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

श्री संजय गर्ग, न्यायिक सदस्य एवं
अन्नपूर्णा गुप्ता, लेखा सदस्य के समक्ष।

Before Shri Sanjay Garg, Judicial Member And
Annapurna Gupta, Accountant Member

आयकर अपील सं/**ITA No.1642/Ahd/2024**
निर्धारण वर्ष /**Assessment Year : 2017-18**

Bhaumik Jewellers Private Limited 111, Gold Souk Complex B/h. Sapphire Complex CG Road Ahmedabad – 380 009	**बनाम/ v/s.**	The ITO Ward-1(1)(2) Ahmedabad
स्थायी लेखा सं./**PAN: AAGCB 2423 B**		

(**अपीलार्थी/** Appellant)		(**प्रत्यर्थी/** Respondent)

Assessee by :	Shri Biren Shah, AR
Revenue by :	Shri Sher Singh, CIT-DR

सुनवाई की तारीख/**Date of Hearing** : **17/12/2025**
घोषणा की तारीख /**Date of Pronouncement:** **03/02/2026**

आदेश/O R D E R

Per Sanjay Garg, Judicial Member:

The present appeal has been preferred by the assessee against the order of the Commissioner of Income Tax (Appeals) National Faceless Appeal Centre (NFAC), Delhi [in short "the CIT(A)"] passed under section 250 of the Income Tax Act, 1961 (in short "the Act"), dated 26/07/2024 arising out of the assessment order passed by the Assessing Officer (in short "the AO") under section 143(3) of the Act for the Assessment Year 2017-18. The assessee in this appeal has agitated the confirmation of the addition of Rs. 9,65,97,834/- made by the AO under section 68 of the Act

on account of unexplained cash deposits during the demonetisation period.

2. The brief facts of the case are that the assessee is a private limited company engaged in the business of trading in Bullion and Jewellery. The assessee filed its return of income for the year under consideration which was selected for scrutiny through CASS with the specific reason "large cash deposits during demonetisation period". During the course of assessment proceedings, the AO observed that the assessee had deposited Specified Bank Notes (SBNs) in its bank accounts during the period of demonetisation. The total cash deposited during the period 09.11.2016 to 30.12.2016 amounted to Rs. 10,69,00,000/- in its accounts with RBL Bank and Axis Bank. The assessee explained that the said cash deposits were out of the cash advances received from customers against cash sales of jewellery/bullion. The assessee submitted that these advances were received shortly before the announcement of demonetisation on 08.11.2016 and the sales were subsequently invoiced. The assessee claimed that the cash deposits were business receipts duly recorded in the books of account maintained in the regular course of business.

3. The AO, however, did not accept the explanation of the assessee. The AO observed that the assessee had shown receipt of huge cash advances aggregating to Rs. 9.65 crores approximately on three specific dates i.e., 05.11.2016, 07.11.2016 and 08.11.2016 from 573 persons. The AO held that the assessee had manipulated its books of account to accommodate its unaccounted cash in the guise of trade advances. The AO further observed that the assessee failed to furnish the complete details such as PAN and addresses of all the customers from whom such advances were

received. The AO also noted that in many cases the notices issued under section 133(6) of the Act to verify the genuineness of the transactions were either returned unserved or no reply was received. The AO further observed that the cash book showed heavy cash balance just before demonetisation which was not deposited in the bank account immediately, which was contrary to the normal business practice of the assessee where cash was usually deposited on a day-to-day basis. Consequently, the AO rejected the books of account of the assessee under section 145(3) of the Act and treated the amount of Rs. 9,65,97,834/- as unexplained cash credits under section 68 of the Act read with section 115BBE of the Act, treating the same as income from undisclosed sources.

4. Aggrieved by the order of the AO, the assessee preferred an appeal before the CIT(A). The CIT(A), however, confirmed the action of the AO. The CIT(A) relied heavily upon the decision of the Hyderabad Bench of the Tribunal in the case of *Vaishnavi Bullion Pvt. Ltd. vs. ACIT (2022) 145 taxmann.com 197*, holding that the assessee failed to prove the identity and creditworthiness of the persons from whom the cash advances were allegedly received. The CIT(A) held that the huge cash advances received just before demonetisation were beyond human probabilities and upheld the addition.

5. Being aggrieved by the order of the Ld. CIT(A), the assessee has come in appeal before us. The Ld. Counsel for the assessee submitted that the authorities below have failed to appreciate the facts of the case in right perspective. He submitted that the AO had wrongly rejected the books of account of the assessee merely on suspicion of advance received on sales, without any justification. He submitted that the books of account were

duly audited and the AO had not pointed out any specific defect in the maintenance of books or stock register.

6. The Ld. AR drew our attention to the chart placed at page 62 of the paper book, detailing the evidences furnished during the assessment proceedings, which included the Copy of Audit Report alongwith Annexures including Audited Balance Sheet, Profit & Loss Account; Copy of Cash Book; Copy of Bank Statements; Copy of Purchase Bills made from 01.10.2016 to 31.12.2016; Summary of Purchase with Name of Parties, PAN, VAT No., Details of Goods Purchased and Amount in case of Parties having cumulative transactions of Rs. 10 lakh or more; Copy of cash Sales; Copy of Sales Bills along with Summary of Sales Exceeding Rs. 2 Lacs with Date, Name, Goods Sold and PAN of parties to the extent available with the assessee; Copy of Stock Book; Confirmation from certain parties obtained by AO by issuing notice u/s 133(6) of the Act; Explanation for increase in sales prior to demonetization period; Method of Stock Valuation and working of Stock Valuation; Copy of Monthly VAT Returns and Annual VAT Returns; and Copy of Reply submitted for Cash Transactions 2016.

7. The Ld. AR of the assessee submitted that all the purchases were made by the assessee through Cheque/Banking channel. The Ld. AR placed on record the copy of the cash book and has referred to pages 184 and 186 of the paper book to demonstrate that the assessee had made cash sales of Rs. 22.51 crores and odd as on 31.10.2016 and that the assessee had deposited a sum of Rs. 1.90 crores in its bank accounts on 28.10.2016. This clearly showed that the assessee was having huge turnover and cash receipts even prior to the demonetisation period and there was nothing abnormal in the cash receipts recorded in early November. Further,

regarding the objection of the AO that complete details of customers were not provided, the Ld. AR submitted that for sales/advances of less than Rs. 2 lakh, the assessee was not supposed to keep/mention the PAN number etc. as per the relevant statutory provisions existing at that time. Therefore, no adverse inference could be drawn for not maintaining such details which were not required by law. Further, the Ld. AR referred to page 45 of the Paper Book to submit that the AO had issued notices u/s 133(6) of the Act to various parties to verify the purchases of the assessee, who duly responded and filed confirmations affirming the purchases made by the assessee except one party who had become bankrupt.

8. During the course of hearing, the Ld. AR of the assessee has also furnished a chart showing the comparative sales/cash deposit data of Financial Year 2015-16 and 2016-17, a perusal of which reveals that the assessee's total sales during F.Y. 2015-16 were of Rs. 204,25,13,732/- out of which total cash sales were of Rs. 104,90,13,843/- out of which the cash sales during the period 8.11.2015 to 31.12.2015 (corresponding period of the earlier year 2015 as compared to demonetization period of 2016) were of Rs. 32,41,67,164/-. Even there were cash sales of 3.13 crores post demonetization period. However, during the relevant year F.Y. 2016-17, the total sales of the assessee were of Rs. 228,20,26,672/- which were slightly more than the preceding year, whereas the total cash sales were of Rs. 38,88,52,629/- which were very less as compared to the preceding assessment year (almost 1/3rd of the immediately preceding year). Even the cash deposited during demonetization period was of Rs. 11,69,00,000/- only, which was comparatively very less than the preceding year. Even the cash deposited prior to demonetization period was commensurate with that was deposited during the demonetization

period. The Ld. AR therefore has contended that this data shows that the assessee's total sales as well as cash sales during the year under consideration including the relevant demonetization period were comparatively very less than the preceding financial year. That the assessee's cash sales were not abnormal during the relevant period and AO's suspicion of cash sales was not based on any reliable material.

9. The Ld. AR has further submitted that even the assessee had made purchases by cheque/banking channel out of its duly accounted for receipts/income. The assessee was also possessed of the requisite stock. That though, the AO has doubted the purchases, however, it is not the case of the AO that the assessee had not debited the amount of purchases from its books or that the assessee had made purchases out of its unexplained income. He therefore, has contended that the entire receipts from the corresponding sales can not be treated as unaccounted income of the assessee, only the profit element embedded in such sales can be taxed, which the assessee has duly offered for taxation.

10. The Ld. DR, on the other hand, relied on the orders of the authorities below. He submitted that the pattern of advances just before demonetization was highly suspicious and justified the rejection of books. He contended that the assessee inflated its cash sales/advances to launder its unaccounted cash and failed to prove the identity and creditworthiness of the creditors. Without prejudice to the above submissions, he submitted that, even otherwise, the receipt of SBNs after the demonetisation announcement was in violation of the RBI notification and that the same was not a legally valid tender and hence such receipts otherwise would constitute unaccounted income of the assessee.

11. We have heard the rival contentions and gone through the record. The entire case of the revenue is built upon the basis of suspicion regarding the sales booked by the assessee prior to the start of demonetization period. The AO has rejected the books of account merely because there was a spike in cash advances on three dates. However, the comparative data furnished by the assessee clearly dispels this suspicion. A perusal of the chart reveals that the cash sales in the year under consideration were in fact significantly lower than the preceding year. When the assessee has demonstrated that in the previous year, during the corresponding period, the cash sales were much higher, the allegation of "abnormal" sales during the demonetization period falls flat. The data furnished by the Ld. AR shows that the assessee's total sales as well as cash sales during the year under consideration including the relevant demonetization period were comparatively very less than the preceding financial year. This data shows that the assessee's cash sales were not abnormal during the relevant period and AO's suspicion of cash sales is not based on any reliable material.

12. Further, the AO has not pointed out any discrepancy in the stock register, and the assessee was evidently possessed of the requisite stock to effect the impugned sales. It is a matter of record that the purchases have been made through banking channels out of duly accounted for receipts/income. The notices issued u/s 133(6) were largely complied with, and the mere fact that one party went into bankruptcy does not make the entire purchases bogus. Though the AO has doubted the purchases, it is not the case of the AO that the assessee had not debited the amount of purchases from its books or that the assessee had made purchases out of its unexplained income. Once the purchases are accepted and the stock is not disputed, the sales flowing out of such stock

cannot be treated as non-genuine. The sales have been recorded in the books of account and the profit arising therefrom has been offered to tax. Therefore, the entire receipts from the corresponding sales cannot be treated as unaccounted income of the assessee; only the profit element embedded in such sales can be taxed, which the assessee has duly offered for taxation. Taxing the gross receipts again u/s 68 would amount to double taxation of the same amount..

13. The reliance placed by the CIT(A) on the case of ***Vaishnavi Bullion* (supra)** is misplaced as in that case there was a finding of non-availability of stock. In the present case, the availability of stock is not in dispute. The issue is squarely covered by the decision of the Coordinate Bench of the Tribunal in the case of **Windlas Jewellers vs. ITO (ITA No. 821/Chandi/2023) order dated 01.04.2024**. In that case, though the books of account were not rejected, the principle laid down regarding the acceptance of sales when stock is available is applicable here as well. The Tribunal held:

> *"The burden is upon the Assessing Officer in this respect who alleges sales to be ingenuine. The additions cannot be confirmed in this case merely on the basis of suspicion when the assessee proved his case and has furnished sufficient documents. The issue is squarely covered by various decisions of the Coordinate Benches of the Tribunal. The ld. Counsel for the assessee in this respect has relied upon the following case laws:*
>
> *i) ACIT vs. Goel Jewellers Overseas Corp in ITA No.1597/Del/2022 (ITAT Delhi)*
>
> *ii) DCIT Central Circle-1, Ludhiana vs. M/s Roop Fashion reported in [2022] 98 ITR (Trib) 419 [ITAT Chand)]*
>
> *iii) Gulshan Kumar vs. DCIT in ITA No.488/Chd/2022 (ITAT Chandigarh)*
>
> *iv) Smt. Tripta Rani vs. ACIT, Ludhiana in ITA No.135/Chd/2021 (ITAT Chandigarh)*

v) Madan Lal Aggarwal HUF vs. DCIT in ITA No.28/CHANDI/2023 (ITAT Chandigarh) dated 18.12.23

..... In view of the same, we find the explanation of the assessee as genuine and reasonable duly supported by the documentation and books of accounts and the addition so made by the AO and confirmed by the ld. CITA is directed to be deleted."

14. Even, at the most, it can be alleged, though not proved, by the AO that the assessee had made certain sales and accepted SBN/demonetized currency during the relevant period. Even assuming so, the assessee may have breached or violated the relevant circular/notification of the RBI/Demonetization Scheme, however, even then it can not be held a case of income from unexplained sources. Reliance in this respect is placed on the decision of the co-ordinate Kolkata Bench of the Tribunal in the case of **Vidyasagar Samabay Krishi Unnayan Samity Ltd. vs. ACIT** in **ITA No. 06/Kol/2024** order dated **03.07.2024** wherein the co-ordinate Bench of the Tribunal in this respect has observed as under:

"No doubt, the Specified Bank Notes as per the Reserve Bank of India's notification ceased to be legal tender w.e.f. 09.11.2016, the assessee made the cash sales accepting the Specified Bank Notes in in violation of the said circular of Reserve Bank of India. The action of violation of the said circular can be taken by the competent authority in this respect. However, for the purpose of Income tax Act, what is to be examined is as to whether the said amount received by the assessee was unexplained income of the assessee u/s 69A of the Act? The assessee has duly explained the source of deposits, which has also been accepted by the Assessing Officer... The only contention of the Assessing Officer is that the assessee has violated the notification of the Central Government dated 08.11.2016 and accepted the Specified Bank Notes in lieu of sales made. For that, it is for the competent authority who may take action against the assessee as may be provided/applicable in relevant law. However, for the purpose of either section 68 or 69 of the Act, the said deposits cannot be treated as unexplained income of the assessee. Our above view is fortified by the decision of the Coordinate Bangalore Bench of the Tribunal in the case ***of 'Sri BhageerathaPattinaSahakara Sangha Niyamitha vs. ITO' in ITA No.646/Bang/2021 order dated 18.02.2022****. The relevant part of the order is reproduced as under:*

"15. The case of the A.O is that the assessee has collected the demonetized notes after 8.11.2016 in violation of the notifications issued by RBI. Accordingly, he has taken the view that the above said amounts represents unexplained money of the assessee. I am unable to understand the rationale in the view taken by A.O. I noticed that the AO has invoked the provisions of sec.68 of the Act for making this addition. I also noticed that the assessee has also complied with the requirements of sec.68 of the Act. The AO has also not stated that the assessee has not discharged the responsibility placed on it u/s 68 of the Act. Peculiarly, the AO is taking the view that the assessee was not entitled to collect the demonized notes and accordingly invoked sec.68 of the Act. I am unable to understand as to how the contraventions, if any, of the notification issued by RBI would attract the provisions of sec. 68 of the Income tax Act. In any case, I notice that the assessee has also explained as to why it has collected demonetized notes after the prescribed date of 8.11.2016. The assessee has explained that it has stopped collection after the receipt of notification dated 14.11.2016 issued by RBI, which has clearly clarified that the assessee society should not collect the demonetized notes. Accordingly, I am of the view that the deposit of demonetized notes collected by the assessee from its members would not be hit by the provisions of section 68 of the Act in the facts and circumstances of the case. Accordingly, I set aside the order passed by Ld. CIT(A) on this issue and direct the A.O. to delete this disallowance.

16. In the result, the appeal filed by the assessee is treated as allowed for statistical purposes."

6. In view of the above discussion, the addition made/confirmed by the lower authorities in the case of the assessee on this issue is not sustained and the same is accordingly ordered to be deleted."

15. Furthermore, in the case of **Girish Karamshi Dedhia vs. DCIT** (ITA No. 4553/Mum/2025), the Mumbai Bench of the Tribunal, vide order dated **10.10.2025**, has held *that "treating the cash deposit which the assessee has sourced through cash sales as unexplained under section 68 is not sustainable."* In that case also, the AO had invoked section 69A on the ground that the assessee (a petrol pump owner) had accepted SBNs in violation of the RBI notification. The Tribunal, following the decision of the Ahmedabad Bench in the case of **ITO vs. Ashapura Petrochem Marketing Pvt. Ltd. (ITA No. 511/Ahd/2020 dated 18.10.2023)** and

the decision of the Bangalore Bench in the case of **ITO vs. Manasa Medicals (ITA No. 552/Bang/2022 dated 31.10.2022)**, held that once sales are recorded in books and offered to tax, section 68/69A cannot be invoked merely for violation of RBI guidelines. The Tribunal observed:

> *"It is a settled legal position that when the cash sales which is the source for deposit of cash has been accepted, then no addition can be made under section 68 of the Act... In our considered view, it is not correct on the part of the revenue to treat the cash deposited as unexplained having accepted the cash sales and the books of accounts, only for the reason that receipt of SBN is in violation of circular issued by Government of India."*

16. In view of the above discussion, we hold that the addition made by the AO is not sustainable. The assessee has successfully explained the source of cash deposits as sales/advances which are duly recorded in the books of account. The suspicion of the AO regarding the genuineness of sales is not supported by any concrete evidence and is contradicted by the comparative sales data. The AO had wrongly rejected the books of accounts of the assessee merely on suspicion of advance received on sales, without any justification. Even the violation of RBI notification, if any, does not attract the provisions of section 68 of the Act. Accordingly, the impugned addition is ordered to be deleted.

17. In the result, the appeal of the assessee stands allowed.

Order pronounced in the Open Court on 03/02/2026.

Sd/-	**Sd/-**
(Annapurna Gupta)	**(Sanjay Garg)**
Accountant Member	**Judicial Member**

अहमदाबाद / Ahmedabad, दिनांक/Dated 03/02/2026
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 ,अहमदाबाद/DR,ITAT, Ahmedabad.
6. गार्ड फाईल /Guard file.

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