

आयकर अपीलिय अधिकरण, 'ए' न्यायपीठ, चेन्नई
**IN THE INCOME TAX APPELLATE TRIBUNAL
'A' BENCH: CHENNAI**

श्री एबी टी. वर्की, न्यायिक सदस्य एवं
श्री जगदीश, लेखा सदस्य के समक्ष

**BEFORE SHRI ABY T. VARKEY, JUDICIAL MEMBER AND
SHRI JAGADISH, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA No.2218/Chny/2025
निर्धारणवर्ष/Assessment Year: 2017-18
&
StayPetition No.74/Chny/2025
निर्धारणवर्ष/Assessment Year: 2017-18

M/s. Vijeyranga Textiles Pvt. Ltd., 16KM Thoppapalayam Road, Myleripalayam, Coimbatore-641 032.	v.	The ACIT, Corporate Circle-1, Coimbatore.
[PAN: AABCV 0574 E]		
(अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)
अपीलार्थी की ओर से/ Appellant by	:	Mr.NV. Manohar Reddy, CA & Mr. Y. Sridhar, FCA
प्रत्यर्थी की ओर से /Respondent by	:	Mr.Karthik Dasari, JCIT
सुनवाईकीतारीख/Date of Hearing	:	16.10.2025
घोषणाकीतारीख /Date of Pronouncement	:	26.11.2025

आदेश / ORDER

PER ABY T. VARKEY, JM:

This is an appeal preferred by the assessee against the order of the Learned Commissioner of Income Tax (Appeals)/NFAC, (hereinafter referred to as "the Ld.CIT(A)"), Delhi, dated 09.06.2025 for the Assessment Year (hereinafter referred to as "AY") 2017-18. Stay Petition No.74/Chny/2025 is filed by the assessee for interim-stay of the outstanding demand raised by the impugned addition confirmed by the Ld



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CIT(A); and since both the matters have been posted along with the main appeal (supra), we are disposing them together.

2. The main grievance of the assessee is against the action of the AO confirming the addition of cash deposits/Specified Bank Notes (SBNs) of ₹34,95,000/- in the bank account of the assessee during demonetization period.

3. The assessee is a private Limited Company and had filed its original return (ITR/RoI) for AY 2017-18 on 27.03.2018 admitting total income at (-)₹ 1,04,96,085/- under normal provision and ₹14,35,579/- u/s.115JB of the Income Tax Act, 1961 (hereinafter referred to as 'the Act'). The assessee company is engaged in the business of manufacturing of yarn. The AO noted that the ITR was selected for scrutiny under CASS taking note that during demonetization period, there was cash deposits of ₹36,45,000/- in its bank account in South Indian Bank. On being asked to explain the nature & source of the Specified Bank Notes (SBNs)/cash deposits, the assessee replied that the same was from the cash sales of goods [i.e. hank yarn to various consumers locally as well as in the nearby markets] and that the receipt in cash was duly deposited in the bank account during demonetization period and prayed for dropping the proposal to add the same. However, the AO didn't accept the explanation of the assessee on the ground that SBNs were withdrawn by the



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Government of India and since they were no longer legal tender from 09.11.2016, he added ₹36,45,000/- u/s.68 of the Act. On appeal, the Ld.CIT(A)/NFAC has confirmed the addition being not convinced with the explanation given by the assessee. Aggrieved, the assessee is before us.

4. We have heard both the parties and perused the material available on record. The assessee is noted to be Private Limited Company, which has been regularly filing ITR from inception; and is noted to be engaged in manufacturing and trading of yarn and also other textile related activities. On being confronted by the AO in respect of deposit of SBNS during demonetization period, the assessee explained that source of cash deposits/SBNS were from cash sales of the goods especially made from hank yarn i.e. from trading activities which was deposited in its bank account in the normal course of business operation albeit during demonetization period. According to the Ld.AR, the assessee has turnover of ₹10.65 Crs. and when compared to it, the SBNS deposited in the bank is only to the tune of 3.3%. To prove the contention that the deposit made in SBN's during demonetization period was trade-receipts, the assessee is noted to have submitted its audited bank accounts & financials before the AO, which has not been rejected for any infirmities. That being so, when the AO has accepted the assessee's sales shown in the audited financials as its turnover which includes ₹36,45,000/-, the



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impugned action of the AO to have made separate addition of ₹36,45,000/- u/s.68 of the Act can't be accepted being legally unsustainable. The source of SBNs have been asserted by the assessee to be from the cash sales of its goods [hank yarn] which fact has not been disproved or questioned by the AO. Rather, the AO's only reason to draw adverse view against the assessee is that from 09.11.2016 onwards, SBNs have been declared as not a legal tender. Hence, according to the AO, deposit of SBNs in the bank account has to brought to tax u/s.68 of the Act. Such a reasoning can't be accepted and for such a proposition we rely on the decision of this Tribunal in the case of M/s.Sonny Fireworks Pvt. Ltd., in ITA No.1081/Chny/2024 for AY 2017-18 order dated 12.07.2024, wherein the Tribunal held as under:

9. It is true that u/s.68 of the Act, when the AO find any sum credited in the books of the assessee and no explanation was given by assessee about the nature and source thereof, or the explanation offered by the assessee is not in the opinion of the AO satisfactory, then the sums credited may be charged to Income Tax as the income of the assessee. In this case, we find that the source of deposit of SBNs has been explained by the assessee as trade receipts, credited out of ordinary business sale which in-turn has been credited into its bank account and the profit from the transaction has been duly included in the return of income filed in the relevant assessment year. Therefore, no addition u/s.68 of the Act is plausible since it would tantamount to double taxation of the same income as held by the Hon'ble Gujarat High Court in the case of CIT v. Vishal Exports Overseas Ltd., (Tax Appeal No.2471 of 2009) [Gujarat High Court] and also the decision of the Hon'ble Delhi High Court in the case of CIT v. Kailash Jewelry House [Appeal No.613/2010] (Delhi High Court) (refer decision of ITAT Indore Bench in the case of DEWAS SOYA LTD, UJJAIN in ITA No 336/Jnd/2012).

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11. The only reason given by the AO to make addition u/s.68 of the Act was that assessee could not have transacted/received SBNs during demonetization period and relies on the notification issued by the Government of India (supra). No doubt Specified Bank Notes of Rs.500/- & Rs.1,000/- has been withdrawn from circulation from 09th November, 2016 onwards. The Government of India and RBI has issued various notifications and SOP to deal with specified bank notes. Further, the RBI allowed certain category of persons to accept and to deal with specified bank notes up to 31st December, 2016. Further, the specified bank notes (cessation of liability) Act, 2017, also stated that from the appointed date no person can receive or accept and transact specified bank notes, and appointed date has been stated as 31st December, 2016. Therefore, there is no clarity on how to deal with demonetized currency from the date of demonetization to 31st December, 2016. Therefore, under those circumstances, some persons continued to accept and transact the specified banknotes and deposited into bank accounts. Therefore, merely for the reason that there is a violation of certain notifications/GO issued by the Government in transacting with specified bank notes, the genuine explanation offered by the assessee towards source for cash deposit cannot be rejected, unless the Assessing Officer makes out a case that the assessee has deposited unaccounted cash into bank account in specified bank notes.

12. We further, notes that the Central Board of Direct Taxes had issued a circular for the guidance of the Assessing Officer to verify cash deposits during demonetization period in various categories of explanation offered by the assessee and as per the circular of the CBDT, examination of business cases, very important points needs to be considered is analysis of bank accounts, analysis of cash receipts and analysis of stock registers. From the circular issued by the CBDT, it is very clear that, in a case where cash deposit found in business cases, the Assessing Officer needs to verify the explanation offered by the assessee with regard to realization of debtors where said debtors were outstanding in the previous year or credited during the year etc. Therefore, from the circular issued by the CBDT, it is very clear that, while making additions towards cash deposits in demonetized currency, the Assessing Officer needs to analyze the business model of the assessee, its books of account and analysis of sales etc. In this case, we have gone through the analysis furnished by the assessee in respect of total sales, cash sales realization from debtors and cash deposits during financial year 2015-16 & 2016-17, there is no significant change in cash deposits during demonetization period. Therefore, we are of the considered view that when there is no significant change in cash deposits during demonetization period, then merely for the reason that the assessee has accepted specified bank notes in violation of circulation/notification issued by Government of India and RBI, the source explained for cash deposits cannot be countenanced.



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13. It is noted that the assessee has given all the financials for the earlier years and subsequent years and the chart supra shows that deposits of SBNs cannot be said to be comparatively suspicious. We also note from the financials filed by the assessee that assessee had enough stock of the fireworks to sale same to the customers on credit during the Diwali Festival i.e. 30.10.2016. Thus, we find that the assessee had sufficient stock as on 30.10.2016 (Diwali period) for sale of the goods which generated amount of Rs. Rs.3,09,37,567/- to be deposited during the demonetization period and there are no defects in the stock registers. Every purchase and sale matches with inflow and outflow of the stock and as assessee has placed on record that the purchased goods have already inflicted with VAT/Sales Tax and the AO has not found any infirmity in the books of accounts of the assessee. Therefore, on the basis of facts discussed supra, we set aside the impugned order of the Ld.CIT(A) and direct the deletion of addition of Rs.3,09,37,567/-.

5. In this case, we find that the source of deposit of SBNs has been explained by the assessee as trade receipts, credited out of ordinary business sale which in-turn has been credited into its bank account and the profit from the transaction has been duly included in the return of income filed in the relevant assessment year. Further, we note that the AO's case for drawing adverse view against assessee was not that assessee didn't had enough stock to make cash sale of ₹36,45,000/- and the AO couldn't disprove the assessee's assertion that it was trade-receipts. Hence, having accepted the sales shown by the assessee in its financials, which included the cash/SBNs of ₹36,45,000/- [during demonetization], the impugned addition made u/s.68 of the Act can't be sustained, since it would tantamount to double taxation of the same income. In the light of the aforesaid discussion and judicial precedents



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cited, we allow the appeal of the assessee and direct deletion of ₹36,45,000/-.

6. Since we have disposed of the main appeal of the assessee, the Stay Petition filed by the assessee becomes infructuous and hence, dismissed.

7. In the result, appeal filed by the assessee is allowed and Stay Petition filed by the assessee is dismissed as infructuous.

Order pronounced on the 26th day of November, 2025, in Chennai.

Sd/-

(जगदीश)

(JAGADISH)

लेखा सदस्य/**ACCOUNTANT MEMBER**

चेन्नई/Chennai,

दिनांक/Dated: 26th November, 2025.

TLN

Sd/-

(एबी टी. वर्की)

(ABY T. VARKEY)

न्यायिक सदस्य/**JUDICIAL MEMBER**

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT, Chennai / Madurai / Salem / Coimbatore.
4. विभागीय प्रतिनिधि/DR
5. गार्डफाईल/GF