

ignoring the expenses of Rs.4,58,191/- paid, recorded and shown in the same account in the current year's books of accounts.

2. That the Ld. Commissioner of Income Tax (Appeals) has also erred in law and on the facts and circumstances of the case in sustaining the addition of Rs.1,74,358/- wrongly made by the Ld. Assessing Officer out of prior period expenses account by unjustifiably rejecting the method of netting off and adjustment of the prior period credit items of Rs.1,72,358/- as against the prior period debit items of Rs.5,10,640/-.

2. The brief facts of the case are that the assessee filed its return of income on 27.11.2009, which was late by two months, showing total income of Rs.1,35,74,283/-. The return was processed u/s. 143(1) and picked up for scrutiny. Notice u/s. 143(2) was sent. The assessee was engaged in the manufacturing of Color Master Batches (plastic granules). During the course of assessment proceedings, the Assessing Officer found that as per ledger account of deferred revenue expenses, a sum of Rs.15,61,767/- has been written off during the year. On being asked to justify the allowability of this written off of deferred revenue expenses, the assessee stated that it has adopted a policy of spreading the expenses of exhibition, sales promotion, advertisement, legal expenses over a period of three years and same practice was followed for the last two years. The submission of the assessee was not accepted by the AO on the reasons that there is no provision in the Income Tax Act for allowance of such expenses which does not pertain to the relevant year. The AO further found that the assessee has not written off such expenses

from F.Y. 2006-07 and such expense has not been incurred during the assessment year. In view of this, the AO disallowed the expenditure and made addition to the total income of the assessee.

3. The Assessing Officer also noticed on scrutiny of the ledger account of the prior period expenses, that a sum of Rs.5,10,640/- was appearing in the debit side of this account which was debited in the profit and loss account. In the computation of income, the assessee added amount of Rs.3,36,282/- only. The net debit balance was Rs.1,74,358/- (5,10,640 - 3,36,282) which was claimed by the assessee as prior period expenses. On being asked, the assessee replied that it has been netted off with prior period income of Rs.1,72,358/-. The Assessing Officer did not accept the plea of the assessee and did not accept prior period income credited in the profit & Loss account. The Assessing Officer disallowed the difference of Rs.1,74,358/- and added back to the total income of the assessee.

4. Aggrieved by the order of Assessing Officer, the assessee preferred an appeal before the ld. CIT(A) and he also took an alternative plea that if sum of Rs.15,61,761/- is not allowed as expenses in the year, the assessee has incurred expenditure of Rs.4,58,191/- and debited under the above head of

deferred revenue expenditure which has been carried forward, should have been allowed in the current year. Therefore, the assessee agreed to restrict the disallowance up to Rs.11,03,576/- in place of Rs.15,67,767/-.

5. The assessee submitted that these expenses pertain to the assessee's business and were incurred during the earlier years, but as a matter of his accounting policy they were not fully charged to the profit and loss account of the year in which they were incurred and paid but were bifurcated, deferred and spread over a period of three years as their benefit was not limited to single year, but estimated in future 2-3 years as well. What the assessee company has done is only postponement, deferment of the claim of business expenses to the future period and nothing else. Alternatively, he also prayed that during the year sum of Rs.4,58,191/- has been transferred to deferred revenue expenses out of the business expenses incurred and paid during the year and the same should have been allowed in the current year itself on the same analogy that the expenses should be allowed in the year in which they are incurred/paid.

6. In regard to ground No. 2, he submitted that the Assessing Officer has considered only the prior period expenses debited in profit and loss account

and added back in computation of income only, but he did not consider the prior period income which has been credited into the prior period expenses ledger account. While computing the income of the assessee, the AO should have considered the entries on debit and credit side. The net difference comes to Rs.2114/- which should be disallowed by the Assessing Officer.

7. The ld. DR relied on the orders of the authorities below.

8. After hearing both the parties and perusing the material on record, we find that it is the duty of the assessee to compute the correct profit for the year. Whatever expenses incurred during the year, which are allowable as per IT Act, should have been calculated. During the course of hearing, the assessee has raised alternative plea that sum of Rs.4,58,191/- has been incurred during the year and debited in deferred revenue expenses which should have been allowed for the current year. The appellant has debited a sum of Rs.15,61,767/- which relates to the earlier years not allowable as per IT Act. The actual expenditure incurred during the year in the running business, should have been claimed by the assessee. Therefore, the sum of Rs.15,61,767/- is not allowable expenditure in the facts and circumstances of the case. The ld. AR of the assessee has taken alternative plea regarding

expenditure of Rs.4,58,191/- which has been incurred during the year, may be allowed as per IT Act because it is stated to have been incurred during the year for the purpose of business. We, however, deem it proper to restore the matter to the file of AO for the verification of these expenses and their genuineness and if the same are found verifiable and genuine, credit should be given to the assessee.

9. With regard to the issue involved in ground No. 2 also, the matter is restored to the file of AO for verification of the entries in the books of accounts and to decide the allowability of the claim of the assessee made before us. Needless to say, the assessee shall be given adequate opportunity of being heard before deciding the issues by the AO. Accordingly, the appeal of the assessee deserves to be allowed for statistical purposes.

10. In the result, the appeal of the assessee is allowed for statistical purposes.

Order pronounced in the open court on 30.06.2016.

Sd/-
(C.M. GARG)
Judicial Member

Sd/-
(L.P. SAHU)
Accountant Member

Dated : 30.06.2016

*aks/-