

आयकर अपीलीय अधिकरण, अहमदाबाद न्यायपीठ "सी", अहमदाबाद ।
IN THE INCOME TAX APPELLATE TRIBUNAL
"C" BENCH, AHMEDABAD

श्री संजय गर्ग, न्यायिक सदस्य एवं
श्री मकरंद वसंत महादेवकर, लेखा सदस्य के समक्ष।
Before Shri Sanjay Garg, Judicial Member And
Shri Makarand V. Mahadeokar, Accountant Member

आयकर अपील सं./ITA No. 1442/Ahd/2025
निर्धारण वर्ष /Assessment Year : 2017-18

Pankaj Jewellers Private Limited 1199, Dedkani Pole M.G. Haveli Road Manekchowk Ahmedabad 380 001	<u>बनाम/</u> <u>v/s.</u>	The Income Tax Officer Ward-3(1)(1) [old ITO, Ward-3(1)(2)] Ahmedabad 380 015
स्थायी लेखा सं./PAN: AAGCP 4590 D		
(अपीलार्थी/ Appellant)		(प्रत्यर्थी/ Respondent)
Assessee by :		Shri M. S. Chhajer, AR
Revenue by :		Shri Nitin Vishnu Kulkarni, Sr.DR

सुनवाई की तारीख/Date of Hearing : 12/11/2025
घोषणा की तारीख /Date of Pronouncement: 04/02/2026

आदेश/ORDER

Per Sanjay Garg, Judicial Member:

The present appeal has been preferred by the assessee against the order of the Commissioner of Income Tax (Appeals) passed under section 250 of the Income Tax Act, 1961, dated 16/06/2025, arising out of the assessment order passed by the Assessing Officer under section 143(3) of the Income Tax Act, 1961 (hereinafter referred to as "the Act") for the Assessment Year (AY) 2017-18. The assessee in this appeal has taken the following Grounds of appeal:-

- “ 1. The order passed by the Ld. CIT(A) is against law, equity & justice.*
- 2. The Ld. CIT(A) has erred in law and on facts in upholding the assessment order passed by the Ld. A.O. by without considering the explanations and documents provided by the appellant.*
- 3. The Ld. CIT(A) has erred in law and on facts in upholding the addition made U/S 68 of the Act by the Ld.A.O. of Rs.62,52,929/- as unexplained cash credits.*
- 4. The Ld. CIT(A) has erred in law and on facts in making addition of Rs.39,22,626/- as difference in turnover figures and Audit Report.*
- 5. The appellant Craves liberty to add, amend, alter or modify all or any grounds of appeal before final appeal.”*

Additional Ground

“(1) The Ld. CIT(A) has erred in upholding the invocation of section 115BBE of the Act by the Ld. A.O. as the transactions are occurred prior to insertion of provision to the statute.”

2. At the outset, it was submitted before us that although the Assessing Officer (AO) had originally made two additions, namely, Rs. 62,52,929/- under section 68 and Rs. 39,22,626/- on account of difference in turnover figures, the second issue has since been resolved. The assessee moved a rectification application under section 154 of the Act before the AO, wherein the differences in turnover were duly reconciled as being on account of the treatment of indirect taxes. Consequently, the AO has amended the assessment order and deleted the addition of Rs. 39,22,626/-.

3. Accordingly, the only surviving grievance in the present appeal relates to the addition made by the AO under section 68 of the Act of Rs. 62,52,929/- on account of unexplained cash deposits during the demonetisation period.

4. The brief facts of the case are that the assessee is a closely held company, engaged in the business of trading in Bullion and Jewellery. The assessee filed its return of income for Assessment Year 2017-18 on 28.10.2017

declaring total income of Rs. 14,61,190/-. The case of the assessee was selected for scrutiny through Computer Assisted Scrutiny Selection with the specific reason "abnormal cash deposits during demonetization period as compared to pre-demonetization period."

4.1. During the course of assessment proceedings, the AO observed that the assessee had deposited Specified Bank Notes (SBNs) in its bank accounts aggregating to Rs. 1,88,57,500/- during the financial year 2016-17, out of which Rs. 1,35,07,500/- was deposited during the demonetization period from 09.11.2016 to 31.12.2016. On being asked to explain the source of the aforesaid deposits, the assessee explained that the same were out of the cash sales made by the assessee during the year. The AO issued notices under section 133(6) of the Act randomly to six parties for verification of cash sales and to two purchase parties for verification of purchases. In response to the same, only one purchase party furnished the details confirming the purchases. As regards the notices issued to cash sale parties, no specific adverse material has been brought on record by the AO in the assessment order.

4.2. The assessee submitted Audited Financial Statements including Balance Sheet and Profit & Loss Account, Bank Account Details and Bank Statements, Cash Book and Bank Book, Summary of cash received from persons along with PAN details and nature of receipt, Month-wise summary of Cash and Credit Sales and Purchases including indirect taxes for AY 2017-18 and AY 2016-17, VAT Returns, and Month-wise summary of stock movement. The assessee submitted detailed reconciliation of cash balance as on 08.11.2016 showing Opening Cash Balance as on 01.04.2016 of Rs. 34,42,593/-, cash sales during 01.04.2016 to 08.11.2016 of Rs. 1,56,20,517/-,

less cash expenses during 01.04.2016 to 08.11.2016 of Rs. 1,92,226/- and less cash deposits during 01.04.2016 to 08.11.2016 of Rs. 53,10,000/-, arriving at Cash Balance as on 08.11.2016 of Rs. 1,35,60,884/-. The assessee further submitted reconciliation for the demonetization period showing that from the opening cash balance of Rs. 1,35,60,884/- as on 09.11.2016, adding cash sales during 09.11.2016 to 31.12.2016 of Rs. 2,50,737/-, less cash expenses of Rs. 82,328/- and less cash deposits of Rs. 1,35,07,500/-, the closing cash balance as on 31.12.2016 was Rs. 1,88,423/-.

4.3. The assessee, therefore, submitted that it had sufficient cash balance of Rs. 1,35,60,884/- as on 08.11.2016 before demonetization to deposit cash of Rs. 1,35,07,500/- during the demonetization period. The assessee contended that all cash deposits were from cash sales duly recorded in books of accounts, books of accounts were not rejected by the AO, all sales, purchases, and stock were duly supported by invoices and records, VAT returns filed with the Sales Tax Department reflected the same sales and purchases.

4.4. The AO examined the year-wise details furnished by the assessee relating to turnover, cash sales, and cash deposits. The AO noted that for AY 2016-17 the turnover was Rs. 12,20,63,947/- with cash sales of Rs. 75,89,080/- and cash deposits of Rs. 55,00,000/-, whereas for AY 2017-18 the turnover was Rs. 28,01,01,580/- with cash sales of Rs. 1,64,53,253/- and cash deposits of Rs. 1,88,57,500/-. He observed that though the cash sales as compared to the turnover were decreased from 22% in the AY 2016-17 to 5.87% in the AY 2017-18, whereas, the cash deposits in comparison to the cash sales have considerably increased. The AO computed the excess cash deposit during the year under consideration as compared to the earlier year by taking total cash deposits during AY 2017-18 of Rs. 1,88,57,500/-, less expected cash deposits

at 4.5% of turnover being Rs. 1,26,04,571/-, arriving at excess cash deposits of Rs. 62,52,929/-. The AO treated the amount of Rs. 62,52,929/- as unexplained cash credit and made addition to the income of the assessee under Section 68 of the Act. The addition was taxed under Section 115BBE of the Act at the rate of 60%.

5. Aggrieved by the assessment order, the assessee filed an appeal before the CIT(A). Aggrieved by the order of the AO, the assessee preferred an appeal before the CIT(A). The CIT(A), however, confirmed the action of the AO. The CIT(A) held that the onus is on the assessee to explain not just the existence of cash, but the source of the large and unusual cash deposits which do not align with reported cash sales trends. The CIT(A) observed:

"The AO's analysis of the disproportionate increase in cash deposits relative to turnover, coupled with the appellant's failure to provide a convincing reconciliation, justifies the conclusion that the explanation offered was not satisfactory. The methodology adopted by the AO to arrive at the figure of Rs. 62,52,929/- by comparing the cash deposit to turnover ratio with the previous year appears to be a reasonable basis."

6. Being aggrieved by the order of the CIT(A), the assessee has come in appeal before us.

7. The Ld. Counsel for the assessee submitted that the authorities below have failed to appreciate the facts of the case in right perspective. He submitted that the AO had wrongly made the addition merely on suspicion based on a mathematical formula, without pointing out any specific defect in the books of account or stock register. He drew our attention to the fact that

the assessee had furnished the Copy of Audit Report, Cash Book, Bank Statements, Stock Register, VAT Returns and month-wise sales summary.

7.1. The Ld. AR for the assessee further submitted that the assessee was possessed of sufficient opening cash balance of Rs. 1,35,60,884/- as on 08.11.2016, which was out of the cash sales made by the assessee. That the AO has not pointed out any defect, discrepancy or infirmity or evidences furnished by the assessee and he has simply made the addition on the basis of suspicion by just comparing the cash deposits of the year under consideration as compared to the total turnover of the assessee with the cash deposits of the immediately preceding assessment year 2016-17 as compared to the total turnover of the said year. He, has explained that the entire cash in SBN (demonetized currency) generated out of cash sales was required to be deposited in the bank accounts on account of announcement of demonetization scheme by the Government, resulting into the increase in ratio of cash deposits to the sales turnover in the year under consideration as compared to the immediately preceding assessment year 2016-17. He contended that once the sales and purchases are accepted by the department and have been duly reflected in the VAT returns, the cash realization from such sales cannot be treated as unexplained.

8. The Ld. DR, on the other hand, relied on the orders of the authorities below. He submitted that the abnormal increase in cash deposits during the demonetisation period was highly suspicious and the assessee failed to explain why the ratio of deposits to turnover had increased significantly compared to the earlier year.

9. We have heard the rival contentions and gone through the record. The entire case of the revenue is built upon the basis of suspicion regarding the cash deposits based on a comparative analysis of ratios. The AO has made the addition merely because there was a variation of 2.28% in the ratio of cash deposits to turnover between two years.

9.1. A perusal of the record reveals that the assessee has maintained regular books of account which have not been rejected by the AO. The AO has also not pointed out any discrepancy in the stock register or the purchases made by the assessee. We find that the assessee has demonstrated a clear source of cash by way of opening cash balance and cash sales. The Ld. AR has shown that the cash balance available as on 08.11.2016 was Rs. 1,35,60,884/-, which was accumulated from business operations and duly recorded in the cash book. It is a matter of record that the sales and purchases have been accepted as genuine. Once the trading results and the stock are not disputed, the cash flowing out of such recorded transactions cannot be treated as non-genuine. The sales have been recorded in the books and the profit arising therefrom has been offered to tax. Moreover, the peculiar fact to be noted in this case that the ratio of cash sales to the turnover has decreased from 6.2% to 5.87% which means there was no increase in cash sales as compared to the turnover during the year under consideration. The total turnover of the assessee has considerably increased and so as the receipts by banking channel. Therefore, it is not the case of the AO that the cash sales during the year under consideration are abnormal. The assessee has duly explained the reasons for deposits of the cash out of the opening balance as on 08/11/2016 due to the announcement of demonetization scheme resulting into increase in ratio of cash deposits to turnover in the year under consideration as compared to the earlier assessment year. Nonetheless, in no circumstances, it can be held to

be a case of cash deposits out of undisclosed sources of income and, therefore, the additions made/confirmed by the lower authorities u/s 68 of the Act are not sustainable and the same are, accordingly, ordered to be deleted.

10. In the result, the appeal of the assessee stands allowed.

**Order is pronounced under provision of Rule 34 of ITAT Rules, 1963
on 04/02/2026.**

**Sd/-
(Makarand V. Mahadeokar)
Accountant Member**

**Sd/-
(Sanjay Garg)
Judicial Member**

दिनांक/Dated 04/02/2026

टी. सी. नायर, व. नि. स. / T.C. NAIR, Sr. PS

आदेश की प्रतिलिपि ँग्रेषित/Copy of the Order forwarded to :

1. ँपीलार्थी / The Appellant
2. प्रत्यर्थी / The Respondent.
3. संबंधित आयकर आयुक्त / Concerned CIT
4. आयकर आयुक्त (ंपील) / The CIT(A)- (NFAC), Delhi
5. विभागीय प्रतिनिधि, आयकर ँपीलीय ँधिकरण ,ंहमदाबाद /DR, ITAT, Ahmedabad.
6. गार्ड फाईल /Guard file.

आदेशानुसार/ BY ORDER,

सत्यापित प्रति //True Copy//

सहायक पंजीकार (Asstt. Registrar)
आयकर ँपीलीय ँधिकरण, ITAT, Ahmedabad