

आयकर अपीलीय अधिकरण, 'बी' न्यायपीठ, चेन्नई  
**IN THE INCOME TAX APPELLATE TRIBUNAL  
'B' BENCH, CHENNAI**

श्री जॉर्ज जॉर्ज के, उपाध्यक्ष एवं श्री एस.आर.रघुनाथा, लेखा सदस्य के समक्ष  
**BEFORE SHRI GEORGE GEORGE K, VICE PRESIDENT AND  
SHRI S.R. RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA Nos.:1859, 1860 & 1865/Chny/2025  
निर्धारण वर्ष / **Assessment Years: 2021-22, 2020-21 & 2022-23**

<b>K V Tex Firm,</b> No.56/34, First Floor, Block No. A, South Boag Road, T.Nagar, Chennai – 600 017.	vs.	<b>ACIT,</b> Central Circle -1(1), Chennai.
<b>[PAN: AAHFK-5532-E]</b> (अपीलार्थी/Assessee)		(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से/Assessee by : Shri. D. Anand, Advocate  
प्रत्यर्थी की ओर से/Respondent by : Shri. Shiva Srinivas, CIT.

सुनवाई की तारीख/Date of Hearing : 11.11.2025  
घोषणा की तारीख/Date of Pronouncement : 04.02.2026

**आदेश / O R D E R**

**PER BENCH:**

These appeals filed by the assessee are directed against the separate orders passed by the learned Commissioner of Income Tax- Appeal, CIT(A), Chennai-18 (in short "Id.CIT(A)") all dated 24.04.2025 and pertains to assessment years (A.Y.) 2021-22, 2020-21 & 2022-23 respectively in respect of the Assessment orders passed by the Assessing Officer u/s. 143 (3), 147 & 143(3) the Income Tax Act, 1961 (in short "the Act") dated 29.03.2024, 29.03.2024 and 30.03.2024 respectively.

1.1 Since the facts are identical and issues are common, for the sake of convenience, these appeals filed by the assessee are heard together and are being disposed of by this consolidated order.

2. The grounds of appeal raised by the assessee are as under:

*1. On the facts and in the circumstances of the case and in law the Ld. Commissioner of Income-tax (Appeals) erred in failing to appreciate that the Order passed u/S 147 of the Ld. Assessing Officer is erroneous on the facts and the merits of the case and provisions of Law as well and hence requires to be quashed.*

*2. That the Ld. CIT(A) erred in rejecting the legitimate claim of the appellant that the income in respect of suppressed sales has to be determined applying the gross profit margin on such quantum and not the entire value of suppressed sales.*

*3. That the Ld. CIT(A) erred in failing to appreciate the rationale expressed in the various case laws cited by the Appellant in the affidavit of declaration filed during the course of reassessment proceedings affirmed the principle of taxation of GP Margins on suppressed sales and rejecting the same without assigning any suitable reason is inappropriate.*

*4. That the Ld. CIT(A) erred in failing to appreciate that the quantum of suppressed sales can get translated into taxable income in its totality only when the undisclosed asset found at the time of search in the case of the appellant is commensurate to the value of suppressed sales.*

*5. That the Ld. CIT(A) erred in failing to appreciate that the order of the Ld.AO is flawed when appropriate counters to the contention of the department and evidences brought on record accompanied by a sworn affidavit were ignored without assigning any proper reason.*

*6. For those and other reasons that may be adduced at the time of hearing, it is prayed by the Appellant that the Hon'ble Tribunal may be pleased to delete the unjust and inexplicable additions and thus render justice.*

3. The brief facts emanating from the records are that the Assessee is a partnership firm engaged in the business of retail garment trading. The partners of the firm are Shri Manivasagam, Shri M.Kanappan, Smt.Kannan Lakshmi and Smt.Venkateshwaran Soma Deivanai. The Assessee operates two retail units, one each at Cuddalore and Puducherry. The Assessee had originally filed its returns of income for the Assessment Years 2020-21 to 2022-23 u/s.139(1) of the Income Tax Act, 1961, on various dates, declaring income under the heads "Profits and Gains of Business or Profession", "Income from Other Sources",

including interest income. The assessee maintains regular books of account which are duly audited u/s.44AB of the Act, and the same have consistently accepted the trading results, including the Gross Profit (“GP”) in all prior years by the revenue.

4. A search and seizure action u/s.132 of the Act was conducted on 02.11.2022 at the residential premises of the partners and business premises of the Assessee firm. During the course of the search operation conducted u/s.132 of the Act, it was noticed that the assessee firm was using a software known as “S.S.Retail” for managing its entire supply chain operations. The said software was used for recording purchases, debit notes towards purchase returns, purchase cancellations, sales, sales returns, cancellation of sales and stock movement. All operational data relating to the above activities was recorded in a database named “KVTEXSSRETAILTRAN”, which was connected to a live billing server bearing IP address 192.168.1.222, where, according to the Assessing Officer (in short “the AO”), the original billing data was maintained.

5. During the course of the search, it was further found that the assessee was maintaining another server with IP address 192.168.1.14, installed with the same software application, namely “S.S.Retail”, but with additional features. This server was referred to as “SS Posting”. The data in the SS Posting server was stated to be regularly imported from the billing server through a process described as “Data Posting” and was stored in a separate database named “KVTEXSSRETAILTRANBKP”.

6. Both the databases, namely “KVTEXSSRETAILTRAN” (billing server) and “KVTEXSSRETAILTRANBKP” (SS Posting server), were analysed by the Department using SQL Server. As per the AO, both databases had identical database structures. Item-wise purchase details were recorded in the table

named “TRANS\_PURCHASE\_DET”, while the summary of purchase bills was recorded in “TRANS\_PURCHASE\_MAS”. Similarly, item-wise sales details were recorded in the table named “TRANS\_SALES\_DET”, and the summary of sales bills was recorded in the table named “TRANS\_SALES\_MAS”.

7. On verification and comparison of the data available in the two databases, it was observed by the AO that the sales figures reflected in the table “TRANS\_SALES\_MAS” in the database connected to the billing server were lower than the sales figures reflected in the database connected to the SS Posting server. The AO further recorded that the sales data available in the billing server database “KVTEXSSRETAILTRAN” completely matched with the sales figures maintained by the assessee in its Tally accounting software. However, the sales figures reflected in the SS Posting server database “KVTEXSSRETAILTRANBKP” were higher and did not match with the books of account, though the purchase figures in both databases were found to be matching.

8. Based on the above comparison, the AO concluded that the difference between the sales figures reflected in the billing server database and those reflected in the SS Posting server database represented suppressed sales of the assessee. Accordingly, the alleged suppressed sales for the Financial Years 2019-20 to 2022-23 were quantified, and the details were tabulated year-wise in the assessment order.

<b>F.Y</b>	<b>Net sales as per SS.Posting (original)</b>	<b>Net sales as per SS.retail (as per financials)</b>	<b>Difference</b>
2019-20	Rs.144,36,42,754	Rs.136,74,22,773	Rs.7,62,19,980
2020-21	Rs.118,01,15,007	Rs.109,83,00,784	Rs.8,18,14,222
2021-22	Rs.127,09,32,893	Rs.122,33,07,993	Rs.4,76,24,900
2022-23	Rs.88,98,07,055	Rs.86,15,64,632	Rs.2,82,42,422
		<b>Total</b>	<b>Rs.23,39,01,524</b>

9. The initial findings of the Revenue did not take into account the various discounts customarily extended by the Assessee in the course of its retail

business, such as festival discounts, bulk purchase discounts, staff and VIP discounts, and other scheme-based discounts. Upon due consideration of the aforesaid discounts, the alleged suppressed sales were recomputed and reduced to Rs.19,41,89,901/-. The year-wise break-up of the alleged suppressed sales, after factoring in the discounts, is tabulated hereunder for ready reference:

<b>F.Y</b>	<b>Gross Suppressed sale</b>	<b>Discount</b>	<b>Difference</b>
2019-20	Rs.7,62,19,980	Rs. 98,53,222	Rs.6,63,66,758
2020-21	Rs.8,18,14,222	Rs.1,28,23,404	Rs.6,89,90,818
2021-22	Rs.4,76,24,900	Rs.1,04,58,701	Rs.3,71,66,199
2022-23	Rs.2,82,42,422	Rs. 65,76,296	Rs.2,16,66,126
<b>Total</b>	<b>Rs.23,39,01,524</b>	<b>Rs.3,97,11,623</b>	<b>Rs.19,41,89,901</b>

10. Since the search was conducted after 01.04.2021, the JAO treated the case as one falling under Explanation 2 to Section 148, and accordingly issued a notice u/s.148 of the Act dated 30.03.2023, initiating reassessment proceedings for AY 2020-21 to 2023-24. In response to the notice issued u/s.148 of the Act, the assessee filed the return of income on 08.06.2023 for the AY: 2020-21 to 2022-23 offering additional income in the form of G.P on suppressed sales.

<b>AY</b>	<b>Suppressed Sales (in Rs.)</b>	<b>GP Ratio in percentage</b>	<b>Addl. Income offered to tax (in</b>
2020-21	Rs.6,63,66,758	18.76	1,20,23,501
2021-22	Rs.6,89,90,818	23.80	1,63,71,985
2022-23	Rs.3,71,66,199	21.30	78,47,338
<b>TOTAL</b>	<b>Rs.17,25,23,775</b>		<b>3,62,42,824</b>

11. During the course of the assessment proceedings, the Assessee submitted that, even assuming the existence of any suppressed turnover, only the gross profit element embedded therein could be brought to tax as income. In support of the said contention, the Assessee filed a sworn affidavit and placed reliance on binding judicial precedents, including the decision of the Hon'ble Gujarat High Court in CIT v. President Industries (258 ITR 654). The AO, however, rejected the Assessee's explanation and proceeded on the premise that only sales had been suppressed, while purchases and all other

components of the trading account stood recorded and unaltered in the system. On that basis, the Assessing Officer concluded that the entire difference in sales constituted undisclosed income u/s.69A of the Act, and not merely the gross profit component thereof.

12. Based on the above reasoning, the AO made addition to the returned income and completed the reassessment u/s.147 r.w.s. 144 of the Act on 30.03.2024 for the AY:2020-21 to 2022-23. The details of the same is attached hereunder.

AY	Suppressed Sales (in Rs.)
2020-21	Rs.6,63,66,758
2021-22	Rs.6,89,90,818
2022-23	Rs.3,71,66,199
<b>TOTAL</b>	<b>Rs.17,25,23,775</b>

13. The AO further held that the undisclosed income so determined was liable to be taxed u/s.115BBE r.w.s.69A of the Act, on the footing that the said income represented unaccounted income allegedly unearthed pursuant to the search action.

14. On appeal, the Id.CIT(A), while rightly holding that Section 115BBE was not applicable, nevertheless upheld the addition of the entire alleged suppressed turnover.

AY	Total Value of un-explained Investments in jewellery made by family members outside the books.	Addl. Income offered to tax
2020-21	Rs.1,20,23,502/-	Rs.1,20,23,501
2021-22	Rs. 27,01,998/-	Rs.1,63,71,985
2022-23	Rs.NIL	Rs. 78,47,338
<b>TOTAL</b>	<b>Rs.1,47,25,500</b>	<b>Rs.3,62,42,824</b>

15. Aggrieved by the order of the Id.CIT(A), the assessee has preferred the present appeals before us for the AYs 2020-21 to 2022-23.

16. The Id.AR for the assessee Shri D.Anand, Advocate submitted that the present appeal is filed against the order passed u/s.147 of the Act, wherein the AO has made an addition u/s.69A of the Act, treating the entire unaccounted sale as unexplained income. The Id.AR submitted that the impugned assessment order is illegal, bad in law, contrary to facts, and liable to be quashed for reasons stated herein.

17. The Id.AR submitted that in the present case, the notice u/s.148 of the Act was issued on 30.03.2023 for AY: 2020-21 to 2022-23. The said notice u/s.148 of the Act dated 30.03.2023 was issued not by the Faceless Assessing Officer (FAO), but by the Jurisdictional Assessing Officer (JAO) namely, the Asst. Commissioner of Income Tax, Central Circle1(1), Chennai. The impugned reassessment order u/s.147 of the Act has been passed on 29.03.2024 based on the aforesaid notice. Based on the aforesaid facts the following question of law on jurisdiction of reopening is raised for determination by the Id.CIT(A).

1. *Whether the reassessment proceedings initiated by issuance of notice under section 148 dated 30.03.2023 by the Jurisdictional Assessing Officer, instead of the Faceless Assessing Officer as mandated under the e-Assessment of Income Escaping Assessment Scheme, 2022 notified u/s 151A, are without jurisdiction and therefore void ab initio?*

18. The Id.AR submitted that on 29.03.2022, the CBDT notified the *e-Assessment of Income Escaping Assessment Scheme, 2022* in exercise of powers u/s.151A of the Act. Clause 3(b) of the said Scheme expressly provides that issuance of notice u/s.148 of the Act shall be through automated allocation in a faceless manner, in accordance with the risk management strategy formulated by the Board. In the present case, the notice u/s.148 was issued on 30.03.2023, well after the said Scheme had come into force. The said notice u/s.148 dated 30.03.2023 was issued not by the Faceless Assessing Officer

(FAO), but by the Jurisdictional Assessing Officer (JAO) — namely, the Asst. Commissioner of Income Tax, Central Circle1(1), Chennai.

19. Since the issuance of a valid notice u/s.148 by the competent authority (FAO) is a condition precedent for assumption of jurisdiction u/s.147, and inasmuch as the notice in the present case was issued by the JAO in contravention of the binding statutory Scheme dated 29.03.2022, the assessee submits that the initiation of reassessment proceedings is without jurisdiction and bad in law.

20. As per clause 3(b) of the said Scheme notified by CBDT on 29.03.2022 under *e-Assessment of Income Escaping Assessment Scheme, 2022*, the issuance of notice u/s.148, post 29.03.2022, is required to be done only through automated allocation and in a faceless manner by the Faceless Assessing Officer (FAO), in accordance with the risk management strategy formulated by the Board. In the present case, however, the notice dated 30.03.2023 has been issued by the Jurisdictional Assessing Officer (JAO), which is contrary to the express mandate of the Scheme. Since the issuance of a valid notice u/s.148 is a condition precedent for assumption of jurisdiction u/s.147, the defect goes to the root of the matter. The assessee therefore humbly submits that since the impugned notice is being issued without authority of law the said notice is void ab initio and consequently, the reassessment order passed on 29.03.2024, being founded upon an invalid notice, stands vitiated in entirety and deserves to be quashed.

21. The assessee relies on the following decision in support of his submission:

21.1 The Id.AR submitted that the Hon'ble Bombay High Court in the case of *Hexaware Technologies Vs. Commissioner of Income-Tax (2024) 464 ITR 430*

(Bom) has decided the controversy with respect to the issuance of notice u/s.148 in a faceless manner, and as to the validity of the notices issued by the JAO after the notification of the scheme. The relevant extract of the judgement has been reproduced below: -

*“36.1 Section 151A of the Act itself contemplates formulation of Scheme for both assessment, reassessment or recomputation under Section 147 as well as for issuance of notice under Section 148 of the Act. Therefore, the Scheme framed by the Central Board of Direct Taxes, which covers both the aforesaid aspect of the provisions of Section 151A of the i.e., the Act cannot be said to be applicable only for one aspect, proceedings post the issue of notice under Section 148 of Act being assessment, reassessment or recomputation under Section 147 of the Act and inapplicable the issuance of notice under Section 148 of the Act. The Scheme to is clearly the applicable for issuance of notice under Section 148 of the Act and accordingly, it is only the FAO which can issue notice under Section 148 of the Act and not the JAO. The argument advanced by respondent would render clause 3(b) contravened, of as the Scheme otiose and to be ignored or according to respondent, even though the Scheme specifically provides for issuance notice under Section 148 of the Act in a faceless manner, no notice of is required to be issued under Section 148 of the Act in a faceless manner. In such a situation, not only clause 3(b) but also the first two lines below clause 3(b) would be otiose, as it deals with the aspect of issuance of notice under Section 148 of the Act. Respondents, being an authority subordinate to the CBDT, CBDT, cannot argue that the Scheme framed by the and which has been laid before both House of Parliament is partly otiose and inapplicable. The argument advanced by respondent expressly makes clause 3(b) otiose and impliedly makes the whole Scheme otiose. If clause 3(b) of the Scheme is not applicable, then only clause 3(a) of the Scheme remains. What is covered in clause 3(a) of the Scheme is already provided in Section 144B(1) of the Act, which Section provides for faceless assessment, and covers assessment, reassessment or recomputation under Section 147 of the Act. Therefore, if Revenue's arguments are to be accepted, there is no purpose of framing a Scheme only for clause 3(a) which is in any event already covered under faceless assessment regime in Section 144B of the Act. The argument of respondent, therefore, renders whole Scheme redundant. An argument which renders the whole Scheme otiose cannot be accepted as correct interpretation of the the Scheme. The phrase "to the extent provided in Section 144B of the Act" in the Scheme is with reference to only making assessment or reassessment or total income or loss of assessee. Therefore, for the purposes of making assessment or reassessment, the provisions of Section 144B of the Act would be applicable as no such manner for For in reassessment is separately provided in the Scheme. issuing notice, the term "to the extent provided be Section 144B of the Act" is not relevant. The Scheme provides that the notice under Section 148 of the Act, shall issued as referred through automated allocation, in accordance with risk management strategy formulated by the Board to faceless in Section manner. in Section Therefore, 148 of the Act and in a "to the extent provided 144B of the Act" does not go with issuance of notice and is applicable only with reference to assessment or reassessment. The phrase "to the extent provided in Section 144B of the Act" would mean that the restriction provided in Section 144B of the Act, such as keeping the International Tax Jurisdiction or Central Circle Jurisdiction out of the ambit of Section 144B of the Act would also apply under the Scheme. Further the exceptions*

*provided in sub-section (7) and (8) of Section 144B of the Act would also be applicable to the Scheme.”*

21.2 Further it is submitted that the Hon'ble Telangana High Court in the case of Sri Venkataramana Reddy Patloola Vs. Deputy Commissioner of Income Tax, Circle 1(1) in WP Nos. 13353, 16141 & 16877 of 2024, has adopted the view of the Bombay High Court in the case of Hexaware Technologies (supra) and has decided the issue in favour of the Assessee. The Hon'ble Court categorically stated since all the impugned notices u/s.148 of the Act were not issued in a faceless manner, the consequential proceedings founded upon it including the assessment orders stood vitiated. The relevant extract of the judgment has been reproduced below as under:-

*“27. We are in respectful agreement with the view taken by the Bombay High Court and are of the opinion that the aforesaid underlined expression used in clause 3(b) of the scheme dated 29.03.2022 does not preclude the mandatory faceless procedure for issuance of notice under Section 148 of the Act. Any other interpretation, in our humble view, will not only cause violence to the language used, but will also defeat the object for which a transparent faceless procedure' was introduced. Hence, we are unable to persuade ourselves to accept a different meaning than the literal meaning flowing and conveyed from the provisions.”*

21.3 It is submitted that a similar case had come up before the Hon'ble Telangana High Court in the case of Deepanjan Roy Vs. ADIT (International Taxation) & Anr in WP No. 23573/2024 and the Hon'ble High Court adopted the same view it had taken in the case of Sri Venkataramana Reddy (supra) and decided the same in favour of the Assessee. The Department preferred a Special Leave Petition (Civil) in Diary No(s). 33956/2025 against the impugned judgement of the Telangana High Court before the Hon'ble Supreme Court and the same was dismissed by the Apex Court stating that the impugned judgement did not warrant any interference.

21.4 It is submitted that the Hon'ble Jurisdictional High Court in the case of TVS Credit Services Ltd. v. DCIT in WP No.22402 of 2024 & WMP No.13336 of 2023 on similar issues had relied on the judgement of the Bombay High Court

in the case of Hexaware Technologies (supra) as the Hon'ble Chief Justice had authored the said judgement and categorically held that notices issued u/s.148 of the Act beyond 29.03.2022 ought to have been mandatorily issued in a faceless manner and not by the JAO. The relevant extract of the aforesaid judgement has been reproduced as below: -

*"2. Learned Single Judge in order dated 20.12.2024 in WP Nos.25223 of 2024 held that it does not matter if the Jurisdictional Assessing Officer (JAO) issues the notice and it is not mandatory that it should be issued by the Faceless Assessment Officer (FAO). Another learned Single Judge in order dated 21.04.2025 in WP No.22402 of 2024 and batch cases, followed what was held by the Bombay High Court in Hexaware Technologies Ltd vs. Assistant Commissioner of Income Tax'; and opined that it was mandatory for the FAO to issue notice and issuance of notice by JAO would make the notice invalid.*

*3. Learned Single Judge thereafter directed the matter to be placed before the Chief Justice for constituting a Division Bench to consider the divergent views. It is, therefore, all these matters were listed before us today.*

*4. We follow the law as laid down in Hexaware Technologies Ltd (supra), the said judgment was authored by one of us (Chief Justice), that it is mandatory for the FAO to issue the concerned notices and issuance thereof by the JAO would make the notice invalid.*

21.5 It is submitted that the Jurisdictional High Court in the case of Dadha Pharma LLP Vs. The Deputy Commissioner of Income Tax Central Circle 1(4) in WP No. 35385 of 2024, had upheld the view taken in the case of TVS Credit Services (supra), and categorically held that the notices u/s.148 of the Act ought to have been issued in a faceless manner, and extended the application of the scheme to notices issued by the Central Circle and International Taxation Ward of the Income Tax Department u/s.148 of the Act.

21.6 It is submitted that the Hon'ble Income Tax Appellate Tribunal, Chennai Bench has adopted the view taken by the Jurisdictional High Court in the case of TVS Credit (supra) and has set aside assessment order undertaken pursuant to the issuance of notice u/s.148 of the Act by the JAO in the case of Kumaresan Bhagavathiperumal Pillai Vs. The ITO, International Taxation Ward in ITA No.1357/Chny/2025. The relevant extract of the order has been reproduced as below: -

*“14. The Hon’ble jurisdictional High Court in the case of TVS Credit Services Ltd. v. DCIT in WP No.22402 of 2024 & WMP No.13336 of 2023 on similar issued held as under: ...*

*... 15. Therefore, respectfully following the decision of the Hon’ble jurisdictional High Court, we set aside the impugned notice u/s.148 of the Act and consequential orders thereof. However, in the light of the Para No.8 of the judgment of the jurisdictional High Court, we also keep open of rights and contentions of parties including liberty to approach this bench, in case, the Revenue succeeds before the Apex Court for revival of this appeal.”*

21.7 It is submitted that in addition to the case laws cited above, the Assessee places further reliance on the following case laws: -

- *Jurisdictional ITAT in Riaz Ali Vs. Income Tax Officer in ITA No.790/2025 (ITAT Chennai)*
- *Jurisdictional ITAT in Syed Bathrudeen Mohideen Awliya Vs. Income Tax Officer in ITA No.1308/Chny/2025 (ITAT Chennai)*
- *Kairos Properties Private Limited Vs. Assistant Commissioner of Income Tax (2024) 468 ITR 0168 (Bom)*
- *Kankanala Ravindra Reddy Vs. Income Tax Officer in WP 25903/2022 (Telangana High Court)*

22. Further, the Id.AR has put forth his arguments on merits stating that “Whether the Assessing Officer was justified in drawing an adverse inference that purchases corresponding to suppressed sales were recorded in the S.S. Retail / accounting software, KVTEXSSRETAILTRAN when (i) purchase data sheets require invoice details, (ii) barcoding is an independent inventory-control process and (iii) unbilled cash purchases do not and cannot enter the accounting software (Tally) facts accepted by the AO’s own order.”

23. The Id.AR submitted that barcode is a physical identifier created to track stock movement and to prevent pilferage; it does not and cannot record supplier invoice details. The same barcode-generation process is applied to goods irrespective of whether a supplier invoice exists. The barcode therefore does not identify whether the underlying purchase was invoiced. An entry in SS-Retail showing a barcode or a sale of that barcode does not establish that the underlying purchase had an invoice or that the purchase was posted in Tally.

Thus, it could be seen that barcoding is an inventory-control process and that barcode/sales entries in S.S. Retail do not prove or establish that the purchases underlying those barcoded goods were entered in the purchase data sheet or in Tally.

24. The Id.AR further submitted that a fundamental flaw in the revenue's reasoning is the assumption that the barcoding process in the S.S. Retail system is directly linked to the purchase accounting module. This assumption is factually incorrect and technically impossible within the structure of the assessee's software ecosystem, as demonstrated by both the assessment record and the functioning of the S.S. Retail software.

Operationally, the sequence is:

1. Goods arrive (with or without invoice).
2. Goods are segregated and tagged.
3. Barcode is generated for showroom identification.
4. Goods are displayed and sold.
5. Only if there is a supplier invoice, the purchase entry is made in the purchase data sheet, which then flows into S.S. Retail accounts and then into Tally.

Thus, barcoding precedes and is independent of accounting. It does not require an invoice, nor does it create a purchase record.

25. The Id.AR submitted that Barcoding in its business is designed exclusively for inventory identification and physical stock tracking within the showroom. It is an operational tool used by sales personnel to track movement of goods from store to racks, prevent pilferage, identify products during billing, and maintain uniformity in stock classification. Crucially, barcoding has nothing to do with recording purchases or passing any accounting entry. The Ld.AR submitted that a barcode generated in S.S. Retail contains no supplier name, no supplier GST number, no invoice number, no invoice date, no purchase rate, no ledger head or voucher reference. The barcode only captures a unique item code, design/colour/size information, and MRP / selling price. There is no field

in the barcode architecture that can accommodate or reflect purchase-side details. Therefore, even if the same product is purchased with a bill or without a bill (cash/unbilled purchase), the barcode generated is identical, because the barcoding module does not and cannot differentiate the source of procurement.

26. The Id.AR submitted that the revenue's assumption is *When a sale is reduced or deleted in S.S. Retail, it implies the purchase must have existed and been recorded*. This inference is technically impossible for the following reasons:

- a) The database tables for product master / barcode generation operate independently of purchase ledgers.
- b) The sale screen pulls data from the product master (barcode table), not from the purchase table.
- c) The S.S. Retail software has no validation that "a purchase entry must exist before a barcode is generated".

Therefore, reducing or modifying a sale entry does not imply that a corresponding purchase entry ever existed.

27. The Id.AR further stated that the fact is admitted in the statement of the inventory manager. The Goods purchased without invoice are mixed with regular goods. Barcoding is done *uniformly* for all goods. There is no system flag or identifier that differentiates "billed purchases" from "unbilled purchases". Thus, when a sale is altered in S.S. Retail, one cannot conclude that the goods were billed and the purchase was in the accounting software or that the purchase is traceable in Tally. The system architecture simply does not support such a conclusion. The Id.AR submitted that the Department's entire theory of suppression rests on the premise *If sale is shown in the software, purchase must be in the software*. This premise collapses because:

- a) Barcoding does not bring a purchase into the accounts.
- b) Barcoded items may or may not have corresponding purchase entries.
- c) The software does not link the barcode table to purchase ledger tables.
- d) Audit trails of purchase ledger entries were never produced by the AO.

- e) No purchase invoices corresponding to suppressed sales were produced.
- f) No supplier statements or confirmations were obtained.
- g) No evidence shows that unbilled purchases were recorded in Tally.

Thus, there is no evidentiary nexus between altered sale entries and any purchase entries.

28. The AO's conclusion that purchases corresponding to the alleged suppressed sales were recorded in the accounting system is factually incorrect, procedurally unjustified, and legally unsound. The AO has not produced the necessary primary evidence (invoices, vendor confirmations, bank payments or system audit trails). The S.S. Retail barcode/sales tables do not and cannot substitute for supplier invoices or purchase vouchers.

29. The entire assumption of the revenue rests on the belief that all purchases whether with invoice or without are automatically captured in the S.S.Retail software and thereby reflected in the accounting system. This premise is factually incorrect and legally unsustainable. Purchase Data Sheet captures only invoiced purchases.

30. As per the assessment order's own narration:

- a) A purchase data sheet is prepared only where supplier name, invoice date, invoice number, item code, design number, and purchase rate are available.
- b) These fields cannot be filled for unbilled cash purchases.

Thus, goods purchased without bills cannot enter the purchase data sheet, and consequently, cannot enter S.S.Retail software, Tally software, Final books of account.

31. The Id.AR contended that the assessment order itself reproduces the *purchase data sheet* and describes the mandatory fields contained therein supplier name, invoice number and date, item code, brand, design no., purchase rate and MRP (page 6,10-11 of AO). These fields presuppose the existence of a supplier invoice. The AO's own narration confirms this feature. The unbilled cash purchases are procured from small weavers / unorganised sellers and are not accompanied by supplier invoices; such transactions therefore do not have supplier name / invoice no. / invoice date and cannot be entered into the purchase data sheet.

32. Thus, the record demonstrates two distinct workflows:

(A) Purchase→Data-sheet→Barcode→S.S. Retail→Accounting (Tally) for purchases with bills; and

(B) Purchase (cash, unbilled)→Barcode→Showroom sale for unbilled purchases i.e. the barcode is generated for physical control but no purchase ledger entry is created in Tally because of absence of invoice/payment trail. Both workflows are documented in the assessment record and witness statements.

33. Thus, it could be seen that factual basis for the AO's assumption that deletion/reduction of sale entries in S.S.Retail necessarily implies corresponding purchase entries in accounting is rebutted by the assessee's own material and by the AO's description of processes.

34. The purchase data sheet fields are invoice-dependent. Without an invoice, the mandatory fields cannot be populated therefore the item does not form part of the purchase data sheet. As the AO's order confirms, the purchase data sheet is the source for entering purchases into S.S. Retail/Tally. If a purchase is not on the data sheet it cannot appear as a purchase entry in Tally.

Absence from the purchase data sheet is direct evidence that the purchase was not recorded as an accounting purchase.

35. The Ld.AR also contended that entry in accounting software requires a supplier, invoice number and a payment record; unbilled cash purchases lack these. If such purchases had been improperly forced into Tally (by creating false supplier/invoice entries) the books would show unexplained negative cash balances or other inconsistencies, yet no such anomalous accounting trail exists in the record (and AO has not produced any). Merley because the assessee could not and did not lawfully enter unbilled purchases in Tally, it is not open to the AO to assert that purchases corresponding to suppressed sales were entered in the accounting system.

36. The Ld.AR submitted that the statements from the inventory manager and accounts manager admit that unbilled purchases exist and that these are barcoded and routed to showrooms precisely the process the assessee has described. Those very statements are in the AO's own record and were not meaningfully contradicted. Further the AO did not produce supplier invoices or statements from suppliers that match the alleged purchases (there is no supplier ledger printed and proved). In search/reconstruction cases that matter, the Department must prove purchases by independent corroboration, it did not do so.

37. The Ld.AR urged that a fundamental factual and accounting flaw in the AO's assumption is the belief that unbilled cash purchases could have been, or were, entered into the assessee's Tally accounting system. This is impossible as a matter of accounting procedure. A valid purchase entry in Tally mandatorily requires the existence of a supplier ledger, a tax invoice number, and a corresponding payment trail, none of which exist in the case of unbilled cash purchases. Without these indispensable elements, Tally simply cannot register

a legitimate purchase entry. Any attempt to artificially force such entries into the system would necessarily create distortions in the books, such as fictitious creditors, fabricated invoices, unexplained or negative cash balances, GST liability mismatches, unverifiable cash outflows, or discrepancies in supplier reconciliation. These distortions are inevitable accounting consequences if unbilled purchases had been entered into Tally.

38. The Ld.AR submitted that the search as well as the assessment have yielded no such accounting aberrations. There are no bogus or untraceable creditors in the books. There are no mismatches between purchase entries and payment trails. There are no GST discrepancies or phantom outward tax liabilities arising from non-existent inward supplies. The cash book does not show negative balances at any point. The complete absence of such anomalies conclusively demonstrates that unbilled cash purchases were never recorded in Tally, and therefore cannot either factually or logically be connected to the modified or reduced sales entries detected in the S.S. Retail software. In the absence of such nexus, the presumption that the suppressed sales were matched by recorded purchases collapses entirely, and the Department's conclusion stands on no evidentiary foundation.

39. The Ld.AR further submitted that a fundamental weakness in the AO's conclusion is the complete absence of any corroborative evidence linking the alleged suppressed sales to corresponding purchase entries in the books of account. While the AO has assumed that all goods relating to the suppressed turnover must have been purchased and recorded in the accounts, no supporting material has been identified or produced to substantiate this assumption. No supplier invoices have been found or referred to; no confirmations from vendors have been obtained; no purchase ledgers or stock registers reflecting such purchases have been presented; and no Tally voucher numbers or accounting entries have been cited to demonstrate the presence of

matching purchases in the books. Likewise, there is no evidence of any bank or cash outflow in the form of payments to suppliers for such alleged purchases. Even system-generated audit logs or internal software trails, if any existed, could have shown whether corresponding purchase entries had ever been recorded or subsequently deleted. The AO, however, has not produced a single such item. This complete evidentiary vacuum makes it clear that there is no nexus whatsoever between the altered sales entries detected in the S.S. Retail software and any purchase entries in the accounting system. In the absence of such nexus, the AO's inference that the entire suppressed turnover represents income is not only speculative but directly contrary to the settled principles of law governing assessments based on unaccounted turnover.

40. The Id.AR therefore submitted that no addition can be made by treating entire suppressed sales as income on the basis of S.S.Retail differences alone, unless the Department produces:

- (a) vendor invoices / supplier confirmations / supplier ledger entries matching those purchases; and
- (b) system audit-logs or database transaction records showing creation/alteration of purchase/vendor entries in S.S. Retail/Tally that correspond with the suppressed sales; and
- (c) demonstrable accounting entries in Tally (voucher nos., dates, cheque/bank payment trail) matching such purchases.

41. The Id.AR submitted that it is a settled principle of commercial accounting that sales cannot exist in isolation every sale necessarily presupposes a corresponding purchase or opening stock. The suppressed sales, therefore, are not standalone receipts but form part of the trading cycle comprising purchase, stock movement, and sale.

42. According to the Ld.AR that in the present case, the AO has failed to bring any material on record to demonstrate that the alleged suppressed sales were

made without any corresponding purchases or that the goods sold were self-generated without incurring cost. On the contrary, the statements recorded during the course of search, including those of the inventory and accounts managers, affirm that all goods were procured through the regular supply channels and were duly reflected in the internal stock records maintained in the *S.S.Retail* software. The only irregularity, if any, pertained to part of the sales being effected in cash and not recorded in the final books of account.

43. The Ld.AR thus contended that, it logically follows that for every rupee of unrecorded sale, there exists a rupee of corresponding unrecorded cost. Treating the entire suppressed sale value as income disregards this fundamental trading principle and results in taxation of both the capital (cost of goods sold) and the revenue (profit) components of the transaction. Such an approach leads to double taxation of the same trading cycle and is therefore impermissible in law.

44. The correct approach, as upheld in a catena of judicial pronouncements including *CIT v. President Industries* [(2002) 258 ITR 654 (Guj)] and *CIT v. Simit P. Sheth* [(2013) 356 ITR 451 (Guj)], is to bring to tax only the profit element embedded in the unaccounted sales. The AO's failure to recognize this basic accounting reality renders the addition of the entire turnover wholly unsustainable.

45. The Id.AR contended that the addition made by the AO by treating the entire quantum of alleged suppressed sales as income is fundamentally misconceived and contrary to the settled principles of taxation. It is a trite principle that sales or turnover represent only the gross receipts of a business and inherently comprise both the cost component (i.e., purchases and related expenses) and the profit component. It is only the profit element embedded in such turnover that can be subjected to tax as income. The suppression of sales,

at its highest, indicates that a portion of turnover has escaped recording in the regular books. Such turnover, however, would necessarily have corresponding purchases, stock movements, and expenses, all forming part of the trading cycle. The Department has not brought any material on record to show that these sales were fictitious or that the goods sold were self-generated without incurring any cost. Therefore, taxing the entire suppressed turnover amounts to taxing both the capital and revenue components of a trading transaction, which is impermissible in law.

46. The principle has been consistently recognized by judicial authorities:

- In CIT v. President Industries (2002) 258 ITR 654 (Guj.), the Hon'ble Gujarat High Court held that the entire sales cannot represent income of the assessee; only the profit element embedded in such sales can be brought to tax.
- The same view was reiterated in CIT v. Samir Synthetics Mills (2010) 326 ITR 410 (Guj.), holding that even if unaccounted sales are found, the taxable income should be computed by applying the gross profit rate and not by assessing the full value of sales.
- In Pr. CIT v. Rameshwar Textiles Ltd. (TA Nos. 527–528/2015, Gujarat High Court), it was reaffirmed that the profit from unaccounted turnover alone can be taxed.
- The principle has also been accepted by the Jurisdictional Madras High Court in *M/s. Jubilee Plots & Housing Ltd.* [TCA No. 228 of 2014, dated 02.03.2021], where it was held that only a reasonable percentage of profit on unrecorded receipts could be taxed and not the entire receipts.

47. These authorities lay down the cardinal proposition that “turnover is not income.” What is assessable to tax is only the income component within the turnover, determined by applying the gross profit rate disclosed or established in the business.

48. In the present case, the AO himself has accepted the audited books of account and the gross profit ratio in respect of the disclosed turnover. There is no finding that the undisclosed turnover carried a higher margin or was earned under abnormal circumstances. Therefore, the same gross profit rate as accepted for regular business must necessarily be applied to the alleged suppressed turnover.

49. Accordingly, the addition made by assessing the entire suppressed sales as income is erroneous and unsustainable both on facts and in law. The addition, if any, should be restricted only to the gross profit embedded in the suppressed turnover.

50. Further, the Id.AR drew our attention to the Assessment order and submitted that:

*“a careful reading of the assessment order (pp. 5 to 13) unequivocally supports the assessee’s position that only accounted purchases are entered into the system, and therefore unbilled cash purchases cannot and do not get recorded in either the Purchase Data Sheet, S.S. Retail, or Tally. On page 5, while discussing the “Assessee’s claim of unaccounted purchases,” the AO himself records that the assessee explained the existence of cash-based, unrecorded purchases, and nowhere does the AO establish that such purchases were entered in the books. This is fortified by the testimony of Shri D.Sounderrajjan, Godown Manager, who categorically stated (pp. 6–7) that preparation of the purchase data sheet is possible only when supplier name, invoice number, invoice date, purchase rate, MRP and discount are available fields which cannot exist for unbilled purchases. His statement expressly confirms that only goods supported by supplier invoices are entered into the purchase data sheet, which is the very document that serves as the sole input for transferring purchase details into S.S. Retail and thereafter to Tally. Accordingly, goods procured without invoices are never capable of entering the accounting system.*

*The statements of Managing Partner Shri. Venkateshwaran (pp. 09) and the affidavit filed by the assessee further reinforce that the only manipulation in the software related to post-sale reduction of sale values, and had no relation whatsoever to the purchase module or to accounting entries. Their depositions describe a highly specific, custom-built screen enabling reduction of sale value after billing, by modifying only the “Trans\_Sales\_Det” and “Trans\_Sales\_Mas” tables. Crucially, both Shri D.Sounderrajjan, Godown Manager and Managing Partner Shri. Venkateshwaran confirm that (i) the Stock\_Mas table pulls price details only from the product master/barcode file, (ii) these tables are not linked to any purchase ledger, and (iii) the additional functionality affects only sales, not purchases. Nowhere in these statements is there even a suggestion that the software validates whether a corresponding purchase entry exists before a sale or barcode is generated. On the contrary, their evidence clearly establishes that barcode generation and stock movement operate independently of accounting entries, meaning goods sourced without invoices—common in textile and unorganised markets—are barcoded and sold in the same manner as fully invoiced goods.*

*Thus, the AO’s inference that “purchases corresponding to suppressed sales were already recorded in the system” is directly contradicted by his own evidence. The record shows:*

- (1) Purchase Data Sheet = invoice-driven, hence incapable of capturing unbilled purchases;*
- (2) Barcode generation = independent of purchase data, and does not record supplier name, invoice number or purchase details;*

*(3) Software manipulation = sales-only, with no access to or modification of purchase tables;*

*(4) No audit trail, ledger entry, invoice, vendor confirmation, bank payment, or Tally voucher is produced by the AO to show that such alleged purchases were ever recorded.*

*Accordingly, the only sustainable inference from pp. 7–15 of the assessment order and the witnesses' sworn statements is that unbilled cash purchases are not and cannot be recorded in S.S. Retail or Tally, and therefore only the profit element in the so-called suppressed turnover can be brought to tax, consistent with settled law including CIT v. President Industries."*

51. The Id.AR submitted that a careful reading of the assessment order makes it abundantly clear and beyond any pale of doubt that Shri Vijay's role was both technically and functionally confined only to the manipulation of sales data, and that he had no involvement whatsoever in the purchase side of the assessee's business or accounting system.

52. The assessment order records Shri Vijay's statement and the findings of the Assessing Officer in the context of suppression of sales through the SS Retail software. His role is described exclusively with reference to post-billing activities, namely the use of a software feature to reduce or modify the recorded sales turnover in the live billing server. The entire discussion concerning Shri Vijay revolves around how sales figures reflected in SS Retail were altered, while the original sales data continued to remain intact in the SS Posting or backup server. There is no reference anywhere in the assessment order to Shri Vijay having any access to, or control over, the purchase modules of the software.

53. Further, the assessment order itself demonstrates that purchase entry is a completely independent process, carried out at the godown stage and strictly on the basis of supplier invoices. Mandatory details such as invoice number, date, supplier particulars, quantity, and rate are required to be entered before a purchase can be recorded in SS Retail and subsequently in Tally. Vijay is not stated to have participated in, supervised, or interfered with this process at any point of time. He had no role in invoice entry, godown receipt of goods, or

physical verification of stock, nor did he have any responsibility in relation to procurement or dealings with suppliers.

53.1 Significantly, the AO has nowhere alleged either in the narration of facts or in the conclusions drawn that Shri Vijay:

- altered any purchase data,
- created or deleted purchase entries,
- tampered with purchase-related tables in the database, or
- had any involvement in stock procurement or purchase accounting.

54. On the contrary, the AO has consistently recorded that purchase data remained intact and consistent across SS Retail, SS Posting, and Tally, and that the manipulation detected during search was confined solely to sales figures. This finding itself reinforces the fact that Vijay's access and activities were limited only to the sales side of the software.

55. In essence, Shri Vijay's involvement was purely sales-centric and post-billing in nature. He was neither entrusted with nor capable of handling purchase entries, invoice-based accounting, or stock receipt processes. The assessment order thus conclusively establishes that Shri Vijay's role was restricted to manipulation of sales turnover alone, and any attempt to extend his involvement to purchases or procurement is unsupported by the record and contrary to the department's own findings.

56. The Id.AR contended that the conclusion drawn by the AO that there are no unaccounted purchases, solely on the ground that purchase data matches across SS Retail, SS Posting and Tally, is respectfully submitted to be fundamentally misconceived and legally unsustainable. It is submitted that the premise underlying the AO's conclusion is that all purchases necessarily pass through the accounting system, and therefore, if the purchase figures match across the three databases, no purchases exist outside the books. This

assumption, however, is contrary to the technical architecture of the software and the factual findings recorded in the assessment order itself.

57. The Id.AR submitted that SS Retail, SS Posting and Tally are systems designed to record only invoice-backed purchases. Entry of a purchase is possible only upon feeding mandatory invoice particulars, such as the supplier's name, invoice number, invoice date, quantity and rate. These details are indispensable prerequisites for creating a purchase entry. Consequently, any purchase that is not supported by a supplier invoice is, by design, incapable of being entered into these systems. The Id.AR submitted that unrecorded purchases, by their very nature, do not carry supplier invoices. In the absence of invoice particulars, such purchases never enter SS Retail, never get posted into SS Posting, and never find their way into Tally. Therefore, the systems examined by the AO are structurally incapable of capturing unaccounted purchases, irrespective of whether such purchases exist in reality.

58. The Ld.AR thus submitted that in this backdrop, the fact that recorded purchase data matches across SS Retail, SS Posting and Tally only establishes the internal consistency and correctness of the purchases that are actually recorded in the books. It does not, and cannot, negate the existence of purchases outside the accounting ecosystem. The AO's conclusion conflates the absence of unaccounted purchases *in the system* with the absence of unaccounted purchases *in fact*, which is a clear fallacy. Accordingly, the intact and matching nature of purchase data across the examined systems does not lead to the inference that no unrecorded purchases exist; it merely demonstrates that all invoice-backed purchases have been consistently and correctly recorded.

59. The modus operandi explained by Vijay, and expressly accepted by the AO, clearly establishes that cash generated from suppressed sales was

available outside the regular books of account. The very foundation of the AO's case is that a portion of the sales turnover was deliberately reduced in the SS Retail software, resulting in actual cash receipts which were not recorded in the books. This suppressed cash was, therefore, outside the Tally accounting system and not reflected in the declared cash balances.

60. Once the existence of such unaccounted cash is accepted, it necessarily follows, as a matter of commercial reality, that the cash could not have remained idle. In any running retail business, cash generated from sales is continuously deployed in the business cycle, primarily towards procurement of goods and replenishment of stock. The assessment order does not record the discovery of any unexplained accumulation of cash or assets corresponding to the suppressed sales, which further reinforces the inference that the unaccounted cash was rotated back into the business.

61. The Id.AR submitted that business realities of the trade, provide a coherent explanation for the utilisation of such suppressed cash. They explain that a portion of the cash generated from suppressed sales was utilised to make cash purchases without invoices, which, by their very nature, could not be recorded in SS Retail or Tally. This explanation seamlessly fits with the factual findings of the AO, who has not found any abnormal cash balances or unexplained assets in the books.

62. Crucially, had these cash purchases been entered into Tally, the books would have immediately reflected negative cash balances, since the corresponding suppressed cash sales were never recorded. The absence of such negative balances is not indicative of the non-existence of purchases; rather, it conclusively shows that both the cash sales and the cash purchases were kept outside the books in tandem.

63. The Ld.AR therefore submitted that the existence of unrecorded purchases is not an extraneous assumption, but the natural and inevitable corollary of the suppressed cash sales accepted by the AO himself. To accept suppressed sales while simultaneously denying the existence of corresponding unrecorded purchases would be to disregard commercial logic and the intrinsic business cycle, which the law does not permit.

64. The Id.AR further submitted that, during the course of the search, no undisclosed cash, excess stock, investments or any other assets were found or seized which could be correlated to the alleged suppressed turnover. Further, for all the assessment years under consideration, the additional income voluntarily offered by the Assessee was substantially in excess of the aggregate value of the undisclosed assets, if any, identified during the search.

65. The Id.AR submitted that the AO has read the assessee's affidavit wholly out of context, resulting in a distorted and inaccurate narration of facts. As evident from page 30 of the assessment order, the AO has cherry-picked isolated sentences, the AO has attempted to present the affidavit as if the assessee had admitted that all purchases, whether billed or unbilled were fully captured in the software, which is neither stated nor implied anywhere in the sworn statement.

66. In fact, the affidavit, when read as a whole, makes it abundantly clear that the assessee's disclosure related to suppressed sales achieved through post-billing rate reduction, while simultaneously explaining that corresponding purchases of a segment of goods were never recorded because they were cash-based and unbilled, and therefore incapable of entering the purchase data sheet or Tally. The AO's fragmented extraction of only paragraphs 4 to 6, while deliberately ignoring the qualifying and clarificatory statements in the subsequent paragraphs, has produced a misleading interpretation that is

inconsistent with the affidavit's plain language. Such selective reliance violates the settled principle that a document must be read in entirety and not by isolating phrases to suit a preconceived conclusion.

67. The Id.AR therefore submitted that the inference drawn by the AO namely that the assessee had admitted that "the entire movement of goods and supply chain including purchases were captured in the software" is factually untenable, legally impermissible, and arises wholly from cherry-picking of the affidavit rather than a fair and complete reading of it. The assessment order therefore proceeds on a fundamentally flawed appreciation of the affidavit and cannot be sustained. The assessment order, built upon this selective and distorted reading of the assessee's affidavit, has consequently been framed on a fundamentally erroneous factual premise. By disregarding the full context of the affidavit and ignoring the consistent evidence on record including witness statements, system architecture, and the mechanics of the purchase-entry process, the Assessing Officer has constructed a narrative that is factually unsustainable. The assessee submits that the order proceeds as though the assessee admitted that all purchases were duly recorded in the system, when in truth no such admission exists. This flawed foundation has percolated into every subsequent inference in the assessment, resulting in conclusions that are inherently vitiated, unsupported by evidence, and contrary to the material actually available on record.

68. The Id.AR contended that it is a settled principle of income-tax law that where unrecorded or suppressed sales are detected, the entire turnover cannot be brought to tax. Courts across the country have consistently held that only the profit element embedded within such turnover constitutes income, because turnover by its very nature includes the recovery of cost as well as profit. The Gujarat High Court, in the landmark decision of *CIT v. Simit P. Sheth* (356 ITR 451), held that when purchases or sales are found to be unaccounted, the

correct approach is to estimate the profit component, and not to treat the entire amount as income. Similarly, in *Gurubachhan Singh J. Juneja* (302 ITR 63), the same Court reaffirmed that additions must be confined to the reasonable margin of profit, and that gross receipts cannot be regarded as income in the absence of evidence showing that the assessee earned 100% profit on such transactions. These decisions encapsulate a uniform judicial doctrine that turnover is only a trading receipt and income arises only from the profit portion of that turnover. The Id.AR submitted that to assess the whole of the suppressed sales as income is to ignore the inherent cost of goods sold, leading to taxation of capital rather than income an approach repeatedly deprecated by courts. Therefore, in the present case as well, the only legally-permissible method is to estimate and tax the gross profit relatable to the alleged suppressed sales, and not the entire sales value itself.

69. The Id.AR further submitted that the Revenue cannot adopt two different standards for the same assessee, dealing in the same line of business, selling the same class of goods, under the same market conditions. For the disclosed segment of turnover, the AO as well as the Revenue over several years have consistently accepted the Gross Profit (GP) rate of approximately 23% to 25% as fair, reasonable, and reflective of the Assessee's business model. However, in respect of the alleged undisclosed sales comprising the very same goods and effected through the very same retail counters the Department has effectively applied a 100% GP rate by treating the entire turnover as income. Such an inconsistent approach is legally impermissible and commercially illogical.

70. The Id.AR submitted that there is no factual basis, evidentiary material, or industry rationale to assume that undisclosed sales yield a higher profit margin than disclosed sales, let alone an impossible 100% profit. The nature of goods, the pricing pattern, the customer base, and the competitive retail

environment remain identical for both sets of transactions. When business activity, products, and market conditions are the same, uniformity and reasonableness require that the same GP rate must apply to both disclosed and undisclosed turnover. The Department's deviation from its own accepted GP standard violates settled principles of business reality, parity, and consistency in tax administration. Hence, the Id.AR submitted that the correct and lawful approach is to assess only the GP component embedded in the alleged suppressed sales, applying the same GP ratio that the Revenue has regularly accepted in the Assessee's audited books.

71. The Id.AR argued that a search u/s.132 of the Act is not an ordinary investigative measure; it is an extraordinary exercise of statutory power an official intrusion into the privacy of a citizen, permitted only when there is a reasonable belief of possession of undisclosed income or property. It subjects the assessee to complete exposure of his person, premises, business, and finances. The intent and scope of such an intrusive proceeding are, therefore, to bring to light tangible evidence of undisclosed income in the form of undisclosed assets, investments, cash, bullion, jewellery, or other valuables, or in some cases, intangible assets such as unrecorded receivables or unexplained expenditure.

72. When a search of this nature is conducted, the entire financial affairs of the assessee stand open to the scrutiny of the department. Every document, ledger, file, and record is seized or examined; all physical assets, both movable and immovable, are inventoried; and statements are recorded under oath. Consequently, what emerges from such a comprehensive investigation is a complete picture of the assessee's business and personal financial position. If, after such an extensive exercise, no undisclosed asset of corresponding magnitude is found, the presumption of large-scale suppression of income becomes inherently weak.

73. It is thus an established and logical proposition that income determined on the basis of a search must necessarily be linked to what has been actually unearthed such as undisclosed cash, stock-in-trade, investments, or other tangible assets representing income that has escaped assessment. In the absence of any such discovery, mere computational or notional differences in sales figures drawn from software data or other digital records cannot, by themselves, justify the conclusion that the entire turnover represents undisclosed income.

74. This principle flows from the very object of a search u/s.132 of the Act, which is to unearth real and existing undisclosed assets rather than to reconstruct income hypothetically or infer profit where no physical evidence exists. The Hon'ble Courts have consistently held that the findings of a search must be read holistically, not selectively, and that what is not found cannot be presumed to exist merely to support a theoretical addition. (Ref: *Navjivan Oil Mills v. CIT* [2001] 252 ITR 417 (Guj.))

75. In the present case, the Id.AR contended that the search operations resulted in the recovery of no undisclosed cash, bullion, jewellery, or unexplained investment of any magnitude commensurate with the alleged suppressed sales. The limited investments in jewellery identified outside the books, aggregating about Rs.1,47,25,500/- across AY:2020-21 & 2021-22, stand fully explained by the gross-profit component already offered to tax by the assessee. This establishes beyond doubt that the trading results disclosed after applying the accepted gross-profit rate correctly reflect the real income unearthed from the search.

76. Accordingly, once the search has not yielded any unrecorded asset corresponding to the alleged suppressed turnover, no further addition can

justifiably be made merely on the basis of difference in sales data. The assessment of income arising from search must be confined strictly to what has been discovered and established, not what is inferred or imagined.

76.1 For the entire quantum of unaccounted turnover to be assessed as income, there must exist tangible evidence of undisclosed assets or investments commensurate with such turnover. It is only when the suppressed receipts are found to have been converted into assets, or when there is evidence of retention of the entire sale proceeds as unexplained money, that the total turnover could conceivably represent income.

77. In the present case, no such undisclosed asset, investment, or cash was found during the course of the search to justify the assessment of the entire unaccounted turnover as income. The total value of investments identified outside the books of account, as per the search findings, is approximately Rs.1,47,25,500 spread over AY:2020-21 & 2021-22, which is fully commensurate with the gross profit component of the suppressed turnover already offered to tax by the assessee. This clear correlation between the additional income voluntarily declared on a gross profit basis and the value of assets found during search conclusively establishes that the unaccounted turnover has already been taxed in substance.

78. The AO has neither identified nor brought on record any asset, cash, or investment approximating the total alleged suppressed turnover, nor has he demonstrated any accumulation of unaccounted funds in the hands of the assessee. In the absence of such corroborative evidence, treating the entire suppressed sales as income is both illogical and inconsistent with the evidentiary findings of the search.

79. The Hon'ble Gujarat High Court in *Navjivan Oil Mills v. CIT* [(2001) 252 ITR 417 (Guj.)] has categorically held that the findings of a search must be read and interpreted as a whole and not selectively to suit the Revenue's case. When the search reveals only limited undisclosed assets, the Department cannot arbitrarily expand the scope of assessment by treating notional or unsubstantiated turnover as unexplained income.

80. Therefore, in the absence of any undisclosed asset of corresponding magnitude, the addition of the entire unaccounted turnover as income is devoid of factual foundation and is liable to be deleted.

81. In view of the above facts, circumstances, explanations, and judicial authorities, the Id.AR prayed to delete the addition made by the AO by treating the entire alleged suppressed turnover as income and restricting the addition to gross profit embedded in such turnover.

82. Per contra the Id.DR Shri. Shiva Srinivas, Id.CIT(A), relied on the orders of the AO and Id.CIT(A) and prayed for confirming the additions made by the Assessing Officer as the assessee has reduced the value of the sales figures in their inventory and sales software. Since, there is no alteration in the quantity of the sales shown in the inventory and sales software maintained.

83. We have carefully considered the rival submissions, perused the material available on record, examined the assessment orders as well as the orders passed by the Id.CIT(A), perused the paper books filed before us, and taken into account the judicial precedents relied upon by both sides. The issue raised in these appeals is being decided on merits.

84. The sole controversy before us lies is, whether the entire value of the alleged suppressed sales detected on account of differences between two

databases of the S.S. Retail software is liable to be assessed as income of the assessee, or whether only the gross profit element embedded in such sales can be brought to tax.

85. At the outset, certain facts emerge as undisputed from the assessment record itself that the assessee is engaged in the business of retail trading in garments and maintains regular books of account which are duly audited u/s. 44AB of the Act. The gross profit disclosed by the assessee in its regular books has been consistently accepted by the Revenue in the earlier assessment years. During the course of search proceedings, discrepancies in sales figures were noticed between two databases maintained in the S.S. Retail software, namely:

- “KVTEXSSRETAILTRAN” (live billing server), and
- “KVTEXSSRETAILTRANBKP” (SS Posting / backup server).

86. The AO himself records that the purchase figures in both databases matched with each other as well as with the books maintained in Tally, and that the manipulation detected was confined only to the sales tables, viz., “TRANS\_SALES\_DET” and “TRANS\_SALES\_MAS”. Further, no purchase invoices, supplier confirmations, vendor ledgers, bank payment trails or accounting vouchers corresponding to the alleged suppressed sales were either found during the course of search or brought on record by the AO. It is further an admitted position that no undisclosed cash, excess stock-in-trade, bullion, jewellery or other assets commensurate with the alleged suppressed turnover of Rs.17.25 crores were unearthed during the search. These admitted and incontrovertible facts constitute the bedrock of our adjudication.

87. We find that the AO proceeded on the premise that since purchases were found to be recorded in the system and only sales had been suppressed, the entire difference in sales represented undisclosed income liable to be taxed

u/s.69A of the Act. In our considered view, such an approach is fundamentally flawed, both on facts and in law. It is a settled principle of commercial accounting that sales, by themselves, do not constitute income. Sales are merely gross trading receipts which necessarily comprise:

- the cost of goods sold, and
- the profit margin embedded therein.

88. Unless it is demonstrated that the assessee earned a hundred per cent margin on such sales a proposition which is commercially absurd the entire turnover cannot be equated with income.

89. The Hon'ble Gujarat High Court in *CIT v. President Industries* (258 ITR 654) has categorically held that:

*"The entire sales proceeds cannot be treated as income of the assessee. Only the profit element embedded in such sales can be brought to tax."*

90. This salutary principle has been reiterated in *CIT v. Simit P. Sheth* (356 ITR 451), *CIT v. Samir Synthetics Mills* (326 ITR 410), and in a host of subsequent decisions, including those rendered by the jurisdictional High Court.

91. We further observe that the approach adopted by the AO ignores the intrinsic trading cycle of any business. Every sale necessarily presupposes either utilisation of opening stock, or purchases, whether recorded or unrecorded. The Revenue has not brought on record even a scintilla of evidence to suggest that the goods allegedly sold were self-generated or that the assessee incurred no cost whatsoever in respect of such turnover.

92. On the contrary, the statements of the inventory manager and the managing partner, which have themselves been relied upon by the Assessing Officer, unequivocally indicate that goods were procured through normal trade channels, including cash-based unbilled purchases from the unorganised

sector a phenomenon which is a well-recognised commercial reality in the textile trade. In such circumstances, to bring to tax the entire sales value would amount to taxing not merely income but also the capital employed in acquiring the goods, which is impermissible in law.

93. A substantial portion of the assessment order rests on the assumption that purchases corresponding to the suppressed sales were already recorded in S.S. Retail and Tally. However, this assumption collapses once the system architecture and the evidence on record are carefully examined. The Purchase Data Sheet, as explained by the Assessing Officer himself, is invoice-driven and mandates compulsory fields such as supplier name, invoice number, invoice date, rate and quantity. Such fields, by their very nature, cannot exist in the case of unbilled cash purchases. Consequently, purchases made without invoices are structurally incapable of entering the purchase data sheet, S.S. Retail, SS Posting or Tally.

94. We further find merit in the contention of the Id.AR that barcoding is independent of accounting. The evidence on record establishes that barcoding is merely an inventory-control mechanism and not an accounting entry. A barcode does not contain supplier details, invoice references or purchase values. Barcode generation precedes accounting and does not validate whether any purchase has been recorded in the books. Therefore, the presence of a barcode or the sale of a barcoded item cannot, by itself, establish that the corresponding purchase was recorded in the accounts.

95. The AO has failed to bring on record any supplier invoices, vendor confirmations, purchase ledger entries, bank or cash payment trails, or system audit logs evidencing the creation of purchase entries in respect of the alleged suppressed sales. In the absence of such primary evidence, the conclusion that all purchases stood recorded is nothing but conjecture and surmise.

96. The inference drawn by the AO that since purchase data matched across systems there were no unaccounted purchases is equally unsustainable. The matching merely establishes that invoice-backed purchases were correctly recorded; it does not rule out the existence of purchases outside the accounting ecosystem which, by design, cannot enter the system in the absence of invoices. The AO has thus conflated the absence of unaccounted purchases in the system with absence of unaccounted purchases in fact a classic non sequitur.

97. The assessment order itself confines the role of Shri Vijay to post-billing reduction of sales values and to manipulation of sales tables alone. There is neither any allegation nor any evidence that he accessed purchase modules, altered procurement records or interfered with purchase entries. On the contrary, the Assessing Officer records that purchase data remained intact throughout.

98. This, in our view, conclusively establishes that the manipulation detected was sales-centric and not purchase-related.

99. We also find force in the submission of the Id.AR that the AO has selectively relied upon isolated portions of the affidavit while ignoring its clarificatory paragraphs. It is well-settled that a statement or affidavit has to be read as a whole and cannot be dissected to suit a preconceived narrative. When read in entirety, the affidavit consistently explains the modus operandi of suppression of sales through post-billing reductions and also the existence of unbilled cash purchases which were incapable of entering the accounting system. There is no categorical admission anywhere therein that all purchases were duly recorded.

100. It is also significant that a search u/s.132 of the Act is an extraordinary measure intended to unearth real undisclosed assets and income. In the present case, no undisclosed cash, no excess stock and no investments commensurate with the alleged turnover of Rs.17.25 crores were found. The limited jewellery investment detected, amounting to Rs.1.47 crores, stands explained by the gross profit already offered by the assessee. The Hon'ble Gujarat High Court in *Navjivan Oil Mills v. CIT* (252 ITR 417) has observed that search findings must be read holistically and cannot be stretched to justify hypothetical or conjectural additions.

101. The Revenue has consistently accepted the assessee's gross profit rate of approximately 23% to 25% on disclosed turnover. No material has been brought on record to demonstrate that the alleged undisclosed sales yielded a higher margin. In such circumstances, the application of a 100% profit rate to suppressed sales is commercially unrealistic, legally impermissible and internally inconsistent. In order to maintain consistency, uniformity and fairness, the same gross profit rate as disclosed on recorded turnover must necessarily be applied to the alleged suppressed turnover as well.

102. In view of the aforesaid factual matrix, accounting principles and binding judicial precedents, we hold that the addition of the entire alleged suppressed turnover as income is unsustainable. The Assessing Officer has failed to establish that the assessee earned income equal to the gross sales. We are therefore of the firm view that only the gross profit element embedded in the suppressed turnover could be brought to tax. Since the assessee has already voluntarily offered such gross profit, which adequately covers the undisclosed income, the additions made by the AO and sustained by the Id. CIT(A) by treating the entire suppressed sales as income are hereby deleted. Therefore, we direct the AO to accept the income offered by the assessee on a gross profit

basis for all the three assessment years, namely 2020-21 to 2022-23. Hence, the grounds of appeal raised by assessee on merits are allowed.

103. As all the appeals have been decided in favour of the assessee on merits, the legal issues raised are left open and are not adjudicated upon.

104. In the result, all the three appeals of the assessee stand allowed.

Order pronounced in the court on 04<sup>th</sup> February, 2026 at Chennai.

**Sd/-**

(जॉर्ज जॉर्ज के)

**(GEORGE GEORGE K)**

उपाध्यक्ष /VICE PRESIDENT

**Sd/-**

(एस. आर. रघुनाथा)

**(S. R. RAGHUNATHA)**

लेखा सदस्य/ACCOUNTANT MEMBER

चेन्नई/Chennai,

दिनांक/Dated, the 04<sup>th</sup> February, 2026

**SP**

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Assessee
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT– Chennai/Coimbatore/Madurai/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF