

**IN THE INCOME TAX APPELLATE TRIBUNAL
DELHI BENCH 'E', NEW DELHI**

**BEFORE SH. ANIL CHATURVEDI, ACCOUNTANT MEMBER AND
SH. CHALLA NAGENDRA PRASAD, JUDICIAL MEMBER**

ITA No. 1763/Del/2019
(Assessment Year : 2014-15)

DCIT Circle -16(2) New Delhi PAN No. AAECM 8250 H (APPELLANT)	Vs.	Meneta Automotive Components Pvt. Ltd. Suite No.311, Vardhman Diamond Plaza, D. B. Gupta Road, Phaharganj, New Delhi - 110055 (RESPONDENT)
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Assessee by	Shri Deepak Kataria, C.A.
Revenue by	Ms. Rinku Singh, CIT-D.R.

Date of hearing:	29.08.2022
Date of Pronouncement:	31.08.2022

ORDER

PER ANIL CHATURVEDI, AM:

This appeal filed by the Revenue is directed against the order dated 26.12.2018 passed by the Commissioner of Income Tax (Appeals)-6, Delhi relating to Assessment Year 2014-15.

2. Brief facts of the case as culled out from the material on record are as under :-

3. Assessee is a company stated to engaged in the business of manufacturing of advance shims technology systems. Assessee filed its return of income for A.Y.2014-15 on 29.11.2014 declaring total income of Rs.14,32,51,960/-. The case was selected for scrutiny and thereafter assessment was framed u/s 143(3) of the Act vide order dated 28.12.2016 and the total income was determined at Rs.26,01,15,770/-.

4. Aggrieved by the order of AO, assessee carried the matter before CIT(A) who vide order dated 26.12.2018 in Appeal No.CIT(A),Delhi-6/10614/2016-17 granted partial relief to the assessee. Aggrieved by the order of CIT(A), Revenue is now in appeal and has raised the following grounds:

1. *“Whether on facts and circumstances of the case and in law, the Ld CIT(A) has erred in deleting the addition of Rs.86,44,996/- on account of addition on qualification of Audit Report Para –a?*
2. *Whether on facts and circumstances of the case and in law, the Ld CIT(A) has erred in deleting the addition of Rs5,68,89,843/- on account of addition on qualification of Audit Report para – b?*
3. *Whether on facts and circumstances of the case and in law, the Ld CIT(A) has erred in deleting the addition of Rs.3,11,96,166/- out of total addition of Rs.3,13,17,412/- on account of disallowance of other deduction in schedule BP of the ITR?*
4. *That the appellant craves leave to add, amend alter or forgo any ground(s) of appeal raised above at the time of the hearing?.”*

5. All grounds are interconnected and therefore considered together and are with respect to the deleting the addition on account of qualification made by the Auditor in the Audit Report.

6. During the course of assessment proceedings, AO noticed that auditor had made qualifying remarks in the audit report in respect of foreign exchange gain/loss, consumption of consumable. Assessee was asked to provide justification and working for each qualification which was having impact of taxable income. Assessee *inter alia* submitted that with respect to the qualifications made by auditor, there is no effect on taxable income. The submissions of the assessee was not found acceptable to AO. AO noted that assessee had not maintained proper account as per the accounting standard-11 and there was defects in the maintenance of books of account of the assessee which resulted into qualificatory remarks by the auditor. AO therefore, on the basis of the qualification made by auditor made addition of Rs.86,64,996/- on account of foreign exchange loss and added to the income of the assessee.

7. With respect to the consumption of consumable, AO did not accept the contention of the assessee that the consumption of consumable was consistent in last three years in view of the fact that assessee did not furnish any documentary evidence to support its claim. AO noted that assessee was not able to reconcile the amount with proper documentary evidence. He

therefore considered the amount of Rs.5,68,89,843/- that was qualified by auditor to be disallowable and made its addition.

8. During the course of proceedings, assessee was asked by AO to justify other deduction in Schedule BP of the ITR. AO noted that assessee did not reconcile the amount of deduction of Rs.3,13,17,412/- which was claimed as deduction in ITR. He therefore held that deduction to be not allowable and accordingly disallowed Rs.3,13,17,412/-.

9. Aggrieved by the order of AO, assessee carried the matter before CIT(A). Before CIT(A), assessee made detailed submissions CIT(A) after considering the submissions of the assessee deleted the addition on account of foreign exchange loss of Rs. 86,64,996/- by observing as under:

“4.4.3 From the above qualification it is seen that both sales as well as purchases have been understated as a result of the assessee reporting the foreign exchange transactions as per the rates notified by CBEC and not as per the RBI rates as on the date of transaction. It is not a case where the appellant has adopted different methods for valuing purchases and sales which is resulting in understatement of sales or overstatement of purchases which would result in excess expenditure being booked which, in turn, would lead to suppression of profits. In the case under consideration it is apparent from the qualification that same method has been applied by the assessee both for sales as well as purchases which in turn neutralizes the effect. Further, the AO has nowhere doubted the method of accounting followed by the appellant in the assessment order nor have the books of account been rejected and the addition has been made only with a view to protect leakage of revenue, hence, in view of the facts of

the case, the addition made cannot be sustained and is deleted. Ground of appeal No. 3 is allowed.”

10. With respect to the disallowance of consumption of material amounting to Rs.5,68,89,843/-, CIT(A) deleted the addition by observing as under:

“4.4.2 I have considered the assessment order and the submissions of the appellant. As noted above the books of account of the appellant have not been rejected and the AO has neither doubted the sales nor the purchases. The only reason for disallowance by the AO appears to be para (b) of the basis for qualified opinion given by the auditor in the independent auditor's report. The said para is reproduced below:

(b) The Company does not possess necessary detail for testing consumption of stores and spares and packing material amounting to 56,889,843. In absence of such details we are unable to comment upon appropriateness of Inventory of Stores and Spares and consumption of stores and spares and packing material and possible impact of the same on the profit of the Company for the current period. The consequential effect of the above on the relevant assets, liabilities and profit for the year cannot be ascertained.

4.4.3 It appears that the AO has made the disallowance only on the basis of the auditor qualification without looking at the comparative details as produced above. It is also noted from the Annexure to the auditor's report that at para (ii)(c) the auditor has also noted that the company is maintaining proper records of entry and no material discrepancies were noticed on physical verification carried out at the end of the year.

4.4.3 In view of the discussion above and also in view of the fact that the AO has not rejected the books of account of the appellant or estimated profits but has merely disallowed the said amount on the basis for the qualified opinion given by the auditor in the independent auditor's report, the addition made cannot be sustained. This is more so in view of the fact that there appears to

be no inconsistency in the consumption of the stores and spares when the same is compared to the consumption of the stores and spares for the last five years as noted above. The addition of Rs. 5,68,89,843/- is deleted. Ground of appeal No. 4 is allowed.”

11. With respect to the disallowance of Rs.3,13,17,412/- which was claimed as deduction in Schedule BP of the ITR, CIT(A) granted partial relief to the assessee by observing as under:

“6.2 I have considered the assessment order and the submissions of the appellant. I have also perused the tax computations for AYs 2012-13, 2013-14 and the year under consideration, i.e., 2014-15. Following are the details of deductions claimed as per the computation of income:

<i>Particulars</i>	<i>Amount</i>
<i>Inventory provision written back</i>	<i>2,07,59,659</i>
<i>Leave encashment paid</i>	<i>55,563</i>
<i>Gratuity of earlier years paid/reversed during the year (net)</i>	<i>11,68,988</i>
<i>Provision for bad debts w/ back</i>	<i>66,80,735</i>
<i>Amount disallowed u/s 40(ia) of earlier years, now allowed</i>	<i>25,31,224</i>
<i>Prior period depreciation as per Co. Art</i>	<i>1,21,246</i>
<i>Total</i>	<i>3,13,17,415</i>

*From the above and computations of income for earlier years which have been filed it is apparent that the said items, except prior period depreciation as per Companies Act, which has been reduced from the depreciation as per Companies Act, are on account of disallowances made in earlier years. In absence of any explanation with regard to the term pertaining to prior period depreciation as per the Companies Act, out of the total addition of Rs. 3,13,17,412/-, the addition of Rs. 1,21,246/- is upheld and the balance, i.e., Rs.3,11,96,166/- is deleted. Ground of appeal No.6 is **partly allowed.**”*

12. Aggrieved by the order of CIT(A), Revenue is now in appeal before us.

13. Before us, Learned DR supported the order of AO.

14. Learned AR on the other hand reiterated the submissions made before lower authorities and submitted that the AO has made the disallowance merely on the basis of the qualification made by the auditor and he has not considered the factual aspect in correct perspective. He thus supported the order of CIT(A).

15. We have heard the rival submissions and perused the material available on record. The issue in the above grounds are with respect to the addition that was made by AO on the basis of qualification made by auditor in his report. We find that CIT(A) after considering the submissions made by assessee and by well reasoned order has deleted the addition. The reasoning of CIT(A) while deleting the additions have been reproduced hereinabove. Before us, Revenue has not pointed any fallacy in the findings of CIT(A). We therefore find no reason to interfere with the order of CIT(A) **thus the grounds of Revenue are dismissed.**

16. In the result, appeal of the Revenue is dismissed.

Order pronounced in the open court on 31.08.2022

Sd/-

**(CHALLA NAGENDRA PRASAD)
JUDICIAL MEMBER**

Sd/-

**(ANIL CHATURVEDI)
ACCOUNTANT MEMBER**

Date:- 31.08.2022

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Copy forwarded to:

1. Appellant
2. Respondent
3. CIT
4. CIT(Appeals)
5. DR: ITAT

ASSISTANT REGISTRAR
ITAT NEW DELHI