

IN THE INCOME TAX APPELLATE TRIBUNAL

AHMEDABAD “B” BENCH

**(BEFORE SHRI PRADIP KUMAR KEDIA, ACCOUNTANT
MEMBER & SHRI MAHAVIR PRASAD, JUDICIAL MEMBER)**

**ITA. No: 806/AHD/2017
(Assessment Year: 2013-14)**

Integra Engineering India Ltd. P.O. Box No. 55, Chandrapura Village, Halol, Panchmahal-389350	V/S	Assistant Commissioner of Income-Tax, circle-1(1)(2), Vadodara
(Appellant)		(Respondent)

PAN: AABCS 8347Q

**Appellant by : Shri Virat Bhavsar, AR
Respondent by : Shri Mudit Nagpal, Sr. D.R.**

(आदेश)/ORDER

Date of hearing : 05 -09-2019
Date of Pronouncement : 28 -11-2019

PER MAHAVIR PRASAD, JUDICIAL MEMBER

1. This appeal filed by the Assessee is directed against the order of the Ld. CIT(A)-1, Vadodara dated 05.01.2017 pertaining to A.Y. 2013-14 and assessee has taken solitary ground:

1. *The learned Commissioner of Income Tax, (Appeals) - 1, Vadodara ("the CIT(A)") erred in fact and in law in confirming the action of the Assistant Commissioner of Income Tax, Circle 1(1)(2), Vadodara ("the AO") in disallowing provision for warranty amounting to Rs. 11,65,000 claimed u/s 37(1) of the Income Tax Act, 1961 ("the Act").*

2. Brief facts as emanated from the assessment order:

4. During the course of assessment proceedings it was noticed that assessee has shown provisions for warranty in Schedules 9 to balance sheet of Rs. 11,65,000/-. Therefore, vide show cause notice dated 20.01.2016, the assessee was asked to show cause as to why the provisions should not be disallowed and added to the total income. In response, the assessee's authorized representative vide submission dated 25.01.2016 has submitted its replies as under:

"With respect to the same, we submit that the warranty provision has been made with respect to the products provided such as relays as a part of the company's policies and past experience. Further, we submit that the assessee company had experienced cases involving warranty expenditure in the past years on the products; We invite your kind attention that the assessee company follows the policy of reversing the opening provision along with the quarterly provision, if any. Eventually, the provision for the year under consideration is provided after reversal of the earlier provisions. Thus, the P&L account is credited/debited with the decrement or increment amount as the case may be. We would like to draw your attention to the fact that against the sales of product of Rs.11,69,97,105/- the warranty provision of Rs.11,69,971/- has been provided for during the year under consideration, Looking to the nature of work executed by the assessee company with the Government Department, the assessee has made provision for warranty as per the industry average at 1% of total sales which is reasonable and therefore we submit that no adverse view should be taken."

The submission of the assessee is considered but found not acceptable. In general Warranty is defined as "A type of guarantee that a manufacturer or similar party makes regarding the condition of its product. It also refers to the

terms and situations in which repairs or exchanges will be made in the event that the products do not function as originally described or intended".

4.2 Thus from the above, it is clear that the warranty is given only on terms situation in which repairs or exchanges will be made in the event that the products does not function, Assessee has simply submitted that company has made provision of Rs. 11,65,000/-. It is also pertinent to note that on what basis the assessee has made the provisions of Rs, 11,65,000/- is not known. The working of the figures or quantum of the provisions for warranty has to be rational and scientific. The Authorized Representative of the assessee contended that the company is expecting claims on the products sold and therefore created provision. Therefore, it is to be contingent liability.

4.3 The submission made is considered but found not tenable. No basis of valuation as how the figure of Rs, 11,65,000/- was arrived for provision. There should be terms and conditions of Warranty. No details of the products and their warranty with terms and conditions were submitted, The assessee hypothetically claims the figure of Rs, 11,65,000/- without any concrete basis, Moreover, only ascertained liability can be claimed as provision. The claim of the assessee that in future Rs, 11,65,000/- will arise without any basis is not acceptable. As mentioned supra, it depends on the terms and conditions and that to if certain events take place, In view of the above, and considering the facts in the case of assessee, the amount of Rs, 11,65,000/- is disallowed U/s 37(1) of the Act and added to the total income of the assessee.

3. Thereafter against the addition of Rs. 11,65,000/-, assessee preferred first statutory appeal before the ld. CIT(A) who confirmed the action of the ld. A.O.
4. We have gone through the relevant record and impugned order. Assessee is a Private Limited Company and has shown provisions for warranty in Schedules, 9 to balance sheet of Rs. 11,65,000/- . And assessee contention is that company's expecting claims on the product sold and therefore credit provisions

for its contingent liability and details have been submitted at Page No. 29 of the paper book wherein it is mentioned that warranty cost are estimated by the Management on the basis of technical evaluation and past experience provisions made for estimated liability in respect of warranty cost in the year of recognition of revenue.

5. In support of its contention, assessee has cited decision of Rotork Controls India (P.) Ltd. (supra) wherein it is held that provision is liability which can be measured only by using a substantial degree of estimation. Taking note of the nature of the business, the nature of sales the nature of product manufactured and sold and scientific method of accounting adopted by the assessee and Hon'ble Court held that assessee would be entitled u/s 37 of the Act for the provisions made for warranty. As assessee is before us is engaged manufacturing of machineries and components and warranty provisions are integral part of the business.
6. Respectfully following the above said Hon'ble Apex Court judgment, we allow the appeal of the assessee.
7. In the result, the appeal filed by the Assessee is allowed.

Order pronounced in Open Court on	28 - 11- 2019
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Sd/-

(PRADIP KUMAR KEDIA)
ACCOUNTANT MEMBER True Copy
Ahmedabad: Dated 28 /11/2019

Sd/-

(MAHAVIR PRASAD)
JUDICIAL MEMBER

Rajesh

Copy of the Order forwarded to:-