

आयकर अपीलीय अधिकरण, दिल्ली न्यायपीठ “जी”, नई दिल्ली में

**IN THE INCOME TAX APPELLATE TRIBUNAL  
DELHI BENCH ‘G’, NEW DELHI**

सुश्री सुषमा चावला, उपाध्यक्ष एवं श्री प्रशांत महर्षि, लेखा सदस्य के समक्ष  
**BEFORE MS. SUSHMA CHOWLA, V.P & SHRI PRASHANT MAHARISHI, AM**

आयकर अपील सं. / ITA No.6589/Del/2019  
निर्धारण वर्ष / Assessment Year 2016-17

Pee Empro Exports Pvt.Ltd.,  
G-6, Vaikunth, 82-83,  
Nehru Place, New Delhi-110019.

PAN-AAACP3293P

.....अपीलार्थी/Appellant

vs

The ACIT,  
Circle-19(2), New Delhi.

..... प्रत्यर्थी / Respondent

अपीलार्थी की ओर से / Appellant by : Sh. S.Krishnan, Adv.

प्रत्यर्थी की ओर से / Respondent by : Sh. Abhisek Kumar, Sr.DR

सुनवाई की तारीख / Date of Hearing : 04.02.2020	घोषणा की तारीख / Date of Pronouncement: 20 .03.2020
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**आदेश / ORDER**

**PER SUSHMA CHOWLA,VP**

The present appeal filed by assessee is against order of CIT(A)-7, New Delhi dated 08.07.2019 relating to assessment year 2016-17 against the order passed under section 143(3) of the Income-tax Act, 1961 (in short ‘the Act’).

2. The assessee has raised following grounds of appeal:-

*“On the facts and in the circumstances of the case and in law the ld.CIT(Appeals) erred in confirming the following actions of the Assessing Officer in :-*

*i. completing assessment under section 143(3) of the Income Tax Act, 1961 (‘the Act’) determining taxable income at*

Rs.24,66,44,620/- against returned income in a sum of Rs.21,76,39,230/-;

ii. making addition of Rs.2,90,05,390/- on account of valuation in closing stock rejecting the method of valuation adopted by the assessee, accepted by the Department from year to year in the past by rejecting the method of valuation of closing stock on estimate basis.”

3. The assessee has also raised additional ground of appeal which reads as under:-

*“On the facts and in the circumstances of the case and in law, and without prejudice to the original grounds as raised in the Memo of Appeal, the action of the CIT(A) in not directing the Assessing Officer to compute the opening stock of the succeeding year consistent with the valuation of closing stock as proposed by him in assessment in the subject year is arbitrary and fallacious. It is prayed that requisite directions to the effect be kindly issued by the Hon’ble Tribunal.”*

4. The issue raised by the assessee is against the addition of Rs.2.90 crores (approx.) on account of valuation of closing stock. The additional ground of appeal raised by the assessee does not require any investigation into the facts, hence is admitted.

5. Briefly in the facts of the case the assessee had furnished return of income declaring total income of Rs.21,76,39,230/-. The assessee was engaged in the manufacturing and export of readymade garments. The case of the assessee was taken up for scrutiny. During the course of assessment proceedings, the assessee was asked to furnish the details of closing stock. The Assessing Officer notes that the assessee filed statement showing value of finished goods as on 31.03.2016 at Rs.13,78,58,320/-. From the details furnished, it was noted by the Assessing Officer that the assessee had arrived at such value by reverse calculation of sale price minus (-) 25%. The

total sale price of finished goods was shown at Rs.18,38,11,092/- and after adjusting 25% of above value, closing stock was declared at Rs.13,78,58,320/-. The assessee was showcaused as to why adjustment was made @ 25% to arrive at the value of closing stock. The assessee explained that it was following the said practice for past several years and the same has been accepted as such. The Assessing Officer was of the view that there was no basis for adopting 25% as the basis of discount for computing the value of closing stock. He was of the view that the income of the assessee needs to be re-computed in terms of section 145(3) of the Act after re-valuing the closing stock. He adopted the average G.P. rate of past two years @ 9.22% and applied rate of 9.22 % for computing the value of closing stock, which resulted in making an addition of Rs.2,90,05,390/-. The CIT(A) confirmed the same against which the assessee is in appeal before us.

6. The Ld.AR for the assessee pointed out that raw material was valued at cost but the finished goods/semi finished goods were valued at sale price rate minus 25%, to compute the value of closing stock. He further pointed out that the Assessing Officer had applied G.P. rate @ 9.22% to work out the value of closing stock. He thus stated that the additional ground of appeal has been raised that the closing stock should be the opening stock of next year. He also stressed that in case the method of valuation of closing stock is revised then the value of the opening stock also needs revision. In the alternate, he pointed out that in case the value of closing stock declared by the assessee is accepted, then all other issues would become academic.

He stressed that same principle has been applied by the assessee from year to year. He placed reliance in the decision of Hon'ble Delhi High Court in CIT vs Superior Crafts [2012] 20 taxmann.com 144 (Del).

7. The Ld.DR for the Revenue questioned the basis adopted by the assessee to work out the value of closing stock. He placed reliance on the orders of the authorities below in this regard.

8. We have heard the rival contentions and perused the record. The limited issue which arises in the present appeal is the value of closing stock to be adopted in the case of the assessee. The assessee was engaged in the business of manufacturing and export of garments. The closing stock was declared by the assessee at Rs.13,78,58,320/-. The value of the semi finished goods/finished goods was determined on the basis of sale value less 25%. The raw material was valued at cost. The Assessing Officer questioned the method of valuation adopted by the assessee. In reply, it was pointed out that the said method has been adopted from year to year by the assessee. The Assessing Officer rejected the same and noted that the G.P. rate declared by the assessee in Assessment Year 2014-15 was 9.38% and in Assessment Year 2015-16 was 9.07% and adopting the average of 9.22%, the Assessing Officer worked out the value of closing stock at Rs.16.68 crores (approx.). This resulted in an addition of 2.90 crores (approx.). The plea of the assessee before us is that where consistent method has been followed from year to year then the same should not be disturbed. However, the assessee is unable to point out the basis for adopting 25% as the benchmark for working out the value of closing stock; though, the said

benchmark was applied from year to year but the same has no basis. Accordingly, we find no merit in the methodology adopted by the assessee in valuing its closing stock. On the other hand, the Assessing Officer had applied the G.P. rate of 9.22% in order to compute the value of closing stock i.e. sale value less 9.22%. We are of the view that the value of closing stock as computed by the Assessing Officer needs to be accepted as such. However, same method is to be applied for valuation of opening stock, which is to be re-determined by reducing the value of opening stock by 9.22%. It is an admitted position that same rate needs to be applied to compute the value of opening stock and/or closing stock. It may also be pointed out that the value of closing stock as on the close of the year would be the value of opening stock as on the opening day of next Assessment Year. Accordingly, we hold so. The grounds raised by the assessee in this appeal are thus allowed.

9. In the result, the appeal of the assessee is allowed.

Order pronounced in the open court on 20<sup>th</sup> March, 2020.

**Sd/-**

**(PRASHANT MAHARISHI)**  
लेखा सदस्य / **ACCOUNTANT MEMBER**

**Sd/-**

**(SUSHMA CHOWLA)**  
उपाध्यक्ष / **VICE PRESIDENT**

दिल्ली / दिनांक Dated : 20<sup>th</sup> March, 2020

\* Amit Kumar \*

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

1. **अपीलार्थी** / The Appellant
2. **प्रत्यर्थी** / The Respondent
3. **आयकर आयुक्त(अपील)** / The CIT(A)
4. **मुख्य आयकर आयुक्त** / The Pr. CIT
5. **दिल्ली** / DR, ITAT, Delhi
6. **गार्ड फाईल** / Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

सहायक रजिस्ट्रार, आयकर अपीलीय अधिकरण ,दिल्ली  
**Assistant Registrar, ITAT, Delhi**