

IN THE INCOME TAX APPELLATE TRIBUNAL
AHMEDABAD "A" BENCH

**Before: Ms. Annapurna Gupta, Accountant Member
And Shri Mahavir Prasad, Judicial Member**

**ITA No. 898/Ahd/2018
Assessment Year 2013-2014**

Chirai Salt (India) Pvt. Ltd. 303, Kaling Complex, B/h. Bata Showroom, "Nr. Mount Carmel School, Ashram Road, Ahmedabad-380009 PAN No. AAACC6397F (Appellant)	Vs	D.C.I.T., Cicle-1(1)(2), Ahmedabad (Respondent)
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**Appellant by : Shri K.C. Thaker, A.R.
Respondent by : Shri Urjit Shah, Sr. D.R.**

Date of hearing : 09-06-2022
Date of pronouncement : 14-06-2022

आदेश/ORDER

PER : ANNAPURNA GUPTA, ACCOUNTANT MEMBER:-

The present appeal has been filed by the Assessee against the order passed by the Commissioner of Income Tax (Appeals)-1, Ahmedabad, (in short referred to as CIT(A)), dated 30-01-2018, u/s. 250(6) of the Income Tax Act, 1961(hereinafter referred to as the "Act") pertaining to Assessment Year (A.Y) 2013-2014.

2. Ground raised by the assessee reads as under:

1. The learned CIT (A) has erred in law and on facts in confirming the addition on account of alleged undervaluation of stock of raw materials Rs.11,44,111/- and of finished goods Rs.36,35,672/-, aggregating to Rs.47,79,799/-.
2. On the facts and in the circumstances of the case and in law the learned CIT (A) ought to have deleted the addition of Rs.47,79,799/-.
3. It is therefore prayed that the addition of Rs.47,79,799/- may be deleted.

2.1 The solitary issue it was pointed out related to addition to the income of the assessee on account of under-valuation of stock.

3. The assessee, it was stated, carried on the business of manufacturing of Refined and Free-flow Salt and Trading of Salt. Ld. Counsel for the assessee contended that the assessee had been subjected to survey action in the preceding year in the course of which it had made surrender on account of excess stock found. He contended that in the impugned year, the Id. A.O. compared the average rate of closing stock of raw material and finished goods, with the average rate of such stock surrendered during survey and noting that the rate as at the end of the impugned year was less, he held that the assessee had under-valued these stocks and applying the average rate of surrendered stock during survey, he worked out the under-valuation of stock as amounting to Rs. 11,44,127/- and Rs. 36,35,672/- resp. as under:

Particulars	Raw Material			Remarks	Finished goods			Remarks
	Qty	Value	Avg.		Qty	Vaue	Avb.	
Opening stock	66887	50046354	748.22	Considering admission of assessee during the survey as base undervaluation of Rs. 21.79 per MT	7036	19282755	2740.58	Considering admission of assessee during the survey as base undervaluation of Rs. 207.09 per MT
Purchase	279377	217198560	777.43					
Rate admitted by assessee during survey on 17/03/2012	17886	13573535	758.87		555	1470154	2650.00	
Closing stock	52507	38702223	737.08	Under valuation of	17556	42887841	244.91	Under valuation of

				Rs. 1144127 [21.79x 52507]				Rs. 3635672 [207.09x 175.56]
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5. Ld. D.R. on the other hand pointed out that the assessee had failed to justify the valuation of its raw material and finished goods and therefore the authorities below had adopted the average rate of these stocks admitted by the assessee itself during survey, as the correct value. He relied on the order of the Ld. CIT(A) Para 2.3 to 2.5 are as under:

2.3. I have given careful consideration to the appellant's written submission and also carefully considered assessment order. The appellant is engaged in the business of manufacturing of sale and while passing the assessment order, AO has observed that closing stock of raw material and finished goods are not properly valued and he considered rate admitted by appellant during the course of survey as reasonable rate and made addition of Rs, 47,79,799/- comprising of raw material of Rs.11,44,127/- and finished goods of Rs.47,79,999/-. The appellant has, mainly argued that it has followed consistent method of accounting and closing rate as on 31st March 2013 cannot be taken on the basis of value declared during the course of survey as such stock cannot remain with appellant at year end.

2.4. On careful consideration of entire facts, it is observed that appellant had closing rate of raw material at Rs.737.08 per MT whereas AO has considered closing rate at Rs.758.87 per MT. The appellant has claimed that as per FIFO method, closing stock works out to Rs.537 per MT and considering cost of freight 200 MT, it has adopted closing stock at 737.07 per MT. The AO has observed that appellant has not proved that cost of freight is 200 per MT and he has worked out average freight rate during the year at RS.52.95 per MT as against 200 per MT worked out by appellant. It is observed that such fact is not disputed by appellant in appellate proceedings. The appellant has claimed that during the course of assessment proceedings, it had submitted sample copies of bills to prove rate of 537 per MT without freight cost but as stated supra, appellant has considered closing rate of raw material at Rs.737.08 per MT inclusive of freight and as appellant has not proved freight component included in such rate

material, closing stock computed by appellant cannot be considered to be scientific rate.

The AO has also stated that appellant while submitting stock before bank (hypothecation of stock with Rajkot Nagrik Sahakari Bank Ltd., Gandhidham Branch) has adopted closing rate of raw material at Rs.900 per MT which itself prove that method adopted by appellant while valuing closing stock is not scientific. It is also observed that appellant itself has valued opening stock at Rs.748.22 per MT and opening stock includes stock offered during the course of survey. Even average purchase price of raw material as per appellant's own working and books of account is. 777.43 per MT hence there is no reason for showing closing stock of raw material at Rs.737.08 per MT and as stock shown by appellant was not proper and not showing correct valuation, AO was justified in adopting rate admitted by appellant during the course of survey as more scientific rate hence addition made by AO for valuation of dosing stock for Rs.11,44,127/- is considered to be reasonable and addition made by AO is confirmed.

2,5. So far as valuation of finished goods is concerned, appellant has shown such stock at Rs.2442.91 per MT whereas AO has adopted 2650 per MT and made addition of Rs.36,35,672/-. The appellant has claimed that such stock has been valued as per cost method. It is observed that appellant has not provided any scientific basis for arriving at cost of 2442.91 per MT in assessment proceedings as well appellate proceedings, it is also observed that even though average purchase price of sale has been increased to 777.42 per MT from opening stock of raw material at Rs 748.22 per Sq meter, appellant has not explained why closing stock of finished goods have been reduced substantially from 2740.58 per MT to 2442.91 per MT. It is general principal of accountancy that closing stock of finished goods mainly comprises of raw material purchase price and direct manufacturing overheads. In present year, average purchase price of raw material has increased in comparison with opening stock which always lead to increase in closing rate of finished goods. Though overall overhead expenses has been reduced in current year in comparison with earlier assessment year, but such decrease is mainly due to decrease in turnover of the appellant company. The appellant has not proved that overall direct overhead expenditure like electricity, wages, other manufacturing expenses have been substantially reduced in current year and reasons for such reduction of expenditure to justify its claim for valuing closing stock at substantially lower value when facts current year have remained same with earlier year. As closing stock valuation adopted by appellant was not showing true and correct fact, AO was justified in adopting

rate considered by appellant for making disclosure in survey proceedings at most appropriate rate hence addition made by AO considering closing stock at Rs 2650 per MT is considered as reasonable and addition made by AO is upheld. Thus, addition made by AO for Rs.4719.799/- is upheld. This ground of appeal is dismissed.

6. We have heard both the parties. The addition on account of undervaluation of stock of raw material and finished goods has been made purely on account of the value of the said goods, the quantity of the closing stock of both these items being not disputed at all and we have noted that the under-valuation in the value of these two stocks is to the extent of Rs. 21.79 PMT on the value of Rs. 737.08 PMT applied by the assessee to raw material and Rs. 2307.09 PMT on the value of Rs. 2442.91 PMT to the value of finished goods.

7. Clearly the under-valuation as per the Revenue authorities is barely 3% in the case of raw material and 7 to 8% in the case of finished goods. Further we find that the entire exercise of adopting the average rate as on the date of survey is purely adhoc. We have noted that opening stock of raw material was valued at a lesser average rate than the rate admitted during survey, while the opening stock of finished goods was valued at a higher average rate. Why was only the average rate admitted during survey considered to be the appropriate rate for valuation of finished stock, we fail to understand. Further, we find that the justification of the assessee regarding its valuation was rejected noting that while the assessee had stated the average purchase price of raw material to be Rs.537/- PMT, it had added cost of freight to it of Rs. 200 per M.T., while as per the A.O., the

average cost of freight per M.T. worked out to Rs. 52.95 only. Thus as per the A.O., who had doubted the costing of freight component only to the valuation of raw material and not the actual price of the raw material, the valuation of raw material ought to have been much lower than Rs. 737 made by the assessee. Meaning thereby that as per the enquiry and investigation conducted by the Assessing Officer, the raw material had been over valued by the assessee. Further, we find that he refers to some valuation of raw material in the stock statements filed by the assessee before Rajkot Sahakari Bank Ltd. to which it had hypothecated its stock and wherein it was found that the raw material was valued at 900 per M.T. Clearly the A.O. had two very contrasting pictures before him relating to the valuation of closing stock of raw material. One depicting that it was overvalued (as per inquiry conducted by the AO himself) and the other showing that it was undervalued (as per stock statement submitted to Bank). How then did the inference of the AO therefrom was only that the stock was under-valued, when the inference that could have been drawn by his own calculation was that the stock was over-valued. Therefore, we find that the entire exercise by the Revenue authorities, treating the stock of raw material and finished goods of the assessee as under-valued is totally arbitrary, without any basis and highly immaterial, considering the adjustment made to the valuation of these goods to the extent of 3% and 8% only which is too minor to hold that the assessee had attempted any under-valuation of stock.

8. In view of the above, we delete the addition made on account of under-valuation of stock of raw material and finished goods of Rs. Rs.11,44,111/- and Rs.36,35,672/-, respectively.

9. Grounds of appeal raised by the assessee are allowed.

10. In effect, appeal of the assessee is allowed.

Order pronounced in the open court on 14-06-2022

Sd/-
(MAHAVIR PRASAD)
JUDICIAL MEMBER True Copy
Ahmedabad : Dated 14/06/2022

Sd/-
(ANNAPURNA GUPTA)
ACCOUNTANT MEMBER

आदेश की प्रतिलिपि अग्रेषित / Copy of Order Forwarded to:-

1. Assessee
2. Revenue
3. Concerned CIT
4. CIT (A)
5. DR, ITAT, Ahmedabad
6. Guard file.

By order/आदेश से,

उप/सहायक पंजीकार
आयकर अपीलीय अधिकरण,
अहमदाबाद