or discrepancy was pointed out by Ld. AO in the books of accounts, the Ld. AO was not justified in rejecting the books of the assessee and estimating business income by applying GP rate of 8%. We order so. The adjudication of Ld. CIT(A) find our concurrence.

8. The revenue has raised a plea of violation of Rule 46A. We find that the assessee had furnished various documentary evidences on all the

issues as raised by Ld. AO. Some further confirmations of creditors were awaited which was not forthcoming up to the time of assessment proceedings. During appellate proceedings, the same was received by the assessee and furnished as additional evidences in support of its claim. We find that during the course of assessment proceedings, the assessee already furnished one paper-book of 980 pages which, inter-alia, contained copy of Income Tax Return, computation of income, financial statements and various other documents in support of its book results. The copy of the same was again furnished by the assessee before Ld. CIT(A). During appellate proceedings, the assessee furnished another paper-book of 434 pages which contained additional evidences in the shape of copy of sale and purchase account, copy of power & fuel account, generator running expenses, oil & lubricants expenses details, labour expenses along with sample purchase invoices, complete confirmation of creditors, VAT assessment order etc. These documents were in furtherance of assessee's claim as made during the course of assessment proceedings. The Ld. CIT(A) duly considered the same and arrived at a conclusion that whatever deficiencies were there, the same were duly fulfilled by the assessee by furnishing these documents. However, no specific defect was pointed out by Ld. AO on the documents as submitted by the assessee during assessment proceedings and therefore, rejection of books was not justified. It is settled law that the power of Ld. CIT(A) is co-terminus with the powers of Ld. AO and Ld. CIT(A) himself could undertake verification which could have been done by Ld. AO. It is not the case that the assessee did not produce any evidence during assessment proceedings but the additional evidences

were merely in furtherance / extension of documentary evidences as already furnished by the assessee during the course of assessment proceedings itself. Moreover, no specific defect was pointed out by Ld. AO in the books of the assessee which would justify rejection of books u/s 145(3). The Ld. AR, in its written submissions, has well demonstrated the fact that the additional evidences as furnished by the assessee during appellate proceedings was merely an extension of the details already furnished by the assessee during the course of assessment proceedings and these evidences were only a part and parcel of the books of the accounts of the assessee. The said tabulation is as under: -

Sr. No	Broad observations made by the Ld. AO	Documents furnished during the assessment proceedings	Document furnished during the appellate proceedings	Findings of the CIT(A)
1.	The assessee has failed to file the sales and purchase account.	In respect of the same, the assessee, vide point no. 10 and 11 of the reply dated 20.12.2018, has furnished a list of sales and purchases depicting the party-wise closing balance. Along with the same, the assessee has also furnished a list of sundry creditors and debtors with address. No adverse inference has been drawn by the Ld. AO in respect of the said documents.	The assessee furnished only ledger accounts of sales and purchase made during the year under consideration. (Para 5.3 of CIT(A) order)	In para 5.14 of the appellate order CIT(A) has given a finding that since these copies of accounts were part of the regular books of accounts and that the details of sales and purchase has already been furnished before the AO and further total sales and purchases are reflected in the Trading Account. Hence no further verification required.
2.	The identity of the supplier and customer has not been established as the assessee has not provided the GST No.	However, the assessee has provided details depicting the name of the supplier/debtors, their address, their TIN No., their purchase and sale made during the year, and the closing balance outstanding. No adverse inference has been drawn by the Ld. AO. Moreover, the GST law did not come into force in the relevant period and, therefore, the allegation by the Ld. AO is not valid.		The Worthy CIT(A) in para 5.11 has accepted that the assessee has established the identity of its suppliers and customers and further, no verification has been made by the AO on the addresses provided to AO. Refer to para 5.14 of CIT(A).
3.	Except 16 persons, No employee/wager has EPF/ESI registration number in wage record.	However, the complete record of wages, along with their ESI and EPF details, was submitted during the assessment proceedings as per para 5.6 of the appellate order. The record depicted		In para 5.6 of the appellate order the Worthy CIT(A) has stated that the relevant documents have

	Wage record does not have any details of PF/ESIC contribution deduction and not even signed.	the name of the employee, date of joining, Aadhaar No., amount of salary, and the amount of ESI and EPF. It was also clarified that out of the total employees, only 16 persons had ESI and EPF numbers because ESI and EPF were applicable only to these 16 persons. It has also been clarified that the said expenses very much in line with the same expenses incurred in earlier years. Moreover no adverse inference was drawn by the Ld. AO in these set of documents.		already been filed by the assessee during the assessment proceedings and therefore the same was accepted.
4.	The AO has raised a query at page 6 of AO's order that in case mode of payment of wages is cash, then cash book was required.	The assessee has filed the details of expenses incurred during the year, no adverse inference has been drawn by the Ld. AO in respect of the said documents and no amount of expenses in the nature of wages was incurred by the assessee in cash. Therefore, there was no requirement to furnish the copy of the cash book, as the Ld. AO had only required the assessee to furnish the cash book if the expenses in the nature of wages have been incurred in cash.		The said submissions are factual and part of record and were accepted by the Worthy CIT(A) in the appellate proceedings. Refer para 5.16 of the appeal order.
5.	Round figure entries in sale and squaring off during the year	Same is neither ground to reject the books of accounts and nor any adverse inference was drawn by the Worthy CIT(A) in respect of the sales ledger and sales details furnished by the assessee.		Accepted by the CIT(A). Refer para 5.15 of the order and it is only doubt and suspicion.
6.	There are no GST No. of suppliers and customers.	The GST law was not applicable in the relevant assessment year. Therefore, the allegation of the Ld. AO was not applicable.		In para 5.4 of the appellate order it has been accepted by the Worthy CIT(A) that since GST law was not applicable in the relevant A.Y. Therefore this point was not applicable.
7.	The assessee could not file confirmation from 60 creditors out of the 67 creditors as per Balance Sheet.	The assessee has duly furnished the list of creditors and purchases depicting the name of the suppliers, their address TIN No, Opening Balance and Closing Balances. The assessee has provided the confirmation of majority of the creditors.	The assessee even submitted that the creditors were borne out of the books of accounts and it has also been submitted that the AO has even not used his statutory powers u/s 133(6), even though, the Ld. AO had the entire list of such creditors. Moreover, the Ld. AO has not drawn any adverse inference regarding the creditors, purchases or the confirmation of creditors. Therefore, in continuation of confirmations already furnished by the Assessee during the assessment proceedings, the assessee has	The Worthy CIT(A) in para 5.14 ha accepted that the purchases were verifiable from copies of accounts of creditors in the books of accounts of assessee, list of purchases furnished by the assessee during the assessment proceedings, there was no reason to disagree the purchases made by the assessee and that the confirmed copies of accounts furnished during the appellate proceedings have been accepted. Further, the AO has accepted the sales and, thus, when sales have not been doubted, corresponding purchases cannot be doubted.

			furnished the confirmed copies of account of the balance creditors during the appellate proceedings.	
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The above tabulation duly supports this contention of Ld. AR and the same is to be accepted. Accordingly, the corresponding grounds as raised by the revenue qua violation of Rule 46A stand rejected.

9. Finally, considering the facts and circumstances of the case, we concur with the adjudication of Ld. CIT(A) in the impugned order and accordingly, see no reason to interfere in the same.

10. The appeal stands dismissed.

Order pronounced on 24/11/2025

Sd/-
(RAJPAL YADAV)
VICE PRESIDENT

Sd/-
(MANOJ KUMAR AGGARWAL)
ACCOUNTANT MEMBER

Dated: 24/11/2025

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

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकरआयुक्त/CIT
4. विभागीयप्रतिनिधि/DR
5. गार्डफाईल/GF

ASSISTANT REGISTRAR

ITAT CHANDIGARH