

**IN THE INCOME TAX APPELLATE TRIBUNAL  
'SMC' BENCH, BANGALORE**

**BEFORE SHRI WASEEM AHMED, ACCOUNTANT MEMBER AND  
SHRI KESHAV DUBEY, JUDICIAL MEMBER**

ITA No.2039 - 2041/Bang/2025
Assessment Year: 2015-16, 2017-18 & 2018-19

Shri Ammati Venkatachalapathisetty Sathishkumar, No.2, Kumar Traders, M.G Road, KRS Complex, Chintamani - 563 125.  <b>PAN – AHEPS 5992 C</b>	Vs.	The Income Tax Officer, Ward – 1, Chikkaballapur.
APPELLANT		RESPONDENT

Assessee by	:	Smt. Sheettal, Advocate
Revenue by	:	Shri Ganesh R Ghale, Advocate – Standing Counsel for Revenue

Date of hearing	:	03.02.2026
Date of Pronouncement	:	24.02.2026

**ORDER**

**PER WASEEM AHMED, ACCOUNTANT MEMBER:**

This set of 3 appeals, filed at the instance of the assessee, is directed against the common order of the Learned Commissioner of Income Tax (Appeals)-15 Bengaluru (hereafter the learned CIT(A)), under section 250 of the Income Tax Act, 1963 (hereafter the Act) for A.Ys. 2015-16 & 2017-18 dated 16<sup>th</sup> August 2025 and separate order for A.Y. 2018-19 dated 16<sup>th</sup> August 2025. These appeals were heard together, accordingly adjudicated together hereunder.

**First, we take up assessee's appeal in ITA No. 2139/Bang/2025 for A.Y. 2015-16 as a lead case.**

2. The assessee in the appeal memo has raised several grounds numbered as Ground Nos. 1 to 13 challenging the validity of reopening of the assessment under section 147 r.w.s 148 of the Act as well as challenging the addition made on merit.

3. First, we proceed to adjudicate the issue raised on merit through Ground Nos. 7 to 13 that the learned CIT(A) erred in confirming the addition of Rs. 22.75 lakh on account of purchase of shop and Rs. 19 lakhs on account of cash deposit.

4. Brief facts are that the assessee, an individual, is engaged in business through proprietary concern in the name of M/s Kumar Traders. For the year under consideration, the assessee filed return of income and declared business income under section 44AD of the Act. As such the assessee, declared turnover of Rs. 56,62,174/- on which offered income at 9.96%.

5. Subsequently, a survey under section 133A of the Act was conducted at the business premises of the assessee as on 21<sup>st</sup> August 2017. During the course of survey operation, the notice under section 133(6) of the Act was issued to sub-registrar office. The information received in response to the notice revealed that the assessee during the F.Y. 2014-15 relevant to assessment year under consideration has made investment in immovable property being purchase of shops for Rs. 22,75,000/- from M/s Murthy Syndicate. The entire consideration of Rs. 22,75,000/- was paid through cash payment.

5.1 On verification of the return of income for the succeeding assessment year 2016-17, the total value of fixed assets was shown at Rs. 6,71,195 after claiming depreciation as on 31-03-2016. If the

impugned investment of Rs. 22,75,000 had in fact been accounted for and disclosed in the return of income for the year under consideration as claimed by the assessee, the opening and closing balances of assets in the subsequent year ought to have been substantially higher. However, the balances reflected in the returns did not support such claim. A comparative analysis with the preceding assessment year 2014-15 also did not indicate availability of sufficient funds for making such investment. Further, in the statement recorded during survey proceedings under section 133A of the Act, the assessee had disclosed other immovable properties but had not mentioned the property under reference, which prima facie indicated that the investment was not accounted. The investment was stated to have been made entirely in cash and the assessee failed to demonstrate the availability of cash on hand. The assessee was repeatedly called upon to certify and declare the accounts and balance sheet under Rule 14 of the Income-tax Rules, 1962, but he refused to do so. The opening and closing capital balances were found to be inconsistent with the returns already filed. In view of these discrepancies, non-reconciliation of balances, and failure to furnish satisfactory evidence regarding the source of investment, the Assessing Officer held that the investment of Rs. 22,75,000 represented unexplained investment liable to be added to the income of the assessee.

5.2 With regard to cash deposits of Rs. 19,00,000, the Assessing Officer noted that substantial cash was deposited in the bank account during the year, which came to light during the proceedings under sections 147/148 of the Act. The assessee contended that the deposits were out of earlier withdrawals and referred to a loan received through cheque from M/s Magna Housing Finance. However, the Assessing

Officer found that there was no clear and satisfactory explanation establishing a nexus between earlier withdrawals and the subsequent cash deposits. The loan amount received by cheque could not explain the cash deposits, particularly when the cash was separately credited in the bank account. The assessee also failed to reconcile the cash flow and refused to properly certify the accounts under Rule 14 despite specific directions. The inconsistencies in the opening and closing balances for preceding and succeeding years further weakened the explanation. Placing reliance on the principles laid down by the Hon'ble Supreme Court in the cases of CIT v. Devi Prasad Vishwanath Prasad reported in 72 ITR 194 and CIT v. P. Mohankala reported in 291 ITR 278, the Assessing Officer held that the burden was on the assessee to satisfactorily explain the nature and source of the sums credited. Since the explanation was not found satisfactory, the cash deposits of Rs. 19,00,000 were treated as unexplained income and added to the total income of the assessee.

6. The aggrieved assessee preferred an appeal before the learned CIT(A) and filed certain additional evidence. Hence, the same were forwarded to the AO for the remand report.

7. Based on the contents of the remand report placed on record, the assessee's submissions in the remand proceedings and the observations of the Assessing Officer can be structured as under:

8. The assessee in the remand proceeding submitted that he is a proprietor of M/s Kumar Traders and for the relevant assessment year had declared total turnover of Rs. 56,62,174.00 and profit at Rs. 5,04,357.00 being at 9.96 percent, which is higher than the prescribed rate under section 44AD of the Act. He also stated that he was a partner in M/s Kumar Jewellers and had received interest on capital of Rs.

27,842. It was contended that since he had opted for the presumptive taxation scheme under section 44AD of the Act, he was not required to maintain regular books of accounts or prepare a balance sheet and profit and loss account. Therefore, non-maintenance of regular books could not be viewed adversely.

8.1 The assessee stated that he maintained two bank accounts, one with Kotak Mahindra Bank and another with Karnataka Bank. The deposits and withdrawals in these accounts were explained as arising out of personal and family transactions. It was submitted that there was an ongoing family dispute among brothers regarding division of properties, and due to such circumstances certain amounts were withdrawn and later redeposited.

8.2 The assessee explained that a housing loan of Rs. 30 lakhs was availed from Magna Housing Finance Ltd for settlement of dispute. Out of this loan, around Rs. 16 lakhs were withdrawn in cash on various dates in July 2014 for the purpose of settlement. As the settlement did not materialize at that time, part of the withdrawn amount i.e. Rs. 8 lakh was redeposited in the bank on different dates. Out of the remaining funds, Rs. 17 lakhs was transferred to his wife and the balance remained i.e. 5 lacs as part of the loan utilization.

8.3 The assessee further submitted that pursuant to a partition deed he received Rs. 8 lakhs, and by adding Rs. 9 lakhs from his own personal and business funds and from remaining loan fund of Rs. 5 lakh he aggregated Rs. 22 lakhs for purchase of shops in KRS Complex, Chinthamani. Copies of purchase deeds and cash book for the period 01.04.2014 to 31.03.2015 were furnished. It was argued that the source of investment was fully explained and that there was no concealment of income.

8.4 However, in the remand report, the AO observed that the submissions now made by the assessee were not placed before him during the original assessment proceedings. According to the AO, the assessee had taken inconsistent stands. On one hand, he claimed that he had not maintained books of account under section 44AD of the Act. On the other hand, he produced certain statements and later a cash book during appellate proceedings. This contradiction, according to the AO, raised serious doubts about the reliability of the records.

8.5 The AO further noted that the accounts and balance sheet submitted were not certified as required under Rule 14 of the Income Tax Rules, and despite being confronted, the assessee refused to obtain such certification. The Assessing Officer viewed this as a deliberate omission rather than an accidental lapse.

8.6 With regard to bank transactions and loan withdrawals, the AO stated that the explanations relating to cyclical and systematic withdrawals and redeposits were afterthoughts made only after the assessment order referred to such patterns. According to him, these details were not furnished during assessment and were now brought on record only to justify the deposits. The AO also observed that the purchase deeds and cash book were not produced earlier for verification. In conclusion, the AO stated that the conduct of the assessee during assessment proceedings indicated non-cooperation and withholding of material facts. He was of the view that the explanations offered during remand proceedings were afterthoughts and not supported by credible contemporaneous evidence placed during assessment. Therefore, he maintained that the submissions of the assessee were not acceptable and reiterated the findings recorded in the assessment order.

8.7 The assessee in the rejoinder submitted that the observations made in the remand report are not correct and are based on a misunderstanding of facts. The income for A.Y. 2015–16 was declared under section 44AD of the Act at a rate higher than the prescribed percentage. Since the assessee opted for the presumptive scheme, he was not required to maintain regular books of account. Therefore, non-maintenance of books cannot be treated as adverse conduct.

8.8 It is further submitted that the documents and explanations termed as “new” in the remand report were already filed before the learned CIT(A) on 25.10.2019 as additional evidence under Rule 46A of Income tax Rules. Hence, they were part of the record and not afterthoughts. The bank account details were duly disclosed in the return of income, and the balance sheet was also submitted earlier. The explanations regarding loan transactions, withdrawals, redeposits, and investments were given only to clarify the source of funds.

8.9 However, the learned CIT(A) after considering the remand report and rejoinder confirmed the addition made by the AO by observing as under:

*The Assessing Officer as seen from the assessment order has made significant efforts in rebutting the objections kept on raising by the assessee throughout the course of assessment proceedings. Though there is a detailed discussion on the validity of notice issued u/s 148, the AO has very clearly established that there is no incorrectness in the procedure followed in issuing notice. The entire issue is about the failure of the assessee to explain the source of the cash deposits of Rs. 19,00,000/- in his bank account. The appellant keeps on repeating that the source of cash withdrawals is the loan taken from Magna Housing Finance of Rs. 29,70,000/- but failed to establish as to how the loan taken in cheque gets transformed into cash deposits in his Kotak Mahindra bank account neither before the AO nor before the undersigned. Similarly, the assessee was given multiple opportunities to explain the source of cash of Rs. 22,75,000/- paid for the purchase of shops. The AO has given a detailed findings regarding this issue. The appellant however failed to establish the source again repeatedly stating that the source is from earlier cash withdrawals, for which again there is clear failure on part of the appellant to prove the same both before the AO and the undersigned.*

*Hence, I confirm the addition of Rs.41,75,000/- made by the AO. Accordingly, the grounds of appeal no.6 to 8 are hereby dismissed.*

9. Being aggrieved by the order of the learned CIT(A), the assessee is in appeal before us.

10. The learned AR before us filed a paper book running from pages 1 to 70 and contended that the assessee declared turnover of Rs. 56,62,174/- and offered income under section 44AD at 9.96%, which is higher than the prescribed rate. The turnover has been accepted, and no defect has been pointed out. Therefore, cash deposits of Rs. 19,00,000/- being within the business turnover cannot be treated as unexplained. Regarding the investment of Rs. 22,75,000/-, the AR contended that the source was duly explained through housing loan, partition receipts and own funds, supported by documentary evidence filed before the CIT(A) and examined in remand proceedings. The additions were made merely on suspicion and procedural grounds without disproving the evidence.

11. Per contra, the learned DR supported the orders of the Assessing Officer and the Id. CIT(A). It was submitted that the assessee failed to explain the source of cash deposits and investment despite repeated opportunities. The claim of conversion of cheque loan into cash deposits was not substantiated with proper cash flow or contemporaneous records. The assessee took contradictory stands regarding maintenance of books under section 44AD of the Act and produced cash book only during appellate proceedings. The Id. DR argued that the burden to explain the nature and source of credits lies upon the assessee, and in the absence of satisfactory evidence, the additions were rightly made and confirmed by the authorities below.

12. We have heard the rival contentions of both the parties and perused the materials available on record. The dispute relates to two

additions, namely Rs. 19,00,000/- towards cash deposits in the bank account and Rs. 22,75,000/ towards investment in purchase of shops.

12.1 So far as the addition of Rs. 19,00,000/ towards cash deposit is concern it is an undisputed fact that the assessee has declared turnover of Rs. 56,62,174/- during the year and offered income under section 44AD of the Act at 9.96 percent, which is higher than the prescribed rate. The turnover declared by the assessee has not been rejected. No defect has been pointed out in the sales or in the computation of presumptive income. When business turnover of more than Rs. 56 lakhs is accepted, cash deposits of Rs. 19 lakhs in the bank account cannot automatically be treated as unexplained, particularly when such deposits are well within the scale of the declared business activity. In a presumptive scheme under section 44AD of the Act, the assessee is not required to maintain regular books, and once turnover is accepted, the source of cash deposits to the extent of business receipts stands explained. The AO has not brought any material on record to show that the deposits represent income from undisclosed sources. Therefore, the addition of Rs. 19,00,000/- is not justified.

12.2 With regard to the investment of Rs. 22,75,000/- in purchase of shops, the assessee has explained the source as arising from loan taken from Magna Housing Finance, earlier cash withdrawals, partition receipts and own funds. The relevant documents such as loan details, bank statements and purchase deeds were filed before the learned CIT(A) and forwarded to the AO for remand. In the remand report, the Assessing Officer has not pointed out any specific defect in the documents or any falsity in the explanation. The rejection is mainly on the ground that these details were not furnished during the original assessment proceedings and are therefore afterthoughts.

12.3 In our view, such reasoning cannot be sustained. The appellate proceedings are continuation of the assessment proceedings, and the duty of the authority is to determine the correct taxable income on the basis of materials available on record. Once documentary evidence explaining the source of investment has been produced and no infirmity has been found in the same, the addition cannot be sustained merely on the ground that the explanation was not furnished earlier. The learned CIT(A) has confirmed the addition primarily by observing that the assessee failed to establish how the cheque loan was converted into cash and that the explanation was repetitive. However, the learned CIT(A) has not recorded any finding that the loan was not received, that the withdrawals did not take place, or that the funds were not available with the assessee. There is no positive evidence brought on record to show that the investment represents undisclosed income.

12.4 The confirmation of addition by the learned CIT(A) is thus based largely on procedural grounds and on the perception that the explanation is an afterthought, rather than on any substantive defect in the evidence. In the absence of material disproving the assessee's explanation, such confirmation cannot be upheld.

12.5 Considering the totality of facts, we are of the view that the cash deposits of Rs. 19,00,000/ are explained by the accepted business turnover declared under section 44AD of the Act, and the investment of Rs. 22,75,000/- in purchase of shops stands supported by documentary evidence, which has not been shown to be false or unreliable. Accordingly, both the additions are deleted. The grounds raised by the assessee are allowed.

12.6 As the assessee succeeded on merit, the other grounds raised by the assessee become infructuous. Therefore, we are not inclined to

adjudicate the same. Hence the issue raised by the assessee through ground Nos. 1 to 6 are hereby dismissed as infructuous.

13. In the result, the appeal of the assessee is hereby partly allowed.

**Coming to assessee's appeal in ITA No. 2040/Bang/2025 for A.Y. 2017-18**

14. The assessee has raised as many as 9 grounds in the appeal memo. However, all the grounds raised are interconnected and pertain to addition of Rs. 45,000/- by treating the cash deposit as unexplained and addition of Rs. 28,73,840/- based on income admitted during the survey.

15. The relevant facts are that the assessee for the year under consideration filed return of income as on 31<sup>st</sup> March 2018 declaring total income of Rs. 5,44,158/- only. The return was selected for scrutiny on account of information of cash deposit during the demonetisation and notice under section 143(2) of the Act was issued as on 24-09-2018. Thereafter several notices under section 142(1) of the Act were issued requiring the assessee to furnish necessary details and explanations which assessee failed.

16. Accordingly, the AO in absence of any response completed the assessment by making addition of Rs. 45,000/- by treating the cash deposited during demonetisation as unexplained money u/s 69A of the Act.

17. Likewise, the assessee during survey proceeding on his business premises dated 21 August 2017 has admitted offering an additional income of Rs. 28,73,840/- only. But the same was not complied with by the assessee. Hence, the AO added the same to the total income of the assessee.

18. The aggrieved assessee preferred an appeal before the learned CIT(A).

19. Before the learned CIT(A), the assessee submitted that he had declared his income under the presumptive taxation scheme of section 44AD of the Act. For the relevant assessment year, he had declared total turnover of about Rs. 43,57,814, which included a sum of Rs. 28,73,840/-. According to him, the amount of Rs. 28,73,840 was not unexplained income but was part of the business turnover already considered while computing income under section 44AD of the Act.

20. It was contended that under the provision of section 44AD of the Act, income is computed at the prescribed percentage of total turnover or gross receipts, and no separate addition can be made in respect of business receipts once the turnover is accepted.

21. However, the learned CIT(A) confirmed the addition made by the AO by observing as under:

*The assessee during the course of survey proceedings has offered an additional income of Rs. 28,73,840/-. The appellant however did not offer the income in his return of income and during the assessment proceedings. There was no retraction on part of the appellant also. The AO made an addition of this amount on account of the admission. The appellant on the other hand during the appellate proceedings submitted that the income admitted was offered in his RoI as part of the estimated income u/s 44AD of the Act. The RoI was checked and the appellant's claim is incorrect. The income offered u/s 44AD is only Rs. 5,44,158/- and not the amount offered by him during the survey. Hence, I confirm the addition made by the AO of Rs. 28,73,840/-. Further, in the absence of explanation of the source of cash deposits of Rs. 45,000/- before the undersigned, the same is also confirmed. Accordingly, the grounds of appeal no.3 to 6 are hereby dismissed.*

22. Being aggrieved by the order of the learned CIT(A) the assessee is in appeal before us.

23. The learned AR before us reiterated that Rs. 28,73,840/- is part of turnover of Rs. 43,57,814/- and Rs. 45000/- deposited in the bank is out of sales proceeds.

23.1 The learned AR further submitted that addition of Rs. 28,73,840/- was made relying on statement recorded during the survey without bringing any evidence on record. It contended that statement during the survey cannot be relied upon for making addition of undisclosed income without any corroborative material.

23.2 Reliance was also placed on the decision of Hon'ble Punjab & Haryana High Court in the case of Surinder Pal Anand reported in 192 taxman 264 for contending once the income offered on estimation basis no further addition can be made for cash credit relating to business.

24. On the other hand, the learned DR vehemently supported the order of the authorities below.

25. We have heard the rival contentions of both the parties and perused the materials available on record. The issue before us relates to the addition of Rs. 28,73,840/- based on the statement recorded during survey and addition of Rs. 45,000/- treated as unexplained cash deposit. It is not in dispute that the assessee is engaged in retail trade and has declared income under section 44AD of the Act. The total turnover declared for the year was Rs. 43,57,814/- and the income was offered on presumptive basis. The consistent stand of the assessee is that the sum of Rs. 28,73,840/- forms part of the said turnover and is not over and above the business receipts already considered for computing income under section 44AD of the Act.

25.1 Under scheme of presumptive income under section 44AD of the Act, once the turnover is accepted and income is estimated at the prescribed rate, the books of account are not required to be examined in detail and separate additions on account of individual items of business receipts are generally not warranted unless it is shown that such receipts are outside the declared turnover. In the present case, the Revenue has

not brought any material on record to demonstrate that the sum of Rs. 28,73,840/- was over and above the declared turnover. The addition has been made only on the basis of the statement recorded during survey. It is well settled that a statement recorded during survey, by itself, without any supporting evidence, cannot be the sole basis for making addition.

25.2 The learned CIT(A) has proceeded on the premise that the income admitted during survey was not separately reflected in the return of income. However, the crucial question is not whether the exact figure was separately shown, but whether the amount is already embedded in the turnover on which presumptive income has been declared. When the assessee has declared total turnover of Rs. 43,57,814/- and the Revenue has not rejected the same, making a further addition of Rs. 28,73,840/- would result in taxing the same business receipts twice.

25.3 As regards the addition of Rs. 45,000/-, the assessee has explained that the same represents part of business sales deposited in the bank. Once income is computed under section 44AD, individual cash deposits relating to business receipts cannot be treated as unexplained under section 69A of the Act unless it is shown that they are not connected with the business. No such finding has been recorded by the lower authorities.

25.4 In view of the above facts and considering that the income has been declared under the presumptive scheme and no material has been brought on record to show that the impugned amounts are outside the declared turnover, we hold that the additions of Rs. 28,73,840/- and Rs. 45,000/- are not sustainable. Accordingly, the same are deleted and the grounds raised by the assessee are allowed.

26. In the result, the appeal of the assessee is hereby allowed.

**Coming to assessee's appeal in ITA No. 2041/Bang/2025 for A.Y. 2018-19**

27. The only issue raised by the assessee is that the learned CIT(A) erred in sustaining the addition of Rs. 22,75,662/- by estimating the GP merely based on statement.

28. The necessary facts are that the AO during the assessment noticed that during the course of survey and subsequent proceedings, the statement of the assessee was recorded under section 131(1)(b) of the Act on 09.09.2017. In the said statement, the assessee admitted that the minimum daily sales were Rs. 25,000/-, the maximum were Rs. 33,000/- and the average daily sales were about Rs. 26,000/-. Based on this admission and considering that even if 40 days in a year are excluded towards holidays and other interruptions, the AO worked out the sales for the remaining 320 days at Rs. 83,20,000/- only.

29. However, the sales disclosed by the assessee in the return were only Rs. 34,88,603/-only. The AO treated the difference as unaccounted sales. To compute the investment involved in such unaccounted sales, the AO adopted the gross profit rate of 14% for the relevant year. Applying this GP rate, the cost of goods sold was worked out at Rs. 71,55,200/-. Since the purchases debited by the assessee were only Rs. 27,08,746/-, the balance amount of Rs. 44,46,454/- (Rs. 71,55,200/- minus Rs. 27,08,746/-) was treated as unexplained investment.

30. The AO held that the assessee failed to produce any satisfactory evidence to rebut the statement recorded under oath or to explain the difference in purchases. Accordingly, the sum of Rs. 44,46,454/- was treated as unexplained investment and brought to tax under section 115BBE of the Act.

31. The aggrieved assessee preferred an appeal before the learned CIT(A) who partially deleted the addition made by the AO by observing as under:

*For this relevant AY 2018-19, the assessee offered an additional income on the net profit computed till the date of survey based on the average sales happened in his shop till the date of survey 08.09.2017. The relevant extract of his statement during the survey is reproduced below:*

*"17. Please furnish the details of sales made by you per day?*

*Ans: Sir, the minimum sales is the range of Rs 25,000/-, on the maximum is Rs 33,000/- per day. The average sale stands at Rs 26,000/- per day. However I wish to state that my shop is closed on Wednesday every week and other important festival days. By taking this my overall working business days will be 305 days.*

*21. Please go through the answer to the question no. 17 wherein you have stated that minimum sales is Rs 25,000/- and maximum sale is Rs 33,000/- per day and average sale is Rs 26,000/- the total business sale days during the financial year 2017-18 till the date of survey is 140 days. Thus, the minimum average sales works out Rs 35,00,000/-. Maximum sales workout to Rs 46,20,000/- and average sales works out Rs 36,40,000/-."*

*Ans: Sir, after computing the net profit for the financial year 2017-18 till the date of survey, I will pay advance tax accordingly for the Asst. year 2018-19."*

*4.4 The assessee however has failed to offer this additional income offered during the survey based on the daily sales evidence till the date of survey in his RoI. He has offered only an income of Rs.2,79,131/-. The AO also was wrong in calculating the income based on 115BBE by wrongly assuming the corresponding unaccounted purchases as unexplained investment in stock, which is bereft of any logic and accounting principles. Hence, the AO is hereby directed to delete the addition and recompute the income based on the Gross Profit earned by the appellant on the unaccounted sales. Average GP of last three years can be adopted for this purpose. The resultant addition should be taxed under normal tax rates and not u/s 115BBE of the Act. Accordingly, the grounds of appeal are partly allowed.*

32. Being aggrieved by the order of the learned CIT(A), the assessee is in appeal before us.

33. The learned AR before us submitted that the AO assumed average daily sales of Rs. 26,000/- for 320 days and worked out total sales at Rs. 71,55,200/-, from which the disclosed purchases of Rs. 27,08,746/- were deducted to arrive at the alleged unexplained amount.

According to the learned AR, this entire exercise was based only on estimation and presumption without any supporting evidence.

33.1 It was further contended that no incriminating material was found during the survey to show unaccounted sales or purchases. The addition was made merely relying on the statement recorded, without any corroborative evidence. The Id. AR pointed out that all sales were duly recorded in the books and income was declared under section 44AD of the Act. The books of account were not rejected by the AO and even the purchases were not doubted. Therefore, the addition made on ad-hoc assumptions was not justified and liable to be deleted.

33.2 The learned AR also relied on judicial precedents, including the decision of the Hon'ble Supreme Court in Common Cause vs Union of India (77 taxmann.com 245) and the decision of the ITAT Bangalore Bench in the case of EMKAY Hindustan Infrastructure in ITA No. 979/Bang/2022, to submit that addition cannot be sustained merely on the basis of statement without supporting material. He therefore prayed that the entire addition be deleted.

34. On the other hand, the Id. DR before us supported the order of the lower authorities.

35. We have heard the rival contentions of both the parties and perused the materials available on record. The only dispute before us is whether the learned CIT(A) was justified in sustaining an addition of Rs. 22,75,662/- by directing the AO to compute gross profit on "unaccounted sales" allegedly inferred from the statement recorded during the survey proceedings.

35.1 We note that the entire foundation of the addition is the statement recorded during the survey, wherein the assessee stated a range of daily sales (minimum Rs. 25,000/-only, maximum Rs. 33,000/-,

average Rs. 26,000/-). The AO lifted the "average sale" figure and extrapolated it for 320 days to arrive at annual sales of Rs. 83,20,000/-. He then worked the corresponding purchases on estimated GP ratio of 14% and compared it with the disclosed purchase and treated the difference as unaccounted investment in stock. The learned CIT(A) rightly noticed that the AO's further step of treating "corresponding purchases" as unexplained investment in stock and taxing it under section 115BBE is not correct, and therefore directed the AO to instead compute income by estimating gross profit on the alleged unaccounted sales, adopting average GP of the last three years, taxable at normal rates.

35.2 However, even this modified approach of the learned CIT(A) cannot be sustained because it still presumes the existence of "unaccounted sales" without any corroborative material. The statement relied upon is at best a broad, approximate narration of day-to-day business trends. It is not a finding of actual suppressed turnover for the whole year. The statement itself refers to closures and working days, and it is also linked to the period till the date of survey (140 days) in the question-answer reproduced by the learned CIT(A). A rough estimate of daily sales, given in such circumstances, cannot automatically be converted into a hard figure of annual turnover by multiplying an assumed average for 320 days. Such extrapolation is essentially guesswork unless supported by actual evidence such as unrecorded bills, parallel cash book, excess stock, suppression detected from bank deposits, purchase/sales outside books, or defects found in the disclosed accounts. No such material has been brought on record in the present case.

35.3 Further, the addition sustained by the learned CIT(A) is still an estimation resting on an estimation. The "unaccounted sales" themselves are not established by evidence and on that assumed figure, gross profit is again estimated by applying an average GP. This results in a double layer of approximation without a reliable factual base. Estimation of profit can be done when there is a proven suppression of turnover or when books are found unreliable and a reasonable basis exists for best judgment. Here, the record (as placed before us) does not show rejection of books or any concrete defect or seized material demonstrating suppression. In such a situation, merely because a statement mentions an "average sale", it is not permissible to treat the difference between an extrapolated annual figure and the returned turnover as "unaccounted sales" and then tax a notional GP on it.

35.4 We also note that the assessee has been declaring income on presumptive basis under section 44AD of the Act on the disclosed turnover, and similar method was followed in other years as well, as noted in the case record. When the assessee is under a presumptive regime, and when the Revenue does not bring any independent evidence to show that turnover was in fact higher than what is declared, an addition purely on the basis of an extrapolated sales estimate drawn from a statement is not sustainable. A statement may be a relevant piece of information, but it cannot, by itself, replace proof of actual suppression of turnover, especially when the addition is made for the entire year by a multiplication formula not supported by any seized or impounded material.

35.5 Before parting it also pertinent to highlight i.e. it well settled position that the statement recorded during the survey does not carry evidentiary value for making addition unless corroborated by the

corroborative material. Such a statement may be a relevant piece of information, but by itself it cannot be treated as conclusive evidence of undisclosed income unless it is supported by independent material or corroborative evidence found during the survey.

35.6 In view of these facts, we hold that the very assumption of "unaccounted sales" based only on the statement and its extrapolation is not supported by evidence. Once that foundation fails, the direction of the learned CIT(A) to estimate gross profit on such alleged unaccounted sales also cannot survive. Accordingly, the addition of Rs. 22,75,662/- sustained by the learned CIT(A) is deleted. The grounds raised by the assessee are allowed.

36. In the result, the appeal of the assessee is allowed.

37. In the combined result, ITA No. 2039/Bang/2025 is hereby partly allowed and other two appeals of the assessee are hereby allowed.

Order pronounced in court on 24<sup>th</sup> day of February, 2026

Sd/-

**(KESHAV DUBEY)**

Judicial Member

Bangalore

Dated, 24<sup>th</sup> February, 2026

/ vms /

Copy to:

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

Sd/-

**(WASEEM AHMED)**

Accountant Member

By order

Asst. Registrar, ITAT, Bangalore