IN THE INCOME TAX APPELLATE TRIBUNAL
'B' BENCH, BANGALORE

BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND
SHRI SOUNDARARAJAN K, JUDICIAL MEMBER

ITA No. 1223 & 1224/Bang/2025
Assessment Year: 2019-20 & 2020-21

SNN Spiritua Developer, No.4, SNN Mind's Eye, 2nd Floor, Diagonal Road, 3rd Block, Jayanagar, Bangalore – 560 011. **PAN – ACLFS 1959 B**	Vs.	The Dy. Commissioner of Income Tax, Central Circle – 2(1), Bangalore.
APPELLANT		RESPONDENT

Assessee by	:	Shri Ramakrishna Kamat, CA
Revenue by	:	Shri Muthu Shankar, CIT (DR)

Date of hearing	:	20.01.2026
Date of Pronouncement	:	21.01.2026

O R D E R

PER WASEEM AHMED, ACCOUNTANT MEMBER:

These two appeals instituted by the assessee against the separate order of the Ld. CIT(A) passed u/s 250 of the Act dt. 27.02.2025 were heard together.

First, we take up ITA No. 1223/Bang/2025 pertaining to AY 2019-20

2. The assessee in the memo of appeal raised multiple grounds numbered 1 to 9 and sub-grounds thereunder, which we, for the sake of brevity and convenience, are not inclined to reproduce here.

3. Ground Nos. 1,4,8 and 9 were not pressed by the assessee and are accordingly dismissed as not pressed.

4. The inter-connected limited issue before us pertains to the manner of revenue recognition adopted by the assessee for the relevant assessment year.

5. The brief facts are that the assessee is partnership firm and is one of the sister concerns of the SNN group, which is engaged in the business of real estate. The assessee filed its ROI u/s 139 of the Act offering an income to taxation to the tune of Rs. 1,49,35,860/- only. During the previous year relevant to the AY 2015-16, the assessee commenced a projected named 'SNN Raj Spiritua'.

6. A search and seizure action u/s 132 of the Act was carried out in the case of M/s Ibrox Real Estate Development Pvt Ltd, M/s SNN builders Pvt Ltd, M/s SNN homes LLP and others on 09.01.2020. In connection with the said search, a survey was also carried out at the business premises of the assessee. Documents having a bearing on the determination of total income were seized from the premises of the assessee and, consequently, a notice under section 153C of the Act was issued, calling upon the assessee to file its return of income.

6.1 However, the assessee failed to file any ROI in response to the notice issued u/s 153C of the Act and consequently, the AO passed an order u/s 144 of the Act with the materials available on record. In order to verify the claims made by the assessee, the Assessing Officer issued a notice under section 142(1) of the Act, calling for details relating to revenue recognition under the Percentage Completion Method (POCM). The Assessing Officer observed that the assessee was computing revenue on a POCM basis only in respect of the areas covered by agreements. The Assessing Officer did not accept the assessee's contention for the following reasons:

i. In respect of the booked area, the assessee was able to determine the total area booked;
ii. In respect of the booked area, the assessee was able to compute the consideration receivable; and
iii. The assessee had received certain amounts towards consideration as advances.

6.2 Based on the above, the Assessing Officer concluded that there existed an oral agreement, if not a written agreement, in respect of the booked area between the assessee and the prospective purchasers. Accordingly, the Assessing Officer computed revenue under the Percentage Completion Method at Rs. 13,02,70,824 and made an addition of Rs. 11,73,94,617 to the income of the assessee as against the returned income of Rs. 1,28,76,207.00 only.

7. Aggrieved by the order of the AO, the assessee preferred an appeal before the ld. CIT(A).

8. Before the Ld. CIT(A), the assessee submitted that Accounting Standard 9 issued by the Institute of Chartered Accountants of India, read with the Guidance Note on Accounting for Real Estate Transactions, is applicable to its case. As per the said standard and guidance note, revenue is required to be recognised only when all the significant risks and rewards of ownership are transferred to the buyer. The point of time at which such transfer of significant risks and rewards takes place is to be determined on the basis of the agreement to sell.

9. The Assessee submitted that in real estate transactions, the developer ultimately enters into an agreement to sale with the buyer, generally at the initial stages of construction. Such an agreement to sale results in the transfer of significant risks and rewards of ownership, provided the agreement is legally enforceable. Therefore, for the purpose of computation of income under the Percentage Completion Method, only those units in respect of which legally enforceable agreements have been entered into can be considered.

9.1 Assessee further explained that, as a matter of trade practice in the real estate industry, prospective buyers often visit the project site, select a flat, and block the same by paying a token advance. This practice is commonly referred to as "booking" of flats. At this stage, no legally binding or written agreement is entered into. Only after the buyer and his family members approve the unit and the buyer enters into a formal agreement for sale, which constitutes a legal and enforceable document.

9.2 Accordingly, assessee contended that the computation of income under the Percentage Completion Method must be carried out only with reference to the agreements actually entered into and not on the basis of mere "booked value" or booked area.

9.3 The assessee further submitted that the above submissions were also made during the course of assessment proceedings vide letter dated 18.03.2022. However, the same were not accepted by the Assessing Officer, who concluded that revenue was required to be recognised by considering the booked area, which included saleable area for which no agreement for sale had been entered into and only token advances had been received. The Assessing Officer proceeded on the premise that these factors indicated the existence of oral agreements with prospective buyers, namely: (a) the assessee was able to ascertain the total area booked with certainty; (b) the consideration receivable in respect of such booked area could be computed with certainty; and (c) advances towards consideration had been received. In view of the above, the assessee submitted that there is only one agreement entered into this year and in respect of which the payment received was less than 10% of the gross consideration. Hence, there cannot be any addition to the total income of the assessee.

10. On the contrary, the Ld. CIT(A) examined the issue in detail and upheld the action of the Assessing Officer by holding that booking advances received by the assessee constitute a reliable basis for revenue recognition under the Percentage Completion Method.

10.1 The Ld. CIT(A) observed that the Guidance Note on Accounting for Real Estate Transactions does not restrict the expression 'contracts or agreements' only to registered agreements and that receipt of substantial booking advances indicates a high degree of certainty of sale. The Ld. CIT(A) further held that, in the absence of any evidence showing that booking advances were refunded or did not culminate in sales, the Assessing Officer was justified in including booked areas for computing revenue under PCM. Accordingly, the learned CIT(A) confirmed the addition by concluding that the assessee's method of excluding booked areas from revenue recognition was not in consonance with the applicable accounting guidance.

11. Aggrieved by the order of the Ld. CIT(A), the assessee is in appeal before us.

12. The Ld. AR before us filed a paper book running from pages 1 to 166 and submitted that the assessee follows Accounting Standard 9 issued by ICAI read in conjunction with the Guidance Note on Accounting for Real Estate Transactions. As per these provisions, revenue can be recognised only when all significant risks and rewards of ownership are transferred, which is to be determined strictly with reference to a legally enforceable agreement for sale.

13. Assessee further explained that, as per prevailing real estate practice, prospective buyers initially book flats by paying token advances. At this stage, no written or legally enforceable agreement exists. Execution of an agreement for sale happens only at a later point. The assessee furnished a tabulated statement of flats which were only

booked during the relevant year and where agreements were executed in subsequent years, to demonstrate that booking does not result in transfer of risks and rewards.

13.1 The assessee further submitted that revenue under the PCM cannot be computed on the basis of booked value. In this regard, reliance was placed on paragraph 5.3 of the Guidance Note, which mandates that *at least 10 percent of the agreement value as per legally enforceable documents must be realised at the reporting date in respect of each flat.*

13.2 To support this contention, the assessee placed on record a separate table showing flats which were included in revenue by the AO even though the amount realised as on the reporting date was less than 10 percent of the agreement value. It was pointed out that, for these flats, the mandatory condition prescribed under the Guidance Note was not satisfied. Hence, the ld. AR submitted that the AO treated booking advances as equivalent to enforceable contracts merely because the booked area and consideration could be identified.

13.3 On the basis of the above facts and the tabulated details placed on record, the ld. AR submitted that the re-computation of revenue by including booked flats and flats not satisfying the 10 percent realization condition is not in accordance with the mandatory accounting standards and therefore the addition made is liable to be deleted.

14. The Ld. DR, on the other hand, submitted that the Assessing Officer has correctly recomputed the revenue by applying the Percentage

Completion Method (PCM) and that the assessee's attempt to defer revenue recognition is contrary to the real substance of the transactions. It was argued that once flats are booked, the assessee acquires an enforceable right to receive consideration and the buyers are identified along with the sale value and area, which clearly establishes that the project has crossed the stage of mere intention to sell. Accordingly, the Ld. DR submitted that the Assessing Officer was justified in treating the booked flats as eligible for revenue recognition under PCM and in including such flats for computation of taxable income. Accordingly, it was prayed that the addition made by the AO be sustained and the grounds raised by the assessee be dismissed.

15. We have considered the rival submissions of both the parties, the findings of the AO and ld. CIT(A), and perused the materials placed on record before us. The limited issue before us is whether revenue under the PCM can be recomputed by including flats which were only booked and in respect of which no legally enforceable agreements for sale were executed during the relevant year.

15.1 It is not in dispute that the assessee follows Accounting Standard issued by ICAI read with the Guidance Note on Accounting for Real Estate Transactions. As per the said standard and guidance note, revenue can be recognised only when all significant risks and rewards of ownership are transferred. Such transfer is to be examined with reference to legally enforceable agreements and not merely on the basis of bookings or receipt of advances.

15.2 The material placed before us shows that certain flats were merely booked during the year by receipt of token advances and that agreements for sale in respect of those flats were executed only in subsequent years. These details have been placed on record by way of a tabulated statement. Mere booking of flats, without execution of a written and enforceable agreement, does not result in transfer of significant risks and rewards and therefore, the same cannot form the basis for recognising revenue under the PCM.

15.3 We further note that paragraph 5.3 of the Guidance Note mandates that at least 10 percent of the agreement value as per legally enforceable documents must be realised at the reporting date in respect of each flat. The assessee has furnished a separate table showing flats which were included by the AO for revenue recognition even though the amount realised as on the reporting date was less than the prescribed 10 percent of the agreement value. These facts have not been disputed by the Revenue.

15.4 The approach of the AO in treating booking advances as equivalent to contracts merely because the booked area and consideration could be identified is not in accordance with the Guidance Note. Ability to estimate consideration or receipt of advances cannot substitute the mandatory requirement of a legally enforceable agreement or fulfil the specific conditions prescribed for revenue recognition.

15.5 The accounting standards issued by ICAI are mandatory in nature and have to be followed while computing income. When the Guidance

Note prescribes clear and specific conditions for recognition of revenue under the Percentage Completion Method, revenue cannot be brought to tax by diluting or bypassing those conditions.

15.6 In view of the above facts and the tabulated details placed on record, we hold that the re-computation of revenue by including booked flats and flats not satisfying the 10 percent realisation condition is not in accordance with the applicable accounting standards. The addition made on this account is therefore unsustainable. Accordingly, the addition made by recomputing revenue under the Percentage Completion Method is deleted and the grounds raised by the assessee on this issue are allowed.

15.7 Further, the assessee has pointed out that the revenue brought to tax by the AO during the year under consideration stands offered to tax in the subsequent assessment year, resulting in double taxation of the same income.

15.8 On examination of the materials available on record, it is noticed that the revenue considered by the AO in the present year has in fact been recognized and subjected to tax in the return of income for the subsequent year. This aspect has not been examined by the lower authorities. Even otherwise, taxation of the same income twice in the hands of the same assessee is not permissible in law, unless specifically authorized by statute. The Act does not contemplate double taxation merely on account of difference in the year of recognition.

15.9 In the facts of the present case, bringing the same revenue to tax in the year under consideration, when it has already suffered tax in the subsequent year, would result in unjust enrichment of the Revenue.

15.10 Accordingly, to the extent the income has already been subjected to tax in the subsequent year, the addition made in the year under appeal is liable to be deleted. Hence, the ground of appeal of the assessee is allowed.

16. Ground Nos. 5, 6 and 7 are consequential to the main issue. In view of our decision allowing the substantive grounds in favour of the assessee, the consequential grounds also stand allowed.

17. In the result, the appeal of the assessee is partly allowed.

Coming to ITA 1224/Bang/2025 pertaining to AY 2020-21

18. At the outset, we note that the issues raised by the assessee in its grounds of appeal for the AY 2020-21 are identical to the ITA 1223/Bang/2025. Therefore, the findings given in ITA 1223/Bang/2025 for the AY 2019-20 shall also be applicable for the assessment year 2020-21. The appeal of the assessee for the A.Y. 2019-20 has been decided by us vide paragraph No. 15 of this order favouring the assessee and against the Revenue. The learned AR and the DR also agreed that whatever will be the findings for the assessment year 2019-20 shall also be applied for the assessment year 2020-21. Hence, the ground of appeal filed by the assessee is hereby allowed.

19. In the result, the appeal of the assessee is partly allowed.

20. In the combined result, both the appeals of the assessee are partly allowed.

Order pronounced in court on 21 day of January, 2026

Sd/- Sd/-

(SOUNDARARAJAN K) **(WASEEM AHMED)**
Judicial Member Accountant Member

Bangalore
Dated, 21 January, 2026

/ vms /

Copy to:

1. The Applicant
2. The Respondent
3. The CIT
4. The CIT(A)
5. The DR, ITAT, Bangalore.
6. Guard file

By order

Asst. Registrar, ITAT, Bangalore