

IN THE INCOME TAX APPEALTE TRIBUNAL :
VISA KHAPT NAM BENCH : VISA KHAPAT NAM AT HYDERABAD
[THROUGH VIRTUAL HEARING]

BEFORE SHRI VIJAY PAL RAO, VICE PRESIDENT
AND
SHRI MANJUNATHA G. ACCOUNTANT MEMBER

ITA.No.129/Vizag/2025
Assessment Year 2022-2023

Dandu Madhuvarma, Siri BH UJABALAPATNAM . PIN – 521 340. PAN CSKPD0529D	vs.	The Income Tax Officer, Ward-1, GUDIVADA. Krisna District. State of Andhra Pradesh.
(Appellant)		(Respondent)

ITA.No.40/Vizag/2025
Assessment Year 2022-2023

The Income Tax Officer, Ward-1, GUDIVADA. Krisna District. State of Andhra Pradesh.	vs.	Dandu Madhuvarma, Siri BH UJABALAPATNAM . PIN – 521 340. PAN CSKPD0529D
(Appellant)		(Respondent)

For Assessee :	Smt. Hemalatha K, CA [Hybrid Mode]
For Revenue :	Dr. Satyasai Rath, CIT-DR

Date of Hearing :	31.07.2025
Date of Pronouncement :	06.08.2025

ORDER**PER MANJUNATHA G. :**

The Assessee and the Revenue are filed cross-appeals against the order dated 25.11.2024, of the learned CIT(A)-National Faceless Appeal Centre [in short "NFAC], Delhi, relating to the assessment year 2022-2023.

2. Brief facts of the case are that, the assessee is an individual and filed his return of income on 07.03.2023 declaring total income at Rs.7,78,900/-. As per the details available on record, the assessee is involved into Trade and Cultivation of Live Fish and Prawn under the name and style of 'Arunodaya Aqua'. The case of the assessee has been selected for scrutiny under CASS on the ground that the assessee had large turnover, but, the books of accounts had not been audited u/sec.44AB of the Income Tax Act, 1961. During the course of assessment proceedings, the Assessing Officer has issued various notices u/sec.143(2) and 142(1) of the Act dated 02.06.2023, 28.06.2-23, 14.07.2023, 10.10.2023, 21.11.2023, 31.01.2024 and 09.02.2024. In

response, the assessee has furnished copies of computation of income, P & L A/c, balance-sheet, copy of bank account statement held with Axis Bank, reconciliation of bank account statement and ledger accounts. The Assessing Officer after examining the details filed by the assessee noted that, the assessee had earned commission of Rs.5,49,14,112/- during the year under consideration, however, shown income of Rs.1,34,000/- under the Head "Income from Other Sources". Further, there were short term hand loans to the tune of Rs.2,09,18,500/-. The Assessing Officer had also called-for copies of ledger accounts in respect of fuel and electric expenses, expenses claimed under the Heads "Repair and Maintenance", "Lease and Rent" "Trys Rent" "Transportation Charges", "Salaries & Labour Charges", and "Consumables & Maintenance". The Assessing Officer has called-upon the assessee to furnish his explanation with supporting documentary evidence in respect of above expenses. However, the assessee did not file his explanation. Therefore, the Assessing Officer in absence of proper explanation from the side of the assessee, noted

that, the assessee has claimed the total expenses under the above Heads to the tune of Rs.1,98,22,796/- and in absence of proper explanation despite show cause notice issued by the Assessing Officer, the Assessing Officer disallowed the 25% of the above expenses i.e., Rs.49,55,699/- out of total expenses of Rs.1,98,22,796/- and allowed 25% deduction on gross commission income amounting to Rs.4,11,85,584. Thus, the Assessing Officer determined the total income of the assessee at Rs.4,67,86,183/- by making additions on account of commission income of Rs.4,10,51,584/- [Commission income of Rs.4,11,85,584/- (-) Assessee offered Commission Income at Rs.1,34,000/-] and addition on account of disallowance of expenses amounting to Rs.49,55,699/- as against the returned income of the assessee at Rs.7,78,900/- vide order dated 27.02.2024 passed u/sec.143(3) r.w.s.144B of the Income Tax Act, 1961 [in short "the Act"].

3. Aggrieved by the assessment order, the assessee preferred an appeal before the learned CIT(A. Before the learned CIT(A), with respect to commission income earned

by the assessee. The assessee has furnished bank account statement and confirmation letter from the suppliers and copy of acknowledgement of income tax returns filed by them as supporting evidence to prove payments to them after deducting his commission. The learned CIT(A) after examining the relevant documentary evidences filed by the assessee noted that, the documentary evidences filed by the assessee are in order and, therefore, he deleted the addition of Rs.4,10,51,584/- made by the Assessing Officer under the Head "Commission Income". With regard to disallowance of 25% of expenses claimed under various Heads, the learned CIT(A) after considering the submissions of the assessee, restricted the said expenses to the tune of Rs.15,85,823/- as against the disallowance made by the Assessing Officer at Rs.49,55,699/-.

4. Aggrieved by the order of the learned CIT(A), the assessee is now, in appeal before the Tribunal.

5. Smt. Hemalatha K, CA-Learned Counsel for the Assessee referring to the appeal of the assessee submitted that, the assessment for the year under consideration was

selected for scrutiny under CASS with a reason that, large turnover, but, books of accounts are not audited under section 44AB of the Act. But, the Assessing Officer while completing the assessment has travelled beyond the scope of verification mandated in terms of various Instructions and Circulars issued by the CBDT in a case selected for scrutiny under 'CASS' and made addition towards estimated income from commission and also adhoc disallowances of various expenses. Learned Counsel for the Assessee further referring to various judicial precedents submitted that, the scope of verification in a limited scrutiny case is restricted to the issues, for which, the case has been taken-up for scrutiny. The Assessing Officer cannot travel beyond the scope of verification, unless, the case is converted into full scrutiny with the approval of the Competent Authority. Although, the case of the assessee has been selected for limited scrutiny to verify the large turnover in light of non submission of tax audit report, but, the Assessing Officer has travelled beyond the scope of verification and has made various additions, contrary to the settled position of law. In

this regard, he relied upon decision of ITAT, Visakhapatnam Bench, Visakhapatnam in the case of Badeti Venkateswara Rao vs., Income Tax Officer, Order Dated 26.03.2021 in ITA.No.356/Viz./2019 and also the decision of Hon'ble Madras High Court in the case of CIT vs., Padmavati [2020] 120 taxmann.com 187.

6. Dr. Satyasai Rath, learned CIT-DR for the Revenue, on the other hand, supporting the order of the Assessing Officer submitted that, it is not a limited scrutiny case. The case has been selected for scrutiny under CASS and as per the notice issued by the Assessing Officer under section 143(2) of the Income Tax Act, 1961, the purpose of scrutiny is to verify large turnover for non-filing of audit report under section 44AB of the Act. Since the turnover includes commission income reported by the assessee and corresponding expenditure, the scope of verification of the Assessing Officer is to verify within the parameters laid down by the CBDT. Further, once the case is selected for complete scrutiny, the Assessing Officer can very well verify all the issues, even though, the notice has been issued for

one specific issue. Further, the Instructions and Circulars relied upon by the Learned Counsel for the Assessee are also on the issue of limited scrutiny and the powers of the Assessing Officer to travel beyond the issues. Therefore, the case law relied upon by the Learned Counsel for the Assessee are not applicable. Thus, the learned CIT-DR submitted that, there is no merit in the grounds of appeal taken by the assessee and the same needs to be dismissed.

7. We have heard both the parties, perused the material on record and the orders of the authorities below. There is no dispute with regard to the fact that, the case of the assessee has been selected for scrutiny under CASS with a reason of large turnover, but, books of accounts are not audited under section 44AB of the Act. It is also not in dispute that, the Assessing Officer has completed assessment by making addition towards estimated commission income and adhoc disallowance of certain expenses for non-submission of relevant supporting bills and vouchers. Therefore, it is necessary for us to examine the arguments of the Learned Counsel for the Assessee in

light of certain judicial precedents and also Circulars/ Instructions issued by the CBDT. Admittedly, it is an established principle of law by the decisions of various Courts and various Benches of the Tribunal that, *“once the case is selected for limited scrutiny, then, the scope of verification by the Assessing Officer shall not extend beyond the issues, for which, the case has been selected for scrutiny”*. On this legal proposition, there is no dispute. However, the facts needs to be verified in the given facts of the present case, whether the case has been selected for scrutiny for the purpose of limited verification of issues or it is a complete scrutiny. Although, the Counsel for the Assessee argued that, it is a limited scrutiny, but, failed to submit any evidence including relevant notice issued by the Assessing Officer to support her stand. On the other hand, the Learned CIT-DR has brought-out relevant material including notice issued under section 142(1) of the Income Tax Act, 1961, dated 28.06.2023, where the Assessing Officer has issued a detailed questionnaire on various issues including books of accounts, details of other

deductions/exemptions etc. From the details available on record, we find that, it is not a case of limited scrutiny as canvassed by the Learned Counsel for the Assessee, but, it is a case of complete scrutiny selected under CASS with a specific reason. Therefore, in our considered view, the arguments of the Counsel for the Assessee in light of certain judicial precedents including decision of Hon'ble Madras High Court in the case of CIT vs., Padmavati (supra) and also the decision of ITAT, Visakhapatnam Bench, Visakhapatnam in the case of Badeti Venkateswara Rao vs., ITO (supra) and also Instruction dated 24.05.2023 issued by the CBDT does not hold good. Since, it is a complete scrutiny, in our considered view, the scope of verification by the Assessing Officer does not limit to the issue, on which, the notice issued under section 142(1) of the Act, but, also it extends to various issues, on which, the Assessing Officer feels to examine the issue during the course of assessment proceedings. Further, going by the reason for CASS selection, the case has been selected for scrutiny to verify large turnover for not submitting tax audit report and,

therefore, in our considered view, the turnover includes any commission income reported by the assessee from his business of buying and selling goods for commission with corresponding expenses claimed against sales/income. Therefore, the addition made by the Assessing Officer towards estimated income on commission and disallowance of various expenditure, is within the scope of reasons for selection of case under CASS and thus, there is no merit in the grounds of appeal filed by the assessee in light of certain judicial precedents and accordingly, the appeal of the assessee is dismissed.

8. Coming to the Revenue's appeal ITA.No.40/Viz./2025. The learned CIT-DR submitted that, the learned CIT(A) was erred in deleting the addition of Rs.4,10,51,584/- made on account of income from commission *post facto* made by the assessee including confirmations which is neither verified nor subjected to cross-examination, undermining their evidentiary value. The learned CIT-DR further submitted that, it is a case of ex-parte assessment order before the Assessing Officer. The

assessee neither appeared nor submitted any details in spite of various show cause notices issued by the Assessing Officer including show cause notice issued proposing various additions including additions towards commission income and adhoc disallowance of expenses. The learned CIT(A) allowed relief to the assessee by admitting additional evidence filed by the assessee, without providing an opportunity to the Assessing Officer to comment on such additional evidences. Since the learned CIT(A) admitted the additional evidences and disposed of the appeal, without providing an opportunity to the Assessing Officer, contrary to Rule 46A of Income Tax Rules, 1962, the matter may be remanded back to the file of Assessing Officer for further verification of additional evidences filed by the assessee and to decide the issue in accordance with law.

9. Smt. Hemalatha K, CA-Learned Counsel for the Assessee submitted that, the assessee has filed various details including relevant sales and purchases in respect of commission income offered under the Head "Income from Other Sources". The assessee had also filed confirmations

from the persons from whom he had purchased goods and also filed confirmations from the parties to whom the goods has been sold. The assessee has reconciled total purchases and sales with reference to the books of accounts and proved that, he has earned commission income of Rs.1,34,000/- from sales of Rs.5,49,14,112/-. However, the Assessing Officer treated the entire commission sales as commission income and estimated 15% income on the ground that, for commission income, the expenses are very limited. Similarly, the assessee has filed relevant details and proved that, expenses incurred under various Heads are 90% which are made through proper banking channel which is supported by the relevant bank statements. The learned CIT(A) after considering the relevant submissions of the assessee, has rightly deleted the addition made by the Assessing Officer towards estimated commission income and also scaled-down the addition towards adhoc disallowance of expenses to the extent of Rs.15,85,823/-. Therefore, she submitted that, the addition made by the Assessing Officer should be deleted in respect of income

from commission and also the addition sustained by the learned CIT(A) towards adhoc disallowance of expenses should be upheld.

10. We have heard both the parties, perused the material on record and the orders of the authorities below. Admittedly, the assessee could not file relevant details in respect of commission income reported under the Head “Income from Other Sources” and also various expenditure debited under the Heads “Repair and Maintenance”, “Lease and Rent” “Trys Rent” “Transportation Charges”, “Salaries and Labour Charges”, and “Consumables & Maintenance”. The assessee neither submitted any details nor explained the case with relevant materials, which is evident from the assessment order passed by the Assessing Officer, where despite number of opportunities provided to the assessee to explain his case, the assessee did not furnish any details in support of his case. It is also an admitted fact that, the assessee has furnished certain additional evidences including reconciliation of commission sales and commission purchases with corresponding bank statement.

The assessee had also filed relevant details of payment made to commission purchases along with certain confirmation letters. The assessee had also filed certain evidences including relevant bank statement and claimed that, the expenditure debited under various Heads is incurred through proper banking channel. The learned CIT(A) has allowed relief to the assessee and deleted the additions made by the Assessing Officer towards estimated commission income and scaled-down adhoc disallowance of expenses by admitting additional evidences filed by the assessee, without providing those additional evidences to the Assessing Officer for his comments and remand report. In our considered view, when the assessee has not filed relevant details before the Assessing Officer to justify his case and further, the evidences has been filed for the first time before the learned CIT(A), then, it is a duty of the learned CIT(A) to forward the said evidences to the Assessing Officer and called-for a remand report before deciding the issue. Since the learned CIT(A) has decided the issue by admitting additional evidences filed by the

assessee, without providing an opportunity to the Assessing Officer to submit his comments/remand report, in our considered view, there is a clear violation of Rule 46A of I.T. Rules, 1962. Therefore, on this ground itself, the reasons given by the learned CIT(A) to delete the addition made by the Assessing Officer for estimated addition of commission income and scaling-down adhoc disallowance of expenses cannot be upheld

11. Be that as it may, the assessee claims that, he is into the business of commission on sales of fish and prawn. The assessee has reported commission income of Rs.1,34,000/- from total commission sales of Rs.5,49,14,112/-. The assessee further claimed that, against gross commission sales, he had made payment to the principals amounting to Rs.5,47,80,112/- before reporting net commission income of Rs.1,34,000/-. The learned CIT(A) has accepted the version of the assessee on the basis of evidences submitted during the course of appellate proceedings. However, it was the observation of the Assessing Officer that, the assessee has earned gross

commission income of Rs.5,49,14,112/-, whereas the learned CIT(A) has recorded a categorical finding that, it is a gross commission sale, but, not commission income. To this extent, the facts are contradictory. Further, the assessee claims to have made payments of Rs.5,47,80,112/- to the principals. The assessee supports his contention on the basis of certain confirmation letters filed from the principals. Once again, the learned CIT(A) has accepted the version of the assessee without providing an opportunity to the Assessing Officer. However, it is the finding of the Assessing Officer that, the assessee could not reconcile credits appearing in the bank account with reference to the sales of fish and prawn and further, corresponding payments in the bank account to the payment made to the principals. Since, there is a contradiction in the findings of the Assessing Officer and the learned CIT(A), in our considered view, the findings recorded by the learned CIT(A) on the basis of evidences submitted by the assessee, cannot be accepted. Similarly, the Assessing Officer has made ad-hoc disallowance of 25% of various expenses for want of

necessary evidences. Once again the learned CIT(A) has scaled-down the estimation and restricted addition to the extent of Rs.15,85,823/- by making 8% adhoc disallowance on various expenses. The learned CIT(A) supports the reasoning on the ground that, the assessee has incurred most of the expenses through proper banking channel. In our considered view, whether expenditure incurred in cash or bank does not make any differences when it comes to disallowance, but, what is required to be seen is, whether the particular expenditure is incurred for the purpose of business or not ? Since, there is no findings from the learned CIT(A) on this issue and further the learned CIT(A) has decided the issue without providing an opportunity to the Assessing Officer, in our considered view, the findings recorded by the learned CIT(A) on this issue is also cannot be upheld.

12. In this view of the matter and considering the facts and circumstances of the case and also for the reasons given hereinabove in the preceding paragraphs, we are of the considered view that, the issue needs to be set-aside to

the file of Assessing Officer to give another opportunity of hearing to the assessee. Thus, we set-aside the order of the learned CIT(A) and restore the issue back to the file of Assessing Officer. The Assessing Officer is directed to treat the issue *de novo*, after providing reasonable opportunity of hearing to the assessee. Needless to say, the assessee shall furnish relevant evidences to justify his case.

13. In the result appeal ITA.No.129/Viz./2025 of the Assessee is dismissed and appeal ITA.No.40/Viz./2025 of the Revenue is allowed for statistical purposes. A copy of this common order be placed in the respective case files.

Order pronounced in the open Court on 06.08.2025.

Sd/-
[VIJAY PAL RAO]
VICE PRESIDENT

Sd/-
[MANJUNATHA G]
ACCOUNTANT MEMBER

Hyderabad, Dated 06th August, 2025

VBP

Copy to

1.	Dandu Madhuvarma, Siri Aqa Seed, Forms and Suppliers, 30145, Main Road, BHUJABALAPATNAM . PIN – 521 340. Krishna Dist., State of Andhra Pradesh
2.	The Income Tax Officer, Ward-1, Income Tax Office, 14/26-B, Jagannathapuram, GUDIVADA – 521 301. State of Andhra Pradesh.
3.	The Pr. CIT, Vijayawada.
4.	The DR ITAT Visakhapatnam Bench, Visakhapatnam.
5.	Guard File.

//By Order//

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