

आयकर अपीलीय अधिकरण, विशाखापटणम पीठ
IN THE INCOME TAX APPELLATE TRIBUNAL
Visakhapatnam "DIVN" Bench, Visakhapatnam

Before Shri Ravish Sood, Judicial Member
and
Shri Balakrishnan S., Accountant Member

आ.अपी.सं /ITA No.506/Viz/2025
(निर्धारण वर्ष/Assessment Year:2015-16)

Mediboyana Venkata Appala Surya Prakash, Visakhapatnam. PAN: AGNPM7780L	Vs.	Assistant Commissioner of Income Tax, Circle-4(1), Visakhapatnam.
(Appellant)		(Respondent)
निर्धारिती द्वारा/Assessee by:	Shri GVN Hari, Advocate	
राजस्व द्वारा/Revenue by:	Dr. Aparna Villuri, Sr. AR	
सुनवाई की तारीख/Date of Hearing:	19/11/2025	
घोषणा की तारीख/Date of Pronouncement:	26/11/2025	

आदेश / ORDER

PER. RAVISH SOOD, JM :

The present appeal filed by the assessee is directed against the order passed by the Commissioner of Income Tax (Appeals), National Faceless Appeal Centre, Delhi, dated 17/06/2025, which in turn arises from the order passed by the Assessing Officer under section 143(3) of the Income Tax Act, 1961 (for short, "the Act"), dated 31/10/2017. The

assessee has assailed the impugned order on the following grounds of appeal:

1. The order of the learned Commissioner of Income Tax (Appeals) is contrary to the facts and also the law applicable to the facts of the case.
2. The learned Commissioner of Income Tax (Appeals) is not justified in upholding the action of the assessing officer in rejecting the books of account.
3. Without prejudice to the above, The learned Commissioner of Income Tax (Appeals) is not justified in upholding the addition of Rs.65,08,444 made by the assessing officer by estimating the profit at Rs.1,11,60,959 @12% of the total receipts as against profit of Rs.46,52,515 admitted by the appellant.
4. The learned Commissioner of Income Tax (Appeals) ought to have held that the rate of profit adopted by the assessing officer is on much higher side.
5. Any other ground may be urged at the time of hearing.”

2. Succinctly stated, the assessee who is engaged in the business of Civil Contract works had filed his return of income for AY 2015-16, on 29/09/2015 declaring an income of Rs.50,01,800/-. The return of income filed by the assessee was processed as such under section 143(1) of the Act. Subsequently, the case of the assessee was selected for “limited scrutiny” under CASS for verifying “Large other expenses claimed in the Profit & Loss A/c”.

3. During the course of the assessment proceedings, the AO, inter alia, called upon the assessee to furnish complete details of “other

expenses” along with copies of the ledger accounts, bills and vouchers in support of thereof.

4. On perusal of the purchase ledger, the AO observed that the registration numbers of the vehicles which were stated to have been used for transporting the huge quantity of construction material were that of Motorcycles, Two Wheelers, Auto Rickshaws etc. Apart from that, the AO observed that with regard to the bills and vouchers, the assessee had produced some self-made vouchers and bills in support of his claim of expenses debited in the Profit & Loss Account. The AO, on perusal of the vouchers held a conviction that apparently they were recently prepared, wherein majority of those related to the succeeding year and also did not bear any signatures. Accordingly, the AO called upon the assessee to produce any other verifiable material to support his claim of expenditure. As the assessee failed to place on record any reliable evidence except for the afore mentioned vouchers, therefore, the AO holding a firm conviction that the books of accounts produced by the assessee suffered from multiple discrepancies rejected the same. Thereafter, the AO estimated the income of the assessee @ 12% of his total receipts of Rs.9,30,07,988/- and computed his income at Rs.1,11,60,959/-. Therefore, the AO taking cognizance of the fact that

the assessee had disclosed net profit of Rs.46,76,858/- in his Profit & Loss Account for the subject year, i.e., for the year ended 31/03/2015, made an addition of the balance amount of Rs.65,08,444/- in his hands. Thereafter, the AO vide his order under section 143(3) of the Act, dated 31/10/2017 determined the income of the assessee at Rs.1,15,10,250/-

5. Aggrieved, the assessee carried the matter in appeal before the CIT(A) but without success. For the sake of clarity, the observations of the CIT(A) are culled out as under:

“Decision:-

6. I have carefully considered the grounds of appeal, assessment order and material available on record,

6.1 The appellant had filed return of income for A.Y. 2015-16 on 29.09.2015 declaring total income at Rs. 50,01,800/-. The case was selected for scrutiny through CASS on the issue of 'Large other expenses claimed in the Profit & Loss A/c'. Accordingly notice u/s 143(2) of the Act was issued to the appellant on 26.07.2016. During the assessment proceedings various notices were issued to the appellant requesting to explain the issue of expenses claimed during the year under consideration. In response, the appellant filed reply from time to time, however failed to explain the issue. Therefore, the assessment proceedings u/s 143(3) of the Act were finalized on 31.10.2017 after treating total profit of the appellant @ 12% of total turnover of Rs. 9,30,07,988/- which resulted into addition of Rs. 65,08,444/- to the total income of the appellant. Aggrieved by such addition the appellant has filed this appeal.

6.2 Ground no.1 to 4 are related to the addition of Rs. 65,08,444/-. The appellant has submitted that the AO erred in rejecting the books of account on the basis of small discrepancies and estimated the net profit at 12 percent on the gross bills received. The appellant further stated that AO ought to have appreciated the fact that the direct

expenditure which is fully vouched itself is about 90 percent. The appellant pleaded that AO should have confined himself to the disallowance of expenditure noticed instead of rejecting the books of account and estimating Income.

6.2.1 The issues raised by the appellant have been perused. The appellant is a CIVIL contractor and undertook civil contract works with the government of Andhra Pradesh. The main reason for selection of scrutiny was large other expenses claimed in the Profit & Loss A/c. During the assessment proceedings the appellant had failed to justify the expenses. Perusal of the assessment order reveals that AO had made verification of the submission, voucher and other documentary furnished by the appellant during assessment proceedings. The findings of AO mentioned in the assessment order u/s 143(3) of the Act dated 31.10.2017 in para 5 is reproduced hereunder:

5. The assessee was asked to furnish a copy of return of income with computation, Bank Account Statements, Form 26AS, and its reconciliation with ITR for the Assessment Year 2015-16, complete details of "Other Expenses" with ledger accounts along with bills and vouchers. Assessee was able to produce ledger accounts. On perusal of the Purchase ledgers, it was noticed that the vehicle numbers that were mentioned in the narration belonged to Motor Cycle, 2 whwelters, auto rickshaws etc. Transporting huge quantity of construction material on such vehicles apparently is not possible. (Attached Annexure -1)

Regarding bills and vouchers, only some self made vouchers were produced by the assessee. On perusal of these vouchers, it was noticed that the vouchers were not reliable. They seemed to be recently-made, as many were relating to next year, and also, most of them did not have any signature on them. (Attached Annexure-2).

As these were not reliable, the assessee was asked to produce any other verifiable document in support of his claim of the expenditures. The assessee could not produce any other evidence apart from these self made vouchers. As there is no reliable evidence for the expenditure booked by the assessee for the FY 2014-15, and further books produced are full of discrepancies, the books of accounts of the assessee are hereby rejected and 12% of the Total Receipt ie. Rs. 1,11,60,959/- is taken as the profit for the year. As Rs. 46,52,515/- was already offered to tax, remaining amount of Rs. 65,08,444/- is added to the returned income of the assessee. (Rs. 65,08,444/-)

6.2.2 The AO had clearly mentioned about the practice of claiming bogus expenses related to transportation. Moreover, bills and vouchers submitted by the appellant were also found self-made and unreliable. Further, the appellant was asked to produce any other verifiable documents in support of his claim of the expenditure. However, the appellant could not produce/submit the same except self-made vouchers, which are not reliable. From the above conduct of the appellant only inference can be drawn that the appellant has deliberately not furnished other details in order to avoid further investigation by the department. Therefore, the AO is very much justified in rejecting the books of accounts u/s 143(3) of the Act as the same is not found to be reliable. Once the books of accounts are rejected, the AO does not have any choice but to estimate the profit considering all the facts and circumstances of the case and the AO did exactly the same by estimating the profit @ 12% of total turnover. Moreover, during the appellate proceedings no new documentary evidences or proof have been furnished by the appellant to justify the expenses claimed in Profit & Loss A/c. The appellant has re-iterated the same facts which were furnished before AO. Further, the appellant has tried to justify the expenses by producing the details of net profit of earlier years and comparing it to the year under consideration. However, this stand of the appellant is not considered due to the reason that the appellant himself accepted that direct expenditure is fully vouched about 90 percent which indicates that there is a discrepancies in the expenses claimed. Further by raising a ground that AO should have confined himself to the disallowance of expenditure noticed instead of rejecting the books of account and estimating income, the appellant himself accepted the discrepancies in claiming of expenses. The appellant has also relied upon the decision rendered by Hon'ble Supreme Court in the case of Padamchand Ramgopal (1970) 76 ITR 719. However, the facts of the referred case law is not applicable to the fact of appellant's case. The referred case law talks about the interest received and receipts not brought into account whereas in the present case the issue is related to the expenses claimed in the books of account.

6.2.3 In view of the above discussion, the action of AO in treating profit of the appellant @12% of total turnover is justified. The addition of Rs. 65,08,444/- is upheld. Ground no.1 to 4 of appeal is dismissed.

6.3 Ground no. 5 is general in nature, does not require any adjudication hence dismissed.

7. In the result the appeal is treated as dismissed.”

6. The assessee being aggrieved with the order of the CIT(A) has carried the matter in appeal before us.

7. We have heard the Learned Authorized Representatives of both parties, perused the orders of the lower authorities and the material available on record.

8. Sri GVN Hari, Advocate, the Learned Authorized Representative (for short, "Ld. AR") for the assessee, at the threshold of hearing of the appeal, submitted that the AO had grossly erred in law and facts of the case in rejecting the books of accounts of the assessee. Elaborating on his contention, the Ld. AR submitted that though the case of the assessee was selected for "limited scrutiny" under CASS for verification of "Large other expenses claimed in the Profit & Loss A/c", but the AO by rejecting the books of accounts of the assessee and estimating his income had traversed beyond the scope of the limited jurisdiction that was vested with him, for verifying the issue for which the case of the assessee was selected for scrutiny assessment. Carrying his contention further, the Ld. AR submitted that it is not the case of the department that "limited scrutiny" of the assessee's case was thereafter with the approval of the Principal Commissioner of Income Tax converted into "complete scrutiny". Elaborating further on his contention, the Ld. AR submitted that

the AO ought to have confined his adjudication to verification of the correctness and allowability of the assessee's claim for deduction of "other expenses" of Rs.71.26 lakhs (supra) as were disclosed in his Profit & Loss Account for the subject year and were grouped under the head "other expenses" in his return of income.

9. Apart from that, the Ld. AR submitted that the AO had not only without any basis rejected the books of account of the assessee, but thereafter had exorbitantly estimated his income @ 12% of his receipts. The Ld. AR submitted that the assessee had in his written submissions before the CIT(A) assailed the estimation of his income @ 12% by referring to the net profit (NP) rate of the assessee for the immediately two preceding years, i.e., AY 2013-14 (4.83%) and AY 2014-15 (3.18%), both which years were duly scrutinized by the AO. The Ld. AR submitted that though the net profit rate of 5.02% disclosed by the assessee during the subject year was progressive in comparison to the aforesaid two preceding years, i.e., AY 2013-14 and AY 2014-15, but even otherwise (though not admitted) in case the income of the assessee was to be estimated, then the same should have been based on the net profit (weighted average) of the said preceding years. The Ld. AR submitted that as the net profit rate disclosed by the assessee during the subject

year, i.e., 5.02% was better than the net profit rate (weighted average) of 4.01% of the aforementioned duly scrutinized preceding years, therefore, no addition in the case of the assessee was even otherwise called for based on the estimation of his income.

10. Per contra, Dr. Aparna Villuri, the Learned Senior Departmental Representative (for short, "Ld. Sr. DR") relied upon the orders of the lower authorities.

11. We have thoughtfully considered the contentions advanced by the Learned Authorized Representatives of both parties in the backdrop of the orders of the authorities below.

12. Admittedly, it is a matter of fact discernible from the record that the case of the assessee was selected for "limited scrutiny" under CASS for verifying "Large other expenses claimed in the Profit & Loss A/c". We principally concur with the Ld. AR that in case of a "limited scrutiny" the scope of the jurisdiction of the AO is limited to the issue for which the case of the assessee had been taken up for scrutiny and he cannot traverse on any other aspect. At the same time, in case AO in the course of the limited scrutiny proceedings forms a reasonable view that there is possibility of under-estimation of income if the case is not examined

under complete scrutiny, then, as per the CBDT Instruction No.20/2015, dated 29/12/2015 (as was applicable to the subject year), the case could be taken up for “complete scrutiny” with the approval of Principal Commissioner of Income Tax/Commissioner of Income Tax. As per the aforesaid CBDT Instruction No.20/2015 (supra), unless such conversion is approved by the Principal Commissioner of Income/Commissioner of Income Tax, the case must remain restricted to limited scrutiny issues only.

13. Although, we concur with the Ld. AR regarding the scope of “limited scrutiny” but are unable to persuade ourselves to subscribe his claim that the AO while framing the assessment in the present case, has exceeded his jurisdiction and traversed beyond the issue for which the case of the assessee was selected for “limited scrutiny”. On a perusal of the record, we find that the AO confining himself to the reason for which the assessee’s case was selected for “limited scrutiny”, i.e., verification of “Large other expenses in the Profit & Loss A/c” and based on the material produced before him, i.e., self-made vouchers etc., had come across serious infirmities, viz., (i). failure of the assessee to produce all the bills and vouchers; (ii). some of the vouchers appeared to have been recently prepared, as many of them related to the next

year; (iii). some of the vouchers did not bear any signatures; and (iv) details of the vehicles which were stated to have been deployed by the assessee for transporting huge quantity of construction material as per the purchase ledgers referred to the registration numbers that belonged to Motorcycles, Two-Wheelers, Auto Rickshaws etc. In our view, as the AO was not satisfied about the correctness and completeness of the accounts of the assessee, therefore, he had rightly rejected the books of account and to the said extent we find no infirmity in the view taken by him.

14. At the same time, we are unable to persuade ourselves to concur with the estimation of the income of the assessee by the AO @ 12% of his total receipts of Rs.9.30 crores (approx.). On a specific query by the Bench, as to on what basis the AO had adopted the net profit rate @ 12%, the Ld. Sr. DR failed to come forth with any explanation.

15. In our view, where the books of account of the assessee are rejected, then, undeniably the estimation of his income has to be carried out. However, the process of estimation of income of the assessee cannot be allowed to go wild and baseless and is supposed to have a reasonable basis and logic. We are of the firm conviction that as the case of the assessee for the immediately two preceding years had been

subjected to scrutiny assessment, viz., (i) AY 2013-14, vide order under section 143(3) of the Act, dated 21.12.2025; and (ii). AY 2014-15, vide order under section 143(3) of the Act, dated 31/05/2016, therefore, the AO in the process of estimation of income of the assessee should have looked into the net profit rate as was arrived at based on the assessed income of the assessee for the said preceding years.

16. On a perusal of the CIT(A) order, we find that the assessee has submitted before him the details of his net profit rates for the preceding two years and that of the subject year as under:

<u>Asst. Year</u>	<u>Gross Turnover</u>	<u>Gross Profit</u>	<u>Rate</u>	<u>Net Profit</u>	<u>Rate</u>
2013-14	81705255	9914219	12.1%	2454505	
		Addition made		1500000	4.83%
2014-15	50031357	6472979	12.94	1593703	3.18%
2015-16	93007988	15326634	16.4%	4676858	5.02%

17. In our view, the AO in all fairness and in the interest of justice ought to have adopted the net profit rate (weighted average) for the afore mentioned two preceding years for estimating the income of the assessee. As the net profit rate/weighted average of the two preceding years works out at 4.01%, which we find is less than that disclosed by the assessee during the subject year, therefore, the AO in absence of any material which would irrefutably evidence that the financial results

of the assessee for the subject year under consideration had witnessed shift as in comparison to those of the afore mentioned two preceding years, ought to have adopted the same yardstick, based on which we find that no addition was called for in the hands of the assessee.

18. At this stage, we may herein observe that as neither it is discernible from the orders of the authorities below nor anything has been placed on record before us by the Ld. Sr. DR which would reveal that the profit earned by the assessee during the subject year was for certain specific reasons not comparable to those of the preceding years; nor has led any such material which would reveal that the profits earned by the assessee during the subject year had witnessed any abnormal increase, therefore, we find no reason as to why the aforesaid duly scrutinized net profit rate (weighted average) for the afore mentioned two preceding years ought not to have been adopted for estimating the income of the assessee for the year under consideration.

19. We, thus, in terms of our aforesaid observations, and in absence of any justifiable basis for sustaining the addition of Rs.65,08,444/- made by the AO without any justifiable basis or logical reasoning, are constrained to vacate the same.

20. Resultantly, the appeal filed by the assessee is allowed in terms of our aforesaid observations.

Order pronounced in the open court on 26th November, 2025.

Sd/- (BALAKRISHNAN S.) ACCOUNTANT MEMBER	Sd/- (RAVISH SOOD) JUDICIAL MEMBER
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Hyderabad,
 Dated: 26th November, 2025
 OKK / SPS

Copy to:

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3	The Pr. Commissioner of Income Tax, Visakhapatnam.
4	The DR, ITAT, Visakhapatnam Bench
5	Guard File

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