

ITANo.1361/Bang/2025 &  
CO 20/Bang/2025  
M/s. Raj Diamonds, Mumbai

**IN THE INCOME TAX APPELLATE TRIBUNAL  
“B”BENCH: BANGALORE**

**BEFORE SHRI PRASHANT MAHARISHI, VICE PRESIDENT  
AND  
SHRI KESHAV DUBEY, JUDICIAL MEMBER**

ITA No.1361/Bang/2025
Assessment Year : 2018-19

ACIT Central Circle-1 Mangaluru	<b>Vs.</b>	M/s. Raj Diamonds 25-27-28, 1 <sup>st</sup> Floor 146/156, L.K. Market Near P.N. Bank Zaveri Bazar Mumbai 400 001 Maharashtra  <b>PAN NO : AAJFM7227J</b>
<b>APPELLANT</b>		<b>RESPONDENT</b>

CO No.20/Bang/2025 (Arising out of ITA No.1361/Bang/2025)
Assessment Year : 2018-19

ACIT Central Circle-1 Mangaluru	<b>Vs.</b>	M/s. Raj Diamonds 25-27-28, 1 <sup>st</sup> Floor 146/156, L.K. Market Near P.N. Bank Zaveri Bazar Mumbai 400 001 Maharashtra  <b>PAN NO : AAJFM7227J</b>
<b>APPELLANT</b>		<b>RESPONDENT</b>

<b>Assessee by</b>	:	Sri V. Srinivasan, A.R.
<b>Revenue by</b>	:	Sri Subramanian, D.R.

<b>Date of Hearing</b>	:	08.12.2025
<b>Date of Pronouncement</b>	:	05.03.2026

**O R D E R**

**PER KESHAV DUBEY, JUDICIAL MEMBER:**

This appeal at the instance of the revenue is directed against the order of Id. Commissioner of Income Tax (Appeals)-2, Panaji dated 17/03/2025 vide DIN: ITBA/APL/M/250/2024-25/1074591942(1) passed u/s. 250 of the Income Tax Act, 1961 (in short "the Act") for the AY 2018-19. The assessee has also filed a cross objection in CO No. 20/BANG/2025 against the said appeal of the revenue in ITA No.1361/BANG/2025.

**2. The revenue has raised the following Grounds of appeal:-**

1. The CIT(A) erred in restricting the addition to the total income amounting to Rs.18,37,995/- (Rs.2,49,23,294/- x 7.37%) being weighted average of Gross Profit for the previous 3 years.
2. The CIT(A) failed to understand that onus of proving the genuineness of purchase is on the assessee.
3. The CIT(A) erred in estimating the income based on weighted average gross profit despite accepting that there is possibility of the assessee availing accommodation entries.
4. The CIT(A) erred in not considering the decision of the Gujarat High Court in the case of N.K. Industries Ltd. Vs. Deputy Commissioner of Income Tax, (2016) 72 taxmann.com 289 since the Special Leave Petition against the said decision was dismissed by the Hon'ble Supreme Court in case of N. K. Proteins Ltd. Vs. Deputy Commissioner of Income Tax, on 16 January 2017, (2017) 84 taxmann.com 195 (SC).
5. The CIT(A) erred in restricting the disallowance to profit margin on unproven purchases without considering the position of law established by the Hon'ble Apex Court in the case of N. K. Proteins Ltd(Supra), that 100 % disallowances on bogus purchases is upheld.
6. The CIT(A) erred in considering the ratio laid down by the Hon'ble Bombay High Court in the case of PCIT Vs Kanak Impex (India) Ltd [2025] 172 taxmann.com 283 (Bombay), wherein the Hon'ble Court upheld the addition made by the Assessing Officer on account of entire bogus purchases due to the failure of the assessee to prove the genuineness of the purchases made and struck down the profit estimation made by CIT(A) and ITAT.
7. The CIT(A) erred in not considering the fact that bogus purchases are introduced to reduce the profit.
8. The appellant craves leave to add, amend or alter any of the foregoing grounds and such other grounds as may be urged at the time of hearing.

**3.** The assessee firm has raised the following Grounds in the Cross objection:-

1. The orders of the authorities below in so far as they are against the Cross-objector are opposed to law, equity, weight of evidence, probabilities, facts and circumstances of the case.

2. The learned CIT[A] is not justified in sustaining the addition of Rs.18,37,995/- [i.e., 7.37% of Rs.2,49,23,294] being weighted average of gross profit for the previous 3 years in respect of the alleged bogus purchases made without appreciating that the entire purchases made by the cross-objector are genuine and therefore, the entire addition ought to have been deleted under the facts and in the circumstances of the cross objector's case. ✓

3. For the above and other grounds that may be urged at the time of hearing, your Cross-Objector humbly prays that the appeal filed by the appellant A.O. in respect of the relief granted by the CIT [Appeals] may be dismissed and grounds of the Cross-Objection may be allowed and justice rendered.

**4.** Brief facts of the case are that the assessee is a partnership firm running under the name and style of M/s. Raj Diamond and engaged in the business of Gold and Diamond jewellery. The assessee firm filed its return of income for the AY 2018-19 on 05/10/2018 declaring total income of Rs.92,24,654/-. The said return was thereafter processed u/s. 143(1) of the Act on 18/04/2019 **accepting the returned income.** A search and seizure action under section 132 of the Act was carried out in the group case of M/s. City Gold Fashion Jewellery and others on 26/06/2019. A warrant u/s. 132 of the Act was also executed at the business premises of M/s. Raj Diamond at Mumbai 26/06/2019. Subsequently, the case was centralized with the

DCIT, Central Circle-1, Mangalore. A notice u/s 153C of the Act was issued & served on the assessee and in response the assessee filed ROI by declaring the same taxable income of Rs.92,24,654/- on 05/11/2020. Thereafter notices u/s 143(2) as well as 142(1) of the Act were issued. The AO after considering the requisite details as called for completed the assessment proceeding by passing the assessment order u/s. 144(3) r.w.s. 153C of the Act for the AY 2018-19 on 27/07/2021 **accepting the returned income.**

**4.1** As per the suspicious transaction report (STR) available with the Income Tax Department, and individual named Mr.Bhanwar Lal Gurjar transacted with M/s. Tanman Jewels Pvt Ltd. among several other entities, and engaged in covering unaccounted money through layering of funds. On the basis of above STR report the DDIT(Inv.), Surat formulated a report categorically concluding **all business entities with whom M/s. Tanman Jewels Pvt Ltd.** has financial transactions, to be **accommodation entry providers/beneficiaries.** The assessee's name also reflected in the report as given below:-

<b>PAN</b>	<b>Name</b>	<b>Aggregated Transaction Value (Rs.)</b>
AAJFM7227J	M/s. Raj Diamonds	1,29,19,964

The assessee M/s. Raj Diamonds, reportedly had bogus purchases to the tune of Rs.1,29,19,964/- from the entity M/s. Tanman Jewels Pvt Ltd. Moreover, there was another information available with Income Tax Department that the assessee M/s. Raj Diamonds had a transaction to the tune of Rs.1,20,03,330/- with M/s. Vallabh Diamonds Pvt Ltd. As per this information, M/s. Vallabh Diamonds Pvt Ltd too is a bogus entity that engages in accommodation entries.

**4.2** The case of the assessee was **reopened to verify the financial transactions** of the assessee, M/s. Raj Diamonds with M/s. Tanman Jewels Pvt Ltd and M/s. Vallabh Diamonds Pvt Ltd and accordingly various notices were issued and duly served on the assessee as tabulated below:-

<b>Sl.No</b>	<b>Notice(s)/ Order under section</b>	<b>Date of Notice</b>
1	148A(b)	10/03/2022
2	148A(d)	23/03/2022
3	148	23/03/2022
4	129	01/07/2022
5	143(2)*	No valid Return filed by the assessee
6	142(1)	17/11/2022
7	Show Cause Notice	18/03/2023

The claim of the AO is that the assessee did not file any return of income in response to notice u/s. 148 of the Act, however, the assessee claimed that they had in fact filed a return of income on 22/04/2022 vide acknowledgment no. 591079640220422 but unable to e-verify the same due to the technical problems. The assessee also filed a condonation request to CPC on 05/12/2022 and 07/02/2023. However, as there was no change in the income with that of original return filed u/s 139(1) of the Act as well as return filed in response to notice u/s.153C of the Act and hence the assessee requested to consider the same as return of income filed in response to notice u/s. 148 of the Act. During the course of Assessment proceedings, the assessee filed all the details with regard to the transactions with M/s. Tanman Jewels Pvt Ltd and M/s. Vallabh Diamonds Pvt Ltd such as invoices, GST returns, details of bank statements which marks payments made by the assessee on account of purchase of Gold/ Diamond, ledger account of M/s. Tanman Jewels Pvt Ltd and M/s. Vallabh Diamonds Pvt

Ltd, statements of accounts, confirmation from parties, stock register of loose diamonds where the purchases are entered. However, the assessing officer concluded the assessment by passing the assessment order u/s. 147 of the Act dated 31/03/2023 by making addition of **Rs.2,49,23,294/-** being purchases from M/s. M/s. Tanman Jewels Pvt Ltd amounting to Rs.1,29,19,954/- and M/s. Vallabh Diamonds Pvt Ltd amounting to Rs.1,20,03,330/- by holding that the two entities are conclusively proved as bogus that performs accommodation entry operations to bring unaccounted money into the books of its beneficiaries.

**5.** Aggrieved by the assessment order passed u/s.147 of the Act dated 31/03/2023, the assessee preferred an appeal before the Id. CIT(A)-2, Panaji, Goa.

**6.** Before the Id.CIT(A), the assessee contended its transactions to be genuine. Further, the assessee contended that the AO had treated purchases as bogus but had not commented on corresponding sales made of these goods. Before the Id.CIT(A), the assessee by way of filing the copy of purchase register, GST returns, details of sales, bank statements, stock register claimed that since the payments were also made through proper banking channel, therefore the underlined transactions are genuine. Further, the assessee also submitted that during the course of assessment proceeding, the assessee had filed various documentary evidences in support of its claim. However, the AO did not give any findings on such evidences. The assessee had contended that the AO had not questioned the sales made by the assessee and had accepted the sales amount as appearing in the financial statements. Before the Id.CIT(A), the assessee had also submitted the following documents to substantiate its claim:-

- Ledger extracts of both suppliers

- Copy of invoices
- Confirmation from both the parties
- Purchase Register
- Bank statement of appellant reflecting payment made
- Sales bill
- GST returns
- Stock statements

**6.1** The Id.CIT(A) held that since the AO himself had contended that both the parties i.e. M/s. Tanman Jewels Pvt Ltd and M/s. Vallabh Diamonds Pvt Ltd were importing at higher price, this indicates that at least these parties do exist and carry out business activities. Further, the Id.CIT(A) was of the view that as the AO had relied on the information received from Investigation Department and therefore the said information cannot be negated fully and the **possibility of** purchasing the goods from Grey Markets or in cash at lower rates and with the help of accommodation entry providers, recording the same at inflated price in the books of accounts cannot be ruled out. However, the CIT(A) was also of the opinion that if the entire purchases are disallowed, the corresponding sales is to be ignored but the AO has not done so. Therefore, held that the one sided adjustment in the case of assessee is not justified.

**6.2** The Id. CIT(A) by relying upon the various judicial precedents held that in the case of bogus purchases where sales are accepted, the addition can be made only to the extent of difference between the GP declared by the assessee on normal purchases vis-à-vis bogus purchases. During the course of appellate proceedings, the assessee also submitted its three years GP ratio and requested that if GP addition is to be carried out, the same may be restricted to three years weighted average GP earned by the assessee as below:-

<b>Particulars</b>	<b>Assessment Year</b>	<b>Assessment Year</b>	<b>Assessment Year</b>	<b>Weighted Average</b>
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	
Turnover	16,75,26,457	25,75,11,142	71,26,74,674	1,13,77,12,273
Gross Profit	1,87,69,723	2,35,77,059	4,15,55,032	8,39,01,814
GP Ratio (IN %)	11.20%	9.16%	5.83%	7.37%

Thus, the average GP of 3 years works out to 7.37% and the assessee requested to restrict the addition to such gross profit % only.

**6.3** Considering the various judicial precedents pronounced by Hon'ble High Courts and ITAT, the Id. CIT(A) restricted the addition to the tune of weighted average gross profit for past three years i.e. 7.37% of the amount disallowed by the AO instead of disallowing the entire alleged bogus purchases and accordingly directed the AO to restrict addition to Rs.18,37,995/- (Rs.2,49,23,294 x 7.37%) and accordingly, the Id CIT(A) partly allowed the appeal of the assessee.

**7.** Aggrieved by the order of Id.CIT(A)-2, Panaji, Goa, the Revenue has filed the present appeal before this Tribunal and the assessee has filed the cross objection. The assessee has also filed a paper book comprising 159 pages containing therein as detailed below:-

Sl.No	Particulars
1	Copy of the ITR acknowledgment along with computation of total income, financials and Audit report filed for the AY 2018-19
2	Copy of the following details filed before A.O. in support of purchases from M/s. Vallab Diamonds Pvt Ltd.
2.1	Copy of the ledger account of M/s. Diamonds Pvt Ltd from 01/04/2017 to 31/03/2021

2.2	Copies of the confirmation of accounts by M/s. Vallab Diamonds Pvt Ltd.
2.3	Copy of the 3 invoices issued
2.4	Copy of the ITR Ack. Filed for AY 2018-19 and 2019-20 in the case of M/s. Vallab Diamonds Pvt Ltd
2.5	Copy of the Bank statements of Vallab Diamonds Pvt Ltd., the following Bank: (1) Kotak Mahindra Bank for 01/08/2017 to 31/07/2017 (2) IDBI Bank for 01/12/2017 to 06/12/2017
2.6	Copy of the Bank Statement of the appellant for the period 01/06/2017 to 30/11/2017, 01/12/2017 to 31/12/2017, 01/04/2018 to 30/06/2018, 01/10/2018 to 31/12/2018, 01/01/2019 to 31/03/2019 in Bank of Baroda
2.7	Copy of the GSTR2A return wherein the purchase details are duly uploaded
2.8	Copy of the Company Master Data of M/s. Vallabh Diamonds Pvt Ltd., as per MCA and GST website
3	Copy of the following details filed before A.O. in support of purchase from M/s. Tanman Jewels Pvt Ltd.
3.1	Ledger account of M/s. Tanman Jewels Pvt Ltd for the period 01/04/2017 to 31/03/2018
3.2	Copy of the 3 invoices issued
3.3	Copies of the Confirmation of accounts by M/s. M/s. Tanman Jewels Pvt Ltd
3.4	Copy of the ITR filed Ack. Of M/s. M/s. Tanman Jewels Pvt Ltd for AY 2018-19
3.5	Copy of the Bank Statement of M/s. M/s. Tanman Jewels Pvt Ltd for the period 01/04/2017 to 31/03/2018

3.6	Copy of appellant's Bank account statement
3.7	Copy of GSTR2A return wherein the purchase details are duly uploaded by M/s. Tanman Jewels Pvt Ltd
3.8	Copy of Company Master Data of M/s. Tanman Jewels Pvt Ltd., as per MCA and GST Website
4	Copy of the Written submissions filed before CIT(A)-2, Panaji along with the following relevant:
4.1	Copy of the statements showing the percentage GP/NP for the period 2013-14 to 2018-19
4.2	Copy of the Stock register.

**8.** Before us, the ld. DR vehemently submitted that the ld. CIT(A) grossly erred in restricting the addition to Rs. 18,37,995/- (Rs. 2,49,23,294 x 7.37%) being weighted average of gross profit for the three A.Y. The ld. DR submitted that the onus of proving the genuineness of purchase is on the assessee & these bogus purchases were introduced in order to reduce the profit of the assessee firm. Further, the ld. DR submitted that the ld. CIT(A) despite accepting that there is possibility of availing accommodation entries restricted the addition only to the weighted average gross profit ratio instead of disallowing the entire bogus purchases. Lastly, the ld. Dr heavily relied on the ratio laid down by the Hon'ble Bombay High Court in the case of PCIT Vs. Kanak Impex (India) Ltd [2025] 172 taxmann.com 283 (Bombay) wherein the Hon'ble Court upheld the addition made by the AO on account of entire bogus purchases due to the failure of the assessee to prove the genuineness of the purchases made and struck down the profit estimation made by the CIT(A) & ITAT.

**9.** The ld. AR on the other hand vehemently submitted that the assessment for the AY 2018-19 was already concluded by the AO by passing the order u/s 143(3) r.w.s. 153C of the Act on 27/07/2021

accepting the returned income. The case was reopened by the AO only on the basis of Suspicious Transaction Report(STR) concerning transaction between an individual named Bhanwar Lal Gurjar with M/s Tanman Jewels Pvt Ltd. Further, the Id. Submitted that the entire reassessment proceedings are purely based on guess & surmises and the Authorities below did not find out any defects in the evidences produced before them establishing the genuineness of the purchases made. Lastly, the Id. AR submitted that the Id. CIT(A) is not justified in sustaining the addition of Rs. 18,37,995/- (Rs. 2,49,23,294 x 7.37%) in respect of the alleged bogus purchase made without appreciating that the entire purchases made were genuine & accordingly prayed that the entire addition may be deleted.

**10.** We have heard the rival submissions & perused the materials available on record. It is an undisputed fact that the assessee firm filed its return of income for the Asst. year 2018-19 on 05/10/2018 by declaring the total income of Rs.92,24,654/-. The books of Accounts of the assessee were audited by a chartered accountant under the provisions contained u/s 44AB of the Act. The Chartered Accountant as well as AO did not find any defects in the books of accounts of the assessee firm. The income returned by the assessee firm was once accepted by the Revenue by passing intimation u/s 143(1) of the Act on 18/04/2019 and another by way of passing the assessment order u/s 143(3) r.w.s. 153C of the Act on 27/07/2021 after scrutinizing the details as called for u/s 143(2) as well as 142(1) of the Act. On going through the reassessment order passed by the AO, we observed that the case of the assessee was reopened only on the ground of the suspicious transaction report (STR) available with the Income Tax Department with regard to the transaction with individual named Mr.Bhanwar Lal Gurjar with M/s. Tanman Jewels Pvt Ltd. On the basis of above STR report the

DDIT(Inv.), Surat formulated a report categorically concluding all business entities with whom M/s. Tanman Jewels Pvt Ltd. has financial transactions alleged to be accommodation entry providers/ beneficiaries. Thus, as the name suggests i.e. Suspicious transaction report (STR), the case of the assessee was reopened on the foundation of suspicion only. Very surprisingly, on going through the para 4.1 of the assessment order, we observed that the case of the assessee was selected for scrutiny to verify the financial transactions of the assessee firm with M/s Tanman Jewel Pvt Ltd. and M/s Vallabh Diamonds Pvt. Ltd. We are of the firm opinion that the Revenue cannot reopen the concluded assessment proceedings in order to **verify financial transactions**. After the amendment made in Finance Act, 2021, for reopening of an assessment u/s 147 of the Act, the 'reason to believe' for escapement of income has been shifted to **information** with the AO which suggests escaped assessment. Further, the information with AO which suggests that income has escaped assessment means:-

- (i) Any information in accordance with RMS formulated by the Board
- (ii) Any Audit objection
- (iii) Any information received under an agreement u/s 90 or 90A of the Act
- (iv) Any information made available under scheme notified u/s 135A of the Act
- (v) Any information in consequence of order of Tribunal or court

In the present case, on the basis of the suspicious transaction report (STR), the DDIT (Inv.), Surat formulated a report and on that basis, the case of the assessee was reopened to verify the financial transactions of the assessee firm with M/s Tanman Jewel Pvt Ltd. and M/s Vallabh Diamonds Pvt. Ltd. On this count only, the reopening of the concluded assessment proceedings is bad in law.

**10.1** Further, in the present case the Revenue is challenging the restriction of disallowances by the Id. CIT(A) to Rs. 18,37,995/- being weighted average of gross profit for the past three A.Ys, whereas the assessee by way of cross objection is also challenging the addition of Rs. 18,37,995/- sustained by the Id. CIT(A) on the ground that the entire purchase made were genuine & therefore the entire addition ought to be deleted.

**10.2** On perusal of the reassessment order passed the AO, we observed that the AO had initially made an allegation that on verification of bank's response in pursuance to notice u/s 133(6) of the Act, the AO found that the assessee claimed to have paid M/s Tanman Jewels Pvt Ltd through RTGS which was not correct as the same did not reflect in the said HDFC statement of M/s Tanman Jewels Pvt Ltd and accordingly the AO issued SCN dated 18/03/2023 stating transactions with above two entities are not reflected in their bank account statement. The assessee firm furnished its reply dated 23/03/2023 by stating that only last 3 entries were transferred to HDFC A/c & other payment/RTGS were transferred to IDBI Bank of M/s Tanman Jewels Pvt Ltd. The assessee also filed the banks statement. Thereafter, considering the reply of the assessee & going through the banks statement furnished by the assessee, the AO admitted that credits for payment made by the assessee are reflected.

**10.3** The AO, thereafter changed his stand & alleged that after the receipt of money by M/s Tanman Jewels Pvt Ltd from the assessee firm, these amounts were transferred by M/s Tanman Jewels Pvt Ltd though the entries in bank statement which were foreign remittances. Thus, the allegation of the AO is that the payments made by the assessee were utilized by the M/s Tanman

Jewels Pvt Ltd for making the foreign remittances towards the alleged overvalued imports. We could not understand how these foreign remittances made by M/s Tanman Jewels Pvt Ltd are related to the purchases made by the assessee firm for which the assessee had made payments to M/s Tanman Jewels Pvt Ltd as observed by the AO himself. The AO had himself admitted the fact that there is movement of goods & in turn the assessee had made payments through bank. The assessee firm had no control over its creditors how they are utilizing the money after its receipts. Further, the AO had made another allegation that during the course of assessment proceedings, a notice u/s 133(6) of the Act was issued to assessee which was returned by the postal authorities with comments "Left Place". The DDIT(Inv)-1, Surat on the request of AO had also sent an inspector for physical verification of the registered office of M/s Tanman Jewels Pvt Ltd, however it was learnt from the neighbors that the said premises is shut for more than 3 years. To add credence, a 131(1)(d) commission was issued to DDIT(inv), Unit-1, Surat. Based on this, the address of M/s Tanman Jewels Pvt Ltd was verified. The inspector thereafter submitted his report that office had been closed with no business activity being undertaken in this premises for at least the last 5-6 years. The Id CIT(A) however observed that since the AO himself had contended that both the parties i.e. M/s Tanman Jewels Pvt Ltd and M/s Vallabh Diamonds Pvt Ltd. were importing at higher price, which indicates that at least these parties **do exist and carry out business Activity**. We are of the considered opinion that before both the Authorities below, the assessee had submitted the copy of the master data of both the companies as per the Ministry of Corporate Affairs as well as GST website. Further, the assessee firm also filed confirmation letter received from both the creditors. During the course of the assessment proceedings also a reply from M/s Tanman Jewels Pvt Ltd was received by the AO through email

confirming the transaction with M/s Raj Diamonds (assessee) by furnishing evidences in the form of bills, ledger extracts and bank statements. Therefore, the AO in our opinion failed to establish with lucid & cogent evidences that the purchases made by the assessee firm was bogus. We are also of the opinion that suspicion however strong cannot take the place of truth. The AO's suspicion was so driven by the so called report of DDIT, Surat that even after admitting the fact that the evidences in the form of bills, ledger extracts and bank statements evidencing the payments, Goods movement in respect of bills produced were furnished by the assessee, but without finding any defects in these evidences, the AO held that it is only a camouflage. The AO had neither given any findings on the details of evidences produced before him nor find any defects in the audited books of accounts.

**10.4** Now on perusing the order of the Id CIT(A), we observe that before the Id CIT(A) also, the assessee furnished the following evidences in order to establish the legitimate purchase as below-

- Ledger extracts of both suppliers
- Copy of invoices
- Confirmation from both the parties
- Purchase Register
- Bank statement of appellant reflecting payment made
- Sales bill
- GST returns
- Stock statements

The Id. CIT(A) also neither pointed out any defects in the evidences produced nor given any findings on the documentary evidences, had merely stated that the AO had relied on information received from the investigation department and the said information cannot be negated fully and the possibility of purchasing the goods from grey market or in cash at lower rates and with the help of accommodation entry providers recording the same at inflated price

in the books of a/c cannot be ruled out. Thus, as can be seen above the Id CIT(A) also solely based on guess & surmises held that there may be possibility of the assessee availing accommodation entry. The ground No. 3 taken by the Revenue that the Id. CIT(A) erred in estimating the income based on weighted average GP despite accepting that there is **possibility** of the assessee availing accommodation entries itself demonstrates that the order passed by the Id. CIT(A) is on pure guess, surmises & conjectures. The main contention of the Id CIT(A) is that if the entire purchases are disallowed, the corresponding sales also need to be ignored but the AO has not done so. Therefore, in the opinion of Id. CIT(A), this leaves with one sided adjustment in case of the assessee which is not justified. We are of the considered opinion that this is not a case of inflating the purchase value or quantity in order to reduce the profit of the assessee firm so as to see the corresponding sales. In fact, in the present case, on the basis of suspicious transaction report (STR) ,the DDIT(Inv.), Surat formulated a report categorically concluding all business entities with whom M/s. Tanman Jewels Pvt Ltd. has financial transactions alleged to be accommodation entry providers/ beneficiaries. Thus, the allegation is that the assessee firm without making actual purchases had obtained an accommodation entry in order to reduce its profit. Therefore, the adoption of GP rate by the Id. CIT(A) is not at all justified. In our opinion, the AO had no option but to add the entire bogus purchases to the income of the assessee if the AO with cogent material/evidences able to establish that it is not an actual purchases but merely an accommodation entry. However, if the AO failed to establish with cogent material/evidences of the same, the entire addition on this account shall be sustained.

**10.5** We are of the considered opinion that the onus is first on the assessee to establish the genuineness of the purchases made

by them. Once the assessee firm established the same with cogent evidences & explanation that the purchases are genuine, then the Revenue cannot act unreasonably & reject the evidences & explanation to hold that it was income merely on the basis of suspicion report. We are of the considered opinion that the assessee firm before both the Authorities below had submitted the Copy of the invoices, Ledger Account, Purchase register, Confirmation of Accounts, Bank statement evidencing payments, Copy of GSTR-2A, Copy of Master data as per the MCA, Copy of Stock statement etc & both the Authorities below did not find any defects in these evidences. Further, the accounts of the assessee are audited by a chartered accountant. The AO himself had already accepted the returned income by passing the assessment order u/s 143(3) r.w.s. 153C of the Act on 27/07/2021 after scrutinizing the details as called for u/s 143(2) as well as 142(1) of the Act. In our opinion the Revenue could not establish any inherent weakness in the explanations/evidences or rebut it by putting to the assessee some evidences which it has in its possession. We are of the considered opinion that the entire exercise of reopening of already concluded assessment proceedings are purely based on surmises & conjectures. The Id. CIT(A) also based on possibility of the assessee availing accommodation entries estimated the income based on weighted average GP ratio which in our opinion will not be sustain.

**10.6** Now coming to the reliance placed by the Revenue in the case of PCIT Vs. Kanak Impex (India) Ltd (supra), we are of the considered opinion that facts of the present case are noticeably distinguishable from the fact of that case as in the present case the assessee firm all along appeared before both the Authorities below & furnished the evidences & explanations with regard to genuineness of the purchases made whereas in the case relied upon by the revenue, the assessee did not appear before the Assessing

Officer during the course of the reassessment proceedings and failed to prove genuineness of the purchases, the Assessing Officer made the additions on account of bogus purchases. Further, in our opinion the decision of the Hon'ble Gujarat High court in the case of N K Industries Ltd Vs. Deputy Commissioner of Income Tax, (2016) 72 taxmann.com 289 as relied upon by the Revenue is also clearly distinguishable on the fact of the present case as we have held that the allegation of accommodation entry/bogus purchase could not be established by the Revenue. In view of the above discussion, we are inclined to set aside the order of the Id. CIT(A) and direct the AO to delete the entire additions of Rs. 2,49,23,294/- as made under the head "Income of Business & Profession".

**11.** In the result the appeal of the Revenue is dismissed & the cross-objection of the assessee is allowed.

Order pronounced in the open court on 5<sup>th</sup> March, 2026

**Sd/-**  
**(Prashant Maharishi)**  
**Vice President**

**Sd/-**  
**(Keshav Dubey)**  
**Judicial Member**

Bangalore,  
Dated 5<sup>th</sup> March, 2026.  
VG/SPS

Copy to:

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

By order

**Asst. Registrar,**  
**ITAT, Bangalore.**