

**IN THE INCOME TAX APPELLATE TRIBUNAL, 'E' BENCH
MUMBAI**

**BEFORE: SHRI AMIT SHUKLA, JUDICIAL MEMBER
&
SHRI GIRISH AGRAWAL, ACCOUNTANT MEMBER**

**ITA No.6750/Mum/2025
(Assessment Year :2017-18)**

K.M. Textiles Export Private Limited C-1. 1 st Floor Swadeshi Market Above Main Gate Dr. Viegas Street Kalbadevi, Mumbai-400 002	Vs.	Income Tax Officer 10(1)(1), Mumbai
PAN/GIR No.AACCK9000F		
(Appellant)	..	(Respondent)

**ITA No.6614/Mum/2025
(Assessment Year :2017-18)**

Income Tax Officer 10(1)(1), Mumbai	Vs.	K.M. Textiles Export Private Limited C-1. 1 st Floor Swadeshi Market Above Main Gate Dr. Viegas Street Kalbadevi, Mumbai-400 002
PAN/GIR No.AACCK9000F		
(Appellant)	..	(Respondent)

Assessee by	Shri Haridas Bhatt
Revenue by	Shri Hemanshu Joshi, Sr. DR
Date of Hearing	03/02/2026
Date of Pronouncement	09/02/2026

आदेश / ORDER**PER AMIT SHUKLA (J.M):**

These cross appeals, one filed by the Revenue and the other by the assessee, are directed against the order dated 19.08.2025 passed by the National Faceless Appeal Centre, Delhi, for the assessment year 2017-18, arising out of reassessment framed under section 147 read with section 143(3) of the Income-tax Act, 1961. Since both the appeals emanate from the same impugned order and involve common facts and interlinked issues, they were heard together and are being disposed of by this consolidated order.

2. The Revenue, in its appeal, has challenged the action of the learned Commissioner (Appeals) in deleting the addition of ₹4.60 crores made on account of cash deposits in the bank accounts of the assessee and further deleting the addition of ₹91,45,458/- alleged to be on account of bogus purchases. The assessee, on the other hand, has challenged the sustenance of addition of ₹67,92,482/- under section 69C in respect of transactions with M/s. Sanya Enterprise Ltd., Hong Kong.

3. The assessee is a private limited company engaged in the business of manufacturing and trading of textiles, fabrics, furnishings and printed materials. It filed its return of income for the year under consideration on 07.11.2017 declaring a total income of ₹18,66,264/-. Subsequently, based on information

uploaded by the Directorate General of Income-tax (Investigation), Mumbai, on the Insight Portal, the Assessing Officer formed a belief that income chargeable to tax had escaped assessment, inter alia, on account of alleged bogus purchases and cash deposits during the demonetisation period. Accordingly, notice under section 148 was issued on 31.03.2024.

4. During the reassessment proceedings, the Assessing Officer noticed that cash aggregating to ₹16,10,995/- had been deposited in Kotak Mahindra Bank during the demonetisation period between 09.11.2016 and 30.12.2016. However, instead of confining the enquiry to the said period or to the said quantum, the Assessing Officer proceeded to examine cash deposits in all bank accounts maintained by the assessee throughout the entire year and ultimately made an addition of ₹4.60 crores representing the aggregate cash deposits during the year, on the premise that the assessee had failed to satisfactorily explain the source thereof.

5. Simultaneously, the Assessing Officer examined the transactions of the assessee with M/s. Sanya Enterprise Ltd., Hong Kong, and noted that remittances aggregating to ₹91,33,681/- had been made, out of which ₹67,92,482/- pertained to the year under consideration and ₹23,41,199/- related to earlier years. Despite the fact that purchases actually accounted for during the year stood at ₹42,80,530/- and the balance amount was reflected as advances recoverable in the

books of account, the Assessing Officer treated the entire remittance as unexplained expenditure and made additions in a cumulative and overlapping manner.

Particulars	Amount	Debited to purchases	Additions made
<i>Advance paid during the year</i>	23,41,199		
<i>Advance paid during the year</i>	67,92,482		68,04,059
<i>Total payments made (totaling error of Rs.11577/- made by AO)</i>	91,33,681		91,33,681
<i>Purchases accounted for</i>	42,80,530	42,80,530	
<i>Advances shown as recoverable</i>	48,53,151		
		42,80,530	1,59,37,740

6. Before the Assessing Officer as well as before the learned Commissioner (Appeals), the assessee explained that it had maintained regular books of account, including a day-to-day cash book, bank books and ledgers, all of which were duly audited and produced for verification. It was demonstrated that the cash deposits represented proceeds of sales duly recorded in the books, largely received from unorganised sector customers and MSMEs, where cash dealings are prevalent in the line of business in which the assessee operates. Detailed month-wise and day-wise cash flow statements, bank statements, party-wise sales details and reconciliations were placed on record. In so far as purchases from the Hong Kong entity were concerned,

invoices, shipping bills, bills of lading, freight receipts, customs documents, bank remittance proofs and party ledgers along with consignment-wise details were furnished.

- 1, Copy of trial balance for F.Y.2016-17 was not furnished.
2. Particulars of demonetized notes available with the appellant as on 08.11.2016 was not furnished
3. Details of cash deposits of previous three years not furnished.
4. The appellant having submitted list of sale parties, the respective PAN and address of the debtors have not been furnished. Neither the particulars of goods sold to such debtors, nor the mode of transport along with documentary evidence were furnished.
5. The appellant did not furnish party wise bifurcation of cash sales and non-cash sales along with PAN and address of the debtors.
6. The appellant did not furnish party wise bifurcation of cash sales and non-cash

7. The learned Commissioner (Appeals), after examining the material on record, recorded a finding that the Assessing Officer had neither rejected the books of account nor disputed the manufacturing activity or the sales declared by the assessee. It was further observed that the cash deposits during demonetization amounted only to ₹16.69 lakhs and that the addition of ₹4.60 crores represented a sweeping addition of the entire year's cash deposits without identifying any specific unexplained transaction. It was also held that once sales are accepted and corresponding income is taxed, a further addition of cash deposits arising from such sales would result in double taxation. Accordingly, the addition on account of cash deposits was deleted, and partial relief was granted in respect of the alleged bogus purchases.

8. We have carefully considered the rival submissions, perused the material placed on record, and examined the findings recorded by the learned Commissioner (Appeals) in the light of the factual matrix emerging from the assessment record. At the outset, it is an undisputed position that the assessee is engaged in the business of manufacturing and trading of textiles and allied products, catering substantially to unorganised traders and small business entities. It is equally undisputed that the assessee has maintained regular books of account, including a day-to-day cash book, bank books and ledgers, all of which were produced before the Assessing Officer and were neither rejected nor found to suffer from any defect.

9. In so far as the addition on account of cash deposits aggregating to ₹4.60 crores is concerned, the record clearly demonstrates that the Assessing Officer initially commenced his enquiry with reference to cash deposits made during the demonetisation period, which admittedly amounted only to ₹16.69 lakhs. However, despite the assessee furnishing detailed month-wise and day-wise cash flow statements, cash books, bank statements of all operative accounts, and complete reconciliations explaining the source of each cash deposit, the Assessing Officer did not point out a single instance where the cash deposit was not traceable to recorded sales. The assessee had also furnished party-wise details showing cash received directly from customers as well as cash deposited by debtors into

the bank accounts, supported by corresponding sales bills and cash memos. These documents clearly established a direct nexus between the cash deposits and the sales effected in the regular course of business.

10. The cash flow chart and the cash book produced before the Assessing Officer further demonstrated that the opening cash balance, daily cash receipts from sales, and corresponding cash deposits were fully reconciled, with no unexplained surplus or deficit at any point of time. The Assessing Officer neither disputed the correctness of these records nor carried out any independent verification to controvert them. At the same time, the turnover declared by the assessee was accepted and the business income was computed on the basis of the audited profit and loss account. Once the sales have been accepted and the resultant income has been brought to tax, the cash receipts forming part of such sales cannot again be subjected to tax under section 68 merely because the mode of receipt was cash. Such an approach would result in taxing the same income twice, which is impermissible in law. The learned Commissioner (Appeals) has therefore rightly deleted the addition of ₹4.60 crores.

11. In relation to the alleged bogus purchases from M/s. Sanya Enterprise Ltd., Hong Kong, the assessment order reveals a fundamental misconception of facts. The Assessing Officer has conflated advances paid in earlier years, advances paid during

the year, and purchases actually accounted for in the books, resulting in overlapping and inflated additions. The learned Commissioner (Appeals) has correctly appreciated this factual error and has deleted the double addition to the extent of ₹91,33,681/-.

12. As regards the balance addition of ₹67,92,482/- sustained by the learned Commissioner (Appeals), the record shows that purchases debited to the profit and loss account during the year amounted to ₹42,80,530/-, while the remaining amount stood reflected as advances recoverable in the balance sheet. In support of these transactions, the assessee had furnished commercial invoices, shipping bills, bills of lading, freight receipts, customs clearance documents, bank remittance proofs and party ledger accounts, along with consignment-wise details. All remittances were made through proper banking channels. These evidences were neither rebutted nor dislodged by the Assessing Officer by bringing any adverse material on record.

13. Once the fact that a portion of the remittance has been accepted as genuine purchases is not in dispute and the balance amount stands reflected as recoverable advances, such advances cannot be treated as unexplained expenditure under section 69C. Advances do not partake the character of expenditure unless it is established that they have been irretrievably lost or represent sham outgoings. No such finding has been recorded in the assessment order.

14. Viewed in totality, we find that the reassessment has resulted in additions either founded on an incorrect appreciation of facts or leading to impermissible double taxation. The learned Commissioner (Appeals) was justified in deleting the addition on account of cash deposits, and the remaining addition sustained on account of alleged bogus purchases also deserves to be deleted.

15. Accordingly, the appeal filed by the assessee is allowed, and the appeal filed by the Revenue stands dismissed. All additions made in the reassessment order which have not been sustained herein shall stand deleted.

16. In the result, appeal of the assessee is allowed and appeal filed by the Revenue is dismissed.

Order pronounced in the open court on 9th February, 2026.

Sd/-
(GIRISH AGRAWAL)
ACCOUNTANT MEMBER

Mumbai; Dated 09/02/2026
KARUNA, *sr.ps*

Sd/-
(AMIT SHUKLA)
JUDICIAL MEMBER

Copy of the Order forwarded to :

1. The Appellant
2. The Respondent.
3. CIT
4. DR, ITAT, Mumbai
5. Guard file.

//True Copy//

BY ORDER,

(Asstt. Registrar)
ITAT, Mumbai