

आयकर अपीलीय अधिकरण, अहमदाबाद न्यायपीठ "सी", अहमदाबाद ।
IN THE INCOME TAX APPELLATE TRIBUNAL
" C " BENCH, AHMEDABAD

श्री सिद्धार्थ नौटियाल, न्यायिक सदस्य एवं
श्री मकरंद वसंत महादेवकर, लेखा सदस्य के समक्ष।

BEFORE SHRI SIDDHARTHA NAUTIYAL, JUDICIAL MEMBER
AND
SHRI MAKARAND V. MAHADEOKAR, ACCOUNTANT MEMBER

आयकर अपील सं./ITA No.877/Ahd/2023
निर्धारण वर्ष / Assessment Year : 2020-21

The DCIT Gandhinagar Circle 4 th Floor, Block No.14 Udhyog Bhavan, Sector-11 Gandhinagar - 382 011	<u>बनाम</u> <u>/</u> <u>v/s.</u>	Royal Castor Private Limited At Khali Ta. Siddhpur Sidhpur - 384 151 (Gujarat)
स्थायी लेखा सं./PAN: AABCR 3051 J		
(अपीलार्थी/ Appellant)		(प्रत्यर्थी/ Respondent)
Assessee by :	Shri Rushin Patel, AR	
Revenue by :	Shri A.P. Singh, CIR-DR	

सुनवाई की तारीख/Date of Hearing : 04/11/2024
घोषणा की तारीख /Date of Pronouncement: 06/11/2024

आदेश/ORDER

PER MAKARAND V. MAHADEOKAR, AM:

This appeal by the Revenue arises from the order of the Commissioner of Income Tax (Appeals), National Faceless Appeal Centre, Delhi (hereinafter referred to as "CIT(A)") dated 02.09.2023, wherein he deleted the addition of Rs.20,86,87,570/- made by the Assessing Officer (hereinafter referred to as "AO") in the assessment order dated 18.09.2022 under section 143(3) read with section 144B of the Income Tax Act, 1961 (hereinafter referred to as "the Act") , for the Assessment Year (AY) 2020-21.

Facts of the Case:

2. The assessee filed a return of income on 12.11.2020, declaring an income of Rs.32,55,06,740/-. The case was selected for scrutiny, and a notice under section 143(2) of the Act was issued on 29.06.2021. During assessment proceedings, the AO observed that the cost of goods traded for AY 2020-21, reported at Rs.21.29 crores, represented an increase of 5222.5% over the preceding year's figure of Rs.40.22 lakhs. This significant discrepancy was considered disproportionate to the 6.5% increase in turnover and was found unreasonable by the AO, who sought several explanations from the assessee. However, the assessee failed to respond adequately, asserting instead that FY 2018-19 figures were irrelevant to the current assessment year.

2.1. Multiple notices u/s. 142(1) were issued to seek clarifications, especially concerning the exponential increase in the cost of goods traded from the prior year. While partial responses were received, a complete justification for the cost increase remained unaddressed. Based on this perceived non-cooperation, the AO concluded that the reasonable allowable increase in the cost of traded goods should align with the 6.5% turnover increase. Accordingly, an addition of Rs.20,86,87,570 was made by disallowing the excess cost of goods.

2.2. Aggrieved by the order of AO, the assessee filed an appeal before the CIT(A), arguing that the AO improperly correlated the cost of traded goods with the company's overall turnover, ignoring that traded goods and manufactured goods follow distinct business cycles. The assess stated that the opening stock from FY 2018-19, which accounted for Rs.20.57 crores

constituted a significant portion of the cost of goods for FY 2019-20 and should have been considered in the analysis.

2.3. The CIT(A), after examining the financial records and submissions, agreed with the assessee. The CIT(A) held that the AO's correlation method was inappropriate, as it ignored the high opening stock of traded goods carried forward from the previous year. The CIT(A) further held that the AO should have focused on the purchase value of Rs.22.10 lakhs rather than attributing the entire amount of Rs.20.86 crores to inflated purchases. Consequently, the CIT(A) deleted the addition made by the AO, concluding that it lacked merit and disregarded essential accounting principles.

3. Aggrieved by the order of the CIT(A), the Revenue is in appeal before us with following grounds of appeal:

- a) *The Ld.CIT (A) has erred in law and on facts in deleting the addition of Rs.20,86,87,570/- made by the AO on account of disallowance of excess cost of goods claimed in P& L A/c.*
- b) *The Ld. CIT(A) has erred in law and on facts in not appreciating the facts elaborated by the Assessing Officer that the assessee has not fi any explanation in respect of substantial increase in cost of goods traded in comparison to immediately preceding financial year.*
- c) *On the facts and circumstances of the case, Ld CIT(A) ought to have upheld the order of the Assessing Officer.*
- d) *The appellant craves leave to add, alter and for to amend all or any of the ground before the final hearing of the appeal.*

3.1. During the course of hearing before us, the Departmental Representative relied on the order of AO asserting that the absence of a

detailed explanation from the assessee during assessment justified the AO's approach.

4. The Authorized Representative (AR) for the Assessee submitted Statement of Opening and closing stock statements as of 31st March 2019 and 31st March 2020. These documents corroborated that the high cost of goods traded in AY 2020-21 resulted from the opening stock, which carried over from FY 2018-19, rather than an anomalous purchase increase.

4.1. We reproduce hereunder the statement of cost of goods sold as it is appearing in the Note No. 20 of the audited financial statements for the A.Y. 2020-21:-

Sr. No.	Particulars	Rs. (Lakhs)
1	Opening Stock of Goods Traded	2057.09
2	Add: Purchase of Goods Traded	22.1
3	High Sea Purchases	50.52
	Total	2129.71
4	Less: Closing Stock of Goods Traded	0
5	COST OF GOODS TRADED	2129.71

4.2. We note that the assessee provided all the details during the appellate proceedings confirming that the cost increase stemmed predominantly from the opening stock value carried forward from the previous year, an accounting fact that the AO overlooked. The AO's method, which applied the turnover growth rate to the cost of traded goods, lacked a direct nexus, as there was no direct relationship between turnover and the cost of traded

goods in this case. As evidenced by the financial statements, the substantial opening stock value should have been the focal point for determining the cost of goods traded. While the AO did issue several notices, the denial of due consideration to submitted stock records reflects a procedural oversight, undermining the validity of the disallowance.

4.3. In view of the above findings, we uphold the CIT(A)'s order in deleting the disallowance of Rs.20,86,87,570/-. The AO's disallowance lacked factual and procedural foundation, as the addition was based on an inappropriate correlation and did not consider key factors such as opening stock.

5. In the result, the appeal filed by the Revenue is dismissed.

Order pronounced in the Open Court on 6th November, 2024 at Ahmedabad.

Sd/-
(SIDDHARTHA NAUTIYAL)
JUDICIAL MEMBER

Sd/-
(MAKARAND V. MAHADEOKAR)
ACCOUNTANT MEMBER

अहमदाबाद/Ahmedabad, दिनांक/Dated 6/11/2024

टी.सी.नायर, व.नि.स./T.C. NAIR, Sr. PS

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

1. अपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / Concerned CIT
4. आयकर आयुक्त (अपील)/ The CIT(A)-(NFAC), Delhi
5. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण , राजकोट/DR, ITAT, Ahmedabad,
6. गार्ड फाईल /Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

सहायक पंजीकार (Asstt. Registrar)
आयकर अपीलीय अधिकरण, ITAT, Ahmedabad