

**आयकर अपीलीय अधिकरण "ए" न्यायपीठ चेन्नई में।**  
**IN THE INCOME TAX APPELLATE TRIBUNAL**  
**CHENNAI BENCHES "A" :: CHENNAI**

**BEFORE SHRI ABY T VARKEY, JUDICIAL MEMBER**  
**AND**  
**SHRI INTURI RAMA RAO, ACCOUNTANT MEMBER**

**आयकर अपील सं. / ITA No.1557/CHNY/2025**

**निर्धारण वर्ष / Assessment Year: 2017-18**

Assistant Commissioner of Income Tax, Central Circle-1, Madurai.	Vs	M/s.Senthil Murugan Jewellers Private Limited, 106-108, South Avani Moola Street, Madurai – 625001
		PAN: AAJCS8546F
Appellant/ Revenue		Respondent / Assessee

Assessee by	Mr. M.K.Rangasamy – CA
Revenue by	Mr. S. Senthil Kumaran – CIT
Date of hearing	26/02/2026
Date of pronouncement	17/03/2026

**आदेश/ ORDER**

**PER INTURI RAMA RAO, AM :**

This appeal filed by the Revenue directed against the order of Id.Commissioner of Income Tax(Appeal), Chennai-19 passed under section 250 of the Income Tax Act, 1961 for the A.Y.2017-18 dated 20.03.2025.

2. The Revenue raised the following grounds of appeal :

*"1. The Order of the learned Commissioner of Income Tax (Appeals) is erroneous on facts and in law*

*2 The Ld CIT(A) has erred in not appreciating the fact that the assessee is purchasing the old gold from customers after taking into consideration the loss on account of impurities and then adjusting it against the new ornaments to be purchased by the customers.*

*3 The Ld CIT(A) has erred in not appreciating that under Ind AS 109 (Financial Instruments) would govern the accounting for investment gold, and impairment losses would be recognized under the expected credit loss (ECL) model, which has not been examined while giving relief to the assessee*

*4 The Ld CIT(A) has erred in not appreciating that the assessee during the course of the assessment or appellate proceedings has not justified or submitted any accounts in support of the embedding of these beaten gold losses in the inventory as mandated for accounting purposes.*

*5 For these grounds and any other ground including amendment of grounds that may be raised during the course of appeal proceedings, the Order of the Ld CIT(Appeals) may be set aside and that of the Assessing Officer may be restored.”*

3. Briefly the facts of the case are that the Assessee is a Private Limited Company formed under the provisions under the Companies Act, 1956. It is engaged in the business of manufacturing and sale of gold silver diamonds ornaments. The return of income for A.Y.2017-18 was filed on 26.10.2017 disclosing income of Rs.1,21,41,750/- under normal provisions of the Act and book profit of Rs.2,32,69,437/- u/s.115JB of the Income Tax Act. Against the said Return of Income, the assessment was completed by

the ACIT, Corporate Circle-2, Madurai (herein after called 'AO') vide order dated 16.12.2019 passed u/s.143(3) of the Income Tax Act, 1961 at a total income of Rs.8,95,43,664/-. While doing so, the Assessing Officer made addition by disallowing the claim for allowance of melting and purifying loss of 27,228.290 grams of gold, the value of which is estimated at 2,842.72 grams which comes Rs.7,74,01,940/-.

4. The factual background of the above addition discussed by the AO vide para 4 of the Assessment Order. During the course of carrying on the normal business operation of the respondent assessee, it purchases gold ornaments from the customers, which are valued by assayers employed by the assessee based on the purity of the gold in the ornaments. The gold so purchased is called 'beaten gold'. The value determined by the assayers is entered as a purchase cost in the books of accounts and the same is adjusted against the sale price of the new gold ornaments of customers. The assessee entered the details of beaten gold containing customer name, gross weight, net weight of gold ornaments, purchase price etc. After purchasing of beaten gold, the same is sent for melting for the purpose of making new jewellery ornaments. The Assessee company made a claim towards

melting and purifying loss of 27228.290 grams. The same is deducted from the net weight of the 'beaten gold'. The Assessing Officer is of the opinion that there is no evidence of loss on account of melting and except the entries made in the books of accounts and applying the Doctrine of preponderance of probabilities disallowed the, claim for allowance of melting loss of Rs.7,74,01,914/-.

5. Being aggrieved by the above assessment order, an appeal was preferred before the Id.CIT(A) contending that raising several contentions. The Id.CIT(A) considering the submission of the appellant, proceeded to hold that without rejecting the books of accounts, no disallowance can be made and accordingly directed the Assessing Officer to delete the addition made.

6. Being aggrieved by the order of the Id.CIT(A), the Revenue is in appeal before us in the present appeal.

7. The Id.CIT(DR) submits that there is no need of allowing loss on account of melting of 'beaten gold' as the same was taken into consideration, and adjusted against the sale price of new ornaments. He

further submits that the Id.CIT(A) while granting relief, had not considered the AS-109 issued by the Institute of Chartered Accountants of India governing the Accounting for investment of gold nor appreciated the fact that in the absence of any evidence of incurring loss, the same cannot be allowed as a loss.

8. On the other hand, Id.AR submits that the order of the Id.CIT(A) is based on proper appreciation of facts of the claim made by the Assessee and the Law. The Id.CIT(A) had passed a speaking and reasoned order and requires no interference by this Tribunal.

9. We have heard both the parties and perused the material available on record. The issue in the present appeal about the allowance of melting loss of 'beaten gold' purchased from the customers. The incidence of melting loss cannot be ruled out. However, the onus of proving the incurring of melting loss lies upon the Assessee. It is also required to be verified whether the claim made towards melting charges amounts to double deduction as the quantity of the closing stock always reflected net weight of the beaten gold. The allowability of the claim is required to be decided having regard to the industry standard. The Id.CIT(A) without examining

the accounting treatment given in the books of accounts and also the considering the industry standard had merely deleted the addition. The Id.CIT(A) also erred in holding that no disallowance can be made without rejecting the books of accounts. This proposition of law has no application in the facts of the present case in as much as the Assessing Officer had not made a resort to the ad-hoc disallowances. Therefore, the very basis of reasoning of the Id.CIT(A) adopted for deleting the addition cannot be sustained in the eyes of the law, therefore, the order and findings of the Id.CIT(A) are hereby set-aside and the matter is restored back to the file of the Id.CIT(A) for fresh adjudication after affording opportunity of being heard to the Assessee.

10. In the result, appeal filed by the Revenue stands partly allowed for statistical purpose.

Order pronounced in the open Court on 17<sup>th</sup> March, 2026.

**Sd/-**  
**(ABY T VARKEY)**  
**JUDICIAL MEMBER**

**Sd/-**  
**(INTURI RAMA RAO)**  
**ACCOUNTANT MEMBER**

Chennai; दिनांक / Dated : 17<sup>th</sup> March, 2026  
*SGR, Sr.PS*

**आदेश की प्रतिलिपि अग्रेषित / Copy of the Order forwarded to :**

1. अपीलार्थी / The Appellant.
2. प्रत्यर्थी / The Respondent.
3. The CIT Chennai/Madurai/Coimbatore/Salem.
4. विभागीय प्रतिनिधि, आयकर अपीलीय अधिकरण, "ए" बेंच, चेन्नई / DR, ITAT Chennai.
5. गार्ड फ़ाइल / Guard File.