

**IN THE INCOME TAX APPELLATE TRIBUNAL
“A”BENCH: BANGALORE**

**BEFORE SHRI GEORGE GEORGE K., JUDICIAL MEMBER
AND
SHRI B.R. BASKARAN, ACCOUNTANT MEMBER**

ITA No.450/Bang/2020
AssessmentYear:2012-13

Deputy Commissioner of Income-tax Circle-7(1)(1) Bangalore	Vs.	M/s. Trelleborg India Pvt. Ltd. (Formerly known Trelleborg Sealing Solutions Pvt. Ltd.) No.22/9, Beratena Agrahara Hosur Main Road Bangalore 560 100 PAN NO : AAECT1088L
APPELLANT		RESPONDENT

Appellant by	:	Shri Sankar Ganesh K., D.R.
Respondent by	:	Shri H.V. Gowthama, A.R.

Date of Hearing	:	27.10.2021
Date of Pronouncement	:	11.11.2021

ORDER

PER B.R. BASKARAN, ACCOUNTANT MEMBER:

The revenue has filed this appeal challenging the order dated 19.2.2020 passed by Ld. CIT(A)-7, Bengaluru and it relates to the assessment year 2012-13. The revenue is aggrieved by the decision of Ld. CIT(A) in deleting the addition of Rs.1,00,12,615/-, being the amount of “Inventory provision reversed back” made by the A.O. in the order passed u/s 154 of the Income-tax Act,1961 [‘the Act’ for short].

2. The facts relating to the above said issue are stated in brief. The assessee is engaged in the business of manufacture of trading of seals and bearings. The original assessment was completed u/s 143(3) r.w.s. 92CA of the Act on 29.2.2016. Subsequently, the A.O. initiated rectification proceedings u/s 154 of the Act, since he noticed that the assessee had claimed deduction of "Inventory provision reversed back" amounting to Rs.1,00,12,615/- from the Net profit and the above said amount was not seen credited in the profit and loss account. Since, the above said deduction had been allowed in the original assessment order, he considered the same as mistake apparent from record and accordingly initiated the rectification proceedings u/s 154 of the Act. Subsequently, the AO passed rectification order, wherein he added the above said amount to the total income.

3. Before Ld CIT(A), the assessee explained that it is creating "Provision of obsolete inventory" every year and the provision amount is reduced from the value of stock in trade. Further, the assessee debits the profit & loss account only with "changes in inventories", being the difference between "Opening stock of inventories" and "Closing stock of inventories". Accordingly, it was submitted that the provisions created and reversal of provision are netted of in "change in inventories". The Ld. CIT(A) appreciated the submissions made by the assessee and accordingly deleted the disallowance of addition of Rs.1,00,12,615/-. The revenue is aggrieved.

4. We heard the parties and perused the record. The Ld. CIT(A) has extracted the profit & loss account schedules pertaining to inventories, cost of material consumed and statement of total income at pages 6 to 8 of his order. A perusal of the same would show that the assessee is deducting the amount of "provision for

obsolete inventory” from the cost of inventories. The amount of “Provision for obsolete inventory” stood at Rs.1,44,84,457/- as on 31.3.2011 and at Rs.1,17,10,50,580/- as on 31.3.2012. These figures are shown in “Note 2.13” relating to “inventories” and these amounts have been reduced from the value of inventories. The net amount is reflected in the Balance Sheet. It is pertinent to note that the “Provision for obsolete inventory” may be shown separately in the Liability side of Balance Sheet or it may be reduced from the value of inventory. The assessee has adopted the second method.

5. “Note 2.21” relates to “Changes in inventories of finished goods, work in progress and stock in trade”. This schedule reflects the difference between Opening stock and Closing stock. The difference between opening and closing stock is reflected in profit & loss account as “changes in inventories of finished goods, work in progress and stock in trade”. This is another method of disclosure. Usually Opening stock is shown on the debit side of Profit and Loss account and Closing stock is shown in the credit side. Another method is to disclose the difference between opening stock and closing stock only in the profit and loss account either on the debit side or in the credit side, depending upon the fact. The assessee, in the instant case, has followed the alternative method.

6. We noticed that in “Note 2.13” stock in trade value (bought out) is shown at Rs.6,37,86,214/- as on 31.3.2011 and Rs.5,18,07,712/- as on 31.3.2012. However, while computing the changes in inventories in Note 2.21, the closing stock value of stock in trade (bought out) is shown as Rs.4,93,01,758/- as on 31.3.2011 and Rs.4,00,97,132/- as on 31.3.2012. The above said figures have been arrived at after reducing the amount of provision for obsolete inventory. Thus, the change in the value of stock i.e. the difference between opening stock and closing stock has actually subsumed

the amount of provision for obsolete inventory also. Hence the provision for obsolete inventory created during the year and the reversal of provision have not been disclosed separately in the Profit and Loss account.

7. We have culled out the “Provision for obsolete stock” ledger account from the details available from the Balance sheet. It should reflect as under:-

PROVISION FOR OBSOLETE INVENTORY

<i>Date</i>	<i>Debit</i>	<i>Amount(Rs.)</i>	<i>Date</i>	<i>Credit</i>	<i>Amount(Rs.)</i>
31.03.12	Reversal of provision	1,00,12,615	01.04.2011	<i>Opening Balance</i>	1,44,84,457
			31.03.2012	Provision created	72,38,739
	<i>Total</i>	1,00,12,615		<i>Total</i>	2,17,23,196
				<i>Closing balance</i>	1,17,10,581

The above ledger account would show that the assessee had created provision of Rs.72,38,739/- and reversed provision of Rs.1,00,12,615/- during the year under consideration. The opening balance of provision was Rs.1,44,84,457/- and closing balance on provision was Rs.1,17,10,581/-. We have noticed that both these amounts have been reduced the Stock of inventory shown in Note 2.13. Further these amounts have been reduced from the value of closing stock in trade as on 31.3.2011 and 31.3.2012 while computing “changes in value of stock” in Note 2.21. The Profit and Loss account is debited with the amount of Rs.1,44,54,013/- under the head “Changes in inventories of finished goods, work-in progress and stock-in-trade. In the above said amount of Rs.1,44,54,013/-, the provision created during the year amounting to Rs.72,38,739/- and reversal of provision amounting to Rs.1,00,12,615/- have got netted off. Accordingly,

while computing the total income the assessee has disallowed the provision created with an amount of Rs.72,38,739/- and reduced the reversal of provision of Rs.1,00,12,615/- from the net profit amount.

8. We notice that the Ld. CIT(A) has rightly appreciated the above factual aspects and accordingly decided the issue as under:-

“From the above, it could be seen that inventory of stock-in-trade of Rs 5,18,07,712/- as reflected in inventories (note 2.13) when reduced by net provision of Rs 1,17,10,580/- works out to Rs 4,00,97,132/- and the same is shown as closing stock-in-trade in changes in inventories at note 2.21 above. So the debit and credit to the provision account are impacting the P&L account by way of net effect on the closing stock. As far as debit made to this account in respect of provision created for this year amounting to Rs 72,38,739/-, it is added back in the computation of income. In the previous assessment year also, it is added back and provision reversal was claimed as deduction. So, this provision since not being claimed as deduction, the write back of the same does not become an income item. Thus, the appellant has rightly claimed that amount as a deduction in the income computation. I am therefore of the considered view that the disallowance made by the AO in the rectification order is not correct. Hence, the same is deleted and appellant's grounds are allowed.”

9. From the foregoing discussions, we are of the view that the order passed by Ld. CIT(A) does not call for any interference. Accordingly, we uphold his order.

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10. In the result, the appeal filed by the revenue is dismissed.
Order pronounced in the open court on 11th Nov, 2021

Sd/-
(George George K.)
Judicial Member

Sd/-
(B.R. Baskaran)
Accountant Member

Bangalore,
Dated 11th Nov, 2021.
VG/SPS

Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore.