



2. The Ground Nos.1,5 & 6 of assessee's appeal are general in nature and does not require any specific adjudication.

3. In respect of Ground No. 2 raised by the assessee, the Id AR stated before us that he is not pressing the said ground before us. The same is reckoned as a statement from the Bar and accordingly Ground No. 2 raised by the assessee is dismissed as not pressed.

#### **4. DISPUTE IN VALUATION OF CLOSING STOCK**

##### **Ground No. 1 of Revenue Appeal**

The brief facts of this issue are that the assessee is engaged in the business of manufacturing and selling of Gold & Diamond Studded Gold Jewellery and had filed its return of income for the Asst Year 2010-11 on 23.9.2010 declaring total income of Rs 6,10,961/-. During the year under consideration, the assessee company has also done job work of other parties. The assessee has shown turnover of Rs 6.10 crores and contractual receipt for manufacturing of jewellery of Rs 38.46 lacs. The Id AO observed that vide Column 12 (a) of the Audit Report of the assessee, the method of valuation of closing stock adopted by the assessee is as under:-

Gold : At cost including making charges under LIFO method

Diamond : At cost or net realizable value whichever is lower under  
LIFO method

Pearl & Emerald : At cost under LIFO method

4.1. The Id AO vide notice u/s 142(1) of the Act dated 1.10.2012 asked for monthly statement of stock mentioning month, item wise details of jewellery, opening balance, purchase / production , consumption / sale and closing balance . The assessee company filed its details by stating that it had followed LIFO method of accounting. The assessee also submitted that it does not maintain item wise details of stock. It was

further submitted that it deals in 100s of varieties of jewellery items and each item of variety is having different specification with regard to weight, design, stone studding etc , so it is neither practical nor possible to maintain stock 'item wise / ornament wise'.

The assessee submitted a detailed stock valuation report as under:-

Item	Particulars	Weight (in grams)	Rate per gram	Sub-total	Total
22K	Opening Stock	31962.351	510.42	16314399.00	
	Addition during the year	5939.245	1547.70	9192211.00	25506610.00
	Total	37901.596			
20k	Opening stock	4585.766	583.18		2674341.00
18K	Opening stock	15106.512	808.23	12209605.00	
	Addition during the year	6574.520	1270.58	8353473.00	20563078.00
	Total	21681.032			
24k	Opening stock	3.420	1043.85		3570.00
Diamond	Opening stock	1342.970	10185.85	13679293.00	
	Addition during the year	1275.024	15963.09	20353329.00	34032622.00
Stone	Opening stock	1672.570	200	334514.00	
	Addition	5646.376	329.60	1861076.00	2195590.00
Making charge	22k			415842.00	
	20k			45858.00	
	18k			1021041.00	1482741.00
			Total		86458552.00

4.2. The Id AO observed that the value of the Gold jewellery at the commencement of the year was much less than its value at the end of the year. The assessee stated that the details of stock had been maintained in terms of weight only and not in terms of pieces and items of jewellery. The Id AO observed that the assessee could not able to locate as to which items of jewellery were there in the opening stock, purchase and closing stock. Hence the assessee pleaded that it was not possible to say as to whether the items sold during the year were items of opening stock or were the items that had been purchased during the year. In other words, in the absence of the dtails, the assessee could not tell as to whether the items left in the closing stock or were out of the ones which has been purchased / manufactured during the year, it is just a assumption that the jewellery, which was purchased last, was the first to be sold and on this basis what was left was out of the earlier purchase. This is Last in First Out (LIFO) method of valuation of stock. The Id AO raised a specific question to the assessee as under:-

*“Please note that as per accounting standard of ICAI i.e AS-2 , inventory should have been valued on FIFO basis or weighted average method basis. Provision of section 145A of the Act, 1961 also prescribed for such method of valuation.”*

4.3. In response to this , the assessee submitted as under:-

*“Regarding applicability of the provision of section 145A of the Income Tax Act, 1961 the provisions has not prescribed any statutory solitary method of valuation or that FIFO or weighted average method has to be followed while valuing the stock at cost or market rate. For convenience we reproduce section 145A wherein the provision is that ‘the valuation of .....inventory.....shall be [a(i)] in accordance with the method of accounting regularly employed by the assessee.”*

4.4. The assessee stated that it had applied the same method regularly, since inception of the business from the year 1994 and the same method of accoutnign have been followed year to year and every year and have been accepted by the department. The method followed was to take the value of the opening stock as per the earlier years

closing stock and for addition in the value of stock every year, the yearly average rate is applied for addition in the stock over and above last year stock. For the purpose of valuation under LIFO method, the aforesaid method is proper and well recognized method.

4.5. The Id AO observed that the inventories are to be valued in accordance with the method prescribed under Accounting Standard (AS) -2 issued by the Institute of Chartered Accountants of India (ICAI). He observed that AS-2 prescribes valuation of inventories should be valued on First in First Out (FIFO) method or weighted average method and LIFO method is not permitted. Since the assessee is a company, it has to mandatorily follow the AS-2 issued by ICAI. He observed that though the choice of the method of accounting lies with the assessee, but in the case of company, the assessee company has to follow the method prescribed in the Companies Act. He further observed that the department is bound by the assessee's choice of a method regularly employed by him unless by that method the true income, profits and gains cannot be arrived at. If the true income, profits and gains cannot be ascertained on the basis of the assessee's method, it would be the duty of the assessing officer to discard the method and to adopt a method of his own. He further observed that LIFO method may be an acceptable method of accountancy but what the assessing authority has to consider is whether it conforms to the prescription of the income tax act. Under the Income Tax Act, the assessing officer has to determine the profits for the year on which tax is to be charged. Hence the question is to determine the expenditure on gold which could be properly charged against the receipts of the year. The assessee says that from its books, it could not be said as to how much of gold sold during the year came out of the opening stock and as to how much came out of the purchases made during the year. The assessee has, hence, for the determination of its profits for the year, proceeded on the basis that the gold that was sold had come out of the purchases of the year. According

to the assessee, the opening stock was not utilized and this was still intact at the end of the year. In this manner, what the assessee charged against the receipts was the stock of the gold jewellery purchased during the year. The cost of purchase during the year was much higher than the cost of the gold of the opening stock. The average purchase rate during the year was Rs 1541.70 per gram whereas the cost per gram of gold of opening stock was only Rs 510.42 per gram. It is obvious that if it is to be assumed that the gold of the opening stock has been sold during the year, then the expenditure to be charged would have been much less. The question which is to be examined is whether the assessee was justified to make the assumption that the sales of gold jewellery were out of the purchases of the year only and that the opening stock was still left intact at the end of the year. If this LIFO assumption, which has been made by the assessee, is to be accepted, then, even after 30 years, it would be open to the assessee to say that this stock is still intact. Hence the ld AO observed that the LIFO method is not justified.

4.6. The ld AO observed that in the absence of records to indicate as to whether the sales were out of the jewellery of the opening stock or out of the purchases made during the year, an estimate of the cost of gold, which may be charged as an expense in arriving at the profit for tax purposes, has got to be made. The question is whether these expenses should be, determined on the basis of LIFO assumption, as made by the assessee, or FIFO assumption. The ld AO observed that FIFO assumption approximates more closely to the reality. He observed that LIFO method adopted by the assessee is not giving true profit of the year and hence method adopted by the assessee company is rejected. The ld AO accordingly adopted the weighted average method as prescribed in AS-2 of ICAI to reach nearer to true profit. The ld AO arrived at the closing stock by adopting the weighted average cost as under:-

Value of Gold (24K,22K,20K and 18K)	8,77,57,418.38
Value of Diamonds	3,44,98,469.46
Value of Stones	18,91,090.62
Making Charges as taken by the assessee	14,82,741.00
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Total Value	12,56,29,719.46
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The assessee had declared the value of closing stock at Rs 8,64,58,552/-. Accordingly, the Id AO added the difference of Rs 3,91,71,167/- to income of the assessee on account of undervaluation of closing stock..

5. The assessee stated that the inventory valuation is governed by the provisions of section 145A of the Act which starts with a non-obstante clause 'Notwithstanding anything contained in any other provisions of this Act' .....The Id AO had not stated that the assessee had not complied with the provisions of section 145A of the Act. The assessee has been maintaining LIFO method from the inception of the company which is not in dispute. There is no deviation in the method of accounting employed during the year as could be evident from the tax audit report ,wherein the tax auditor had not reported any deviation adopted by the assessee. It was submitted that the valuation of the closing stock of last year which was the opening stock this year was duly accepted by the Id AO in the earlier year and therefore cannot be disturbed. The increase during this year has been valued at LIFO method taking the value of purchase during the year and such method was also followed from year to year and every year. Therefore there was no reason to disturb the valuation of closing stock. It was further submitted that LIFO method is a recognized method for the purpose of valuation of the closing stock. The assessee placed reliance on the decision of Hon'ble Madhya Pradesh High Court in the case of CIT vs J.P.Patel reported in 263 ITR 421 (MP) wherein it was held that LIFO method is well recognized method and once a recognized method has been taken recourse to and the same has been adopted , there is no reason to discard the



same. The assessee also placed reliance on the following decisions for the consistent method followed by an assessee should not be disturbed by the revenue:-

- a) Cuttack Tribunal in the case of Dwarka Jewellers vs ITO in ITA No. 3/CTK/2009 dated 23.7.2010
- b) Chandigarh Tribunal in the case of DCIT vs Vipin Aggarwal in ITA No. 450/Chd/2010 dated 23.7.2010
- c) Pune Tribunal in the case of Sandvik Asia vs DCIT reported in 69 ITD 59
- d) Ahmedabad Tribunal in the case of ITO vs Chokshi Hirachand & Bros reported in 37 TTJ 415
- e) Ahmedabad Tribunal in the case of ACIT vs Vijay M Parekh in ITA Nos. 1994 to 1999/Ahd/2009 dated 25.9.2009
- f) Ahmedabad Tribunal in the case of Neptune Infrastructure Pvt Ltd in IT(SS) A No. 450/Ahd/2011 dated 31.10.2011

It was further pleaded that there would be no revenue effect when the closing stock is revalued since if the AO had revalued the closing stock for the assessment year in question then he will be duty bound to increase the value of the opening stock in the next year. Therefore such addition becomes revenue neutral. Moreover, the opening stock of this year which is claimed as deduction should also be revalued by the Id AO using weighted average method, which in turn would go to increase the expenditure thereby reducing the profit of the year.

6. The Id CITA appreciated the aforesaid contentions of the assessee and the case laws relied upon by it and deleted the addition made by the Id AO in the sum of Rs 3,91,71,167/- towards valuation of closing stock. Aggrieved, the revenue is in appeal before us on the following ground:-

**I.T.A. No. 828/Kol/2015 for the assessment year 2010-11**



*1. On the facts and circumstances of the case the Ld. CIT(A) has erred in deleting the addition of Rs. 3,91,71,167/- in the valuation of stock. Method of valuation of closing stock (LIFO) adopted by the assessee is not giving true profit of the year. Therefore, method adopted by the assessee is not acceptable. Method prescribed in AS-2 by the ICAI i.e. weighted average method will be the appropriate method to reach nearer to true profit.*

7. We have heard the rival submissions. The facts stated hereinabove remain undisputed and hence the same are not reiterated for the sake of brevity. We find that the assessee had duly reflected in the audited financial statements under Significant Accounting Policies with regard to inventory valuation as under:-

*Gold : At cost including making charges under LIFO method*

*Diamond : At cost or net realizable value whichever is lower under  
LIFO method*

*Pearl & Emerald : At cost under LIFO method*

We find that the said accounting policy is part and parcel of the audited financial statements which has been approved by the shareholders in the general body meeting. It is not in dispute that the assessee had been following LIFO method regularly for valuation of closing stock since its inception. It is not in dispute that the LIFO method adopted by the assessee had been accepted by the revenue in the past. It is not in dispute that the LIFO method is also one of the recognized methods for valuation of closing stock. The ld AO had observed that as per AS-2 issued by ICAI, the assessee is not permitted to adopt LIFO method for valuation of closing stock. In this regard, the relevant portion of AS-2 issued by ICAI is reproduced hereunder:-

**Cost formulas**

*14. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned by specific information of their individual costs.*

*15. Specific identification of cost means that specific costs are attributed to identified items of inventory. This is an appropriate treatment for items that are segregated for a specific project, regardless of whether they have been purchased or produced. However, when there are large number of items of*

*inventory which are ordinarily interchangeable, specific identification of costs is inappropriate since, in such circumstances, an enterprise could obtain predetermined effects on the net profit or loss for the period by selecting a particular method of ascertaining the items that remain in inventories.*

*16. The cost of inventories , other than those dealt with in paragraph 14, should be assigned by using the first-in, first-out (FIFO) , or weighted average cost formula. The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition.*

7.1. The ld AR pleaded before us that the LIFO method is also recognized in AS-2 and in this regard , he placed reliance on the decision of *Pune Tribunal* in the case of *Sandvik Asia vs DCIT reported in 69 ITD 59* wherein it was held :

*“18. Lastly, we shall deal with the contention of the learned Senior Departmental Representative that true profits cannot be deduced on the basis of LIFO method and, therefore, the same should be rejected despite the fact that the same was being consistently followed by the assessee in the past. Such a contention has been raised in view of the Hon'ble Supreme Court decision in the case of British Paints India Ltd. (supra). We have given our deep thought to this contention but we are unable to accept the same. The LIFO method is one of the recognized method of valuation of closing stock as per Accounting Standard 2 laid down by the Institute of Chartered Accountants of India and para 26 of the International Accounting Standard (IAS-2) as observed by the Third Member of the Tribunal in the assessee's own case. This shows that much water has flown after the decision of the Privy Council in the case reported as 30 ITR 84 (supra). One cannot keep his eyes shut to the latest development of the modern age. The Tribunal in the country have also accepted the LIFO method. The Delhi Bench of the Tribunal in the case of Jain Abhushan Bhandar vs .ITO (1987) 29 TTJ(Del) 75 and the Cochin Bench of the Tribunal in the case of ITO vs. Sree Padmanabha Jewellery Mart (1987) 28 TTJ (Coch)15@1987) 19 ITD 816 (Coch) have accepted the LIFO method in the past. Even recently, the Ahmadabad Bench of the Tribunal in the case of Dy. CIT vs. M/s Harjivandas J. Zaveri (supra) to which one of us (A.M.) was a party, has approved the LIFO method. Therefore, it is wrong to say that LIFO method is incorrect method.”*

7.2. We find that the ld CITA had deleted the addition on the ground that the assessee company had been regularly employing LIFO method for the purpose of valuation of its stocks since its inception and there is no deviation of the same during the year and the said method had been accepted by the revenue in the earlier years. We find that the

entire issue under dispute is squarely covered by the decision of this tribunal in the case of *ACIT vs Jewell India Jewellers in ITA No. 2085/Kol/2013 for the Asst Year 2009-10 dated 1.6.2016* wherein it was held that:-

“7. We have heard the rival submissions and perused the materials available on record. The facts elaborately stated in the arguments advanced by the assessee remain undisputed and hence the same are not reproduced herein for the sake of brevity. The only dispute is with regard to valuation of closing stock of gold. It is not in dispute that the assessee has been following consistently LIFO method for valuation of closing stock of gold. It is not in dispute that the same has been consistently accepted by the revenue in the earlier years even in the scrutiny assessment proceedings. It is elementary that the regular system of accounting followed by the assessee could be disturbed only in the event of finding out defects in the books of accounts and stock registers maintained by the assessee. Admittedly, no defects were noticed or pointed out by the Learned AO in the books of accounts and stock registers etc furnished before him at the time of assessment proceedings. Infact no discrepancy was noticed on the quantity of gold and other jewellery by the Learned AO. We find that the Learned AO had not recorded any clear finding in his order that the LIFO method of accounting followed by the assessee for valuing its closing stock was such that correct profit could not be deduced from the books of account maintained by the assessee. In these circumstances, it would not be justified in rejecting the closing stock valuation regularly adopted by the assessee. Reliance is also placed on the decision of the Hon’ble Calcutta High Court in the case of *British Paints India Ltd vs CIT* reported in (1978) 111 ITR 53 (Cal). We also find that the reliance placed by the Learned AR on the co-ordinate bench decision of Cochin Tribunal in the case of jeweller in ITO vs Sree Padmanabha Jewellery Mart reported in 19 ITD 816 is directly on the point involved in this appeal. In the said case, it was held that :-

*The manner of valuation of closing stock by the assessee is as under:-*

*“The quantity of stock left at the end of any years is first ascertained by reference to the detailed books of accounts maintained by the appellant-firm. From out of this, the quantity of jewellery relatable to the stock carried forward from the previous year is ascertained and isolated. Any excess over the last year’s stock is considered to be out of current year’s purchase. The last year’s stock is valued at its cost to business. The current year’s left over is valued at a moving average which represents the average price paid for all purchases made by the firm in the year of account.”*

7.1. In the instant case, the assessee had furnished the closing stock valuation workings as on 31.3.2006, 31.3.2007, 31.3.2008 and 31.3.2009 before the revenue. On going through the said workings, we are fully convinced with the method of accounting regularly employed by the assessee for valuation of closing stock of Gold and other jewellery. The value of closing stock of gold as worked out by the assessee are given below :-

<u>For 31.3.2006</u>	<u>Grams</u>	<u>Rate</u>	<u>Value</u>
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Value of closing stock of FY 2004-05	25234.070	621.00	15670357
Value of Balance stock	31645.550	650.28	20578468
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	56879.620		36248825
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<u>For 31.3.2007</u>	<u>Grams</u>	<u>Rate</u>	<u>Value</u>
Value of closing stock of FY 2005-06	56879.620	637.29	36248825
Value of Balance stock	12220.260	917.50	11212089
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	69099.880		47460914
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<u>For 31.3.2008</u>	<u>Grams</u>	<u>Rate</u>	<u>Value</u>
Value of closing stock of FY 2006-07	69099.880	686.85	47460914
Value of Balance stock	6389.830	1005.59	6425549.15
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	75489.710		53886463.15
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<u>For 31.3.2009</u>	<u>Grams</u>	<u>Rate</u>	<u>Value</u>
Value of closing stock of FY 2006-07	69099.880	686.85	47460914
Value of Balance stock rate of FY 07-08	4652.780	1005.59	4678789.04
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	73752.660		52139703.04
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7.2. It is quite natural that jewellery being a fashion industry, the old stocks would most of the times remain with the assessee and the revenue cannot expect the old stocks to be sold out first though it would remain in the wish list of the jeweller. We find that the aforesaid valuation exactly fits into the accepted method of valuation for a jeweller as approved in the case of Cochin Tribunal supra. We also find that the decision of the Chandigarh Tribunal in the case of DCIT vs Vipin Aggarwal in ITA No. 450/Chd/2010 dated 23.7.2010 wherein it was held that :-

“6. We have heard the rival contentions and perused the records. The issue arising in the present appeal is with regard to the valuation of closing stock. The assessee is a jeweler and had declared closing stock of Rs. 3,79,84,232/- as on 31.3.2007. The contention of the assessee was that it was valuing the closing stock at cost. Out of the total closing stock of 54,756 gms, the assessee claims that gold weighing 31,905 gms was its opening stock valued @ Rs. 482/- per gram. The balance stock available out of the purchases made during the year was 22850 gms which was valued at cost price of Rs. 905/- per gram. The contention of the assessee was rejected by the Assessing Officer as according to the Assessing Officer the assessee was not following one of the methods specified in accounting standard AS-2 issued by the Institute of Chartered Accountants of India for determining the cost of inventories. The explanation of the assessee in this regard was that the opening stock of 31950 gms was valued at Rs. 482/- per gram and similar value be adopted to work out the value of closing stock. It as further explained that the said jewellery being old conventional jewellery was not sold during the year and was available at the close of the year. The balance stock was out of the purchases made during the year less sales made by the assessee. The Assessing Officer while re-

*computing the value of stock has accepted the weights in grams of stocks but had only revalued the stock by adopting a figure higher than rate disclosed by the assessee. We find no merit in the said addition being made by the Assessing Officer where the valuation of closing stock has been changed vis-a-vis its value and not because of any difference in the quantity of stock. The assessee was consistently following a particular method of accounting which is being accepted from year to year and in the absence of any contrary findings by the Assessing Officer, there is no merit in not adopting the method of valuation of stock being consistently followed by the assessee. Further we find support from the ratio laid down by the Hon'ble Supreme Court in Chainrup Sampat Ram Vs. CIT 24 ITR 481 (SC) (supra) wherein it has been held that the value of stock cannot be appreciated higher than the cost because the closing stock is not the source of profit for the assessee. It has also been held by the Hon'ble Supreme Court that the closing stock is to be valued either at cost or market value, whichever is low. In the facts and circumstances of the present case, we are in conformity with the order of CIT(A) and uphold the same. There is no merit in adopting the weighted average cost method for valuation of inventory of stock in the circumstances of the case. We confirm the deletion of addition made by the Assessing officer totaling Rs.52,23,753/-. The ground of appeal raised by the Revenue is thus dismissed.”*

*7.3. In any event, we hold that no addition could be made towards value of stock because the closing stock cannot be construed as a source of profit for the assessee. We place reliance on the decision of the Hon'ble Supreme Court in the case of Chainrup Sampat Ram vs CIT reported in 24 ITR 481 (SC) in support of this proposition.*

*7.4. We find that the assessee has been consistently following LIFO method of accounting for valuation of its closing stock of gold which has been accepted by the department in the earlier years even in scrutiny assessment proceedings of the assessee. Then there is no justifiable reason to reject the same method during the year under appeal. In this regard, we place reliance on the decision of the Hon'ble Apex Court in the case of United Commercial Bank vs CIT reported in 240 ITR 355 (SC) wherein the principles were laid down for valuation of assets at page 366. We find that the following decisions also support the case of the assessee:-*

*CIT vs Sant Ram Mangat Ram reported in (2005) 275 ITR 312 (P&H)  
CIT vs Ema India Ltd reported in (2006) 296 ITR 510 (All)  
CIT vs Jagatjit Industries Ltd reported in (2011) 339 ITR 382 (Del)  
CIT vs Shah Doshi & Co reported in (1982) 133 ITR 23 (Guj)*

*7.5. In view of the aforesaid findings in the facts and circumstances of the case and respectfully following the various judicial precedents relied upon hereinabove, we do not find any reason to interfere with the order of the Learned CITA. Accordingly the grounds raised by the revenue are dismissed.”*

*7.3. Similar decision was rendered by this tribunal in the very same case for the Asst Year 2011-12 in ITA No. 202/Kol/2015 dated 4.10.2016. The facts of that case and decision rendered thereon are squarely applicable to the facts of the instant case. Hence*

respectfully following the said decision of this tribunal, we hold that the Id CITA had rightly deleted the addition made in the sum of Rs 3,91,71,167/- and hence no interference is warranted in the same. Accordingly, the Ground No.1 raised by the revenue is dismissed.

**8. ADDITION TOWARDS MAKING CHARGES INCLUDED IN THE VALUATION OF CLOSING STOCK**

**Ground No. 2 of Revenue Appeal**

**Ground Nos. 3 & 4 of Assessee's Appeal**

The Id AO observed that assessee has claimed wastage of 3.5% & 9% towards making charges of gold jewellery of 22K and 18K respectively. This loss is nothing but expenditure towards making of ornaments. The Id AO observed that the assessee did not include this cost to its valuation of closing stock. The Id AO observed that assessee has incurred / suffered loss to the extent of 3.5% & 9% to convert into finished product. Hence the loss suffered while making into finished goods is a cost of finished goods and therefore it should be included with value of closing stock and accordingly he added a sum of Rs 10,96,584/- to the total income thereon.

8.1. The assessee pleaded that the Id AO had not disputed the % of wastage that occurred during the course of manufacturing of gold. It was clearly explained that gold was issued to karigars for making the jewellery and they charge making charges and the wastage in process of making the jewellery is to be borne by the assessee. There cannot be any control over the quantum of such wastage. To avoid such situationm the assessee issues gold to the karigars and fix the total maximum allowable wastage. The wastage in the process was quite fair and reasonable. The assessee denied the basic fact that it had not included making charges in valuation of stock., It was stated that making charges are part of direct expenses which are inclusive of wastage of gold. In the making charges, the assessee had duly taken effect of the wastage, as wastage rate



of 3.5% and 9% for 22 carat jewellery and 18 carat jewellery respectively was allowed to the karigars. Hence the value of closing stock already included the wastage.

8.2. The Id CITA partially granted relief to the assessee by observing as under:-

*“6.2. I have considered the facts of the case. The assessing officer has made the addition on the premise that the closing stock shown by the appellant had not taken into account the wastage or making charges. He has taken the wastage percentage as mentioned by the appellant and applied that to increase in stock during the year. Accordingly, value of loss in making of 22 carat ornaments and 18 carat ornaments came to Rs. 3,16,040/- and Rs. 7,80,544/- adding up to Rs. 10,96,584/-. The appellant, on the other hand, has denied the allegation, that making charges were not included in the valuation of stock. It is seen from the schedule-(vi) to the balance sheet, that in the valuation of inventory there is a specific item for making charges amounting to Rs. 14,82,742/-. The appellant has given a working of wastage allowed to the karigars which was considered as part of making charges. Applying the rate of wastage and the amount paid in money, it has worked out total making charges at Rs. 1,26,29,511/- for the entire production of 180147.79 gram during the year. Accordingly, the average rate comes to Rs. 70.11 per gram. If one applies this rate to the increase in stock during the year taken by the assessing officer in his computation, the making charges imbedded in increase in stock come to Rs. 8,77,340/-. In the assessment order, the assessing officer has computed such making charges at Rs. 10,96,584/-. As against that, the appellant has included making charges of Rs. 14,82,742/- in the closing stock and Rs. 11,59,646/- in the opening stock as per schedule-(vi) to the balance sheet relating to the inventories. Thus, making charges in the increase in stock as per accounts (according to UFO method followed by the appellant) comes to Rs.3,23,096/-, which is lower than the figure of Rs. 10,96,584/- computed by the assessing officer. Thus, while the appellant has claimed to have already considered making charges while valuing the closing stock inclusive of wastages, the amount considered by it appears to be short by Rs. 7,73,488/- (Rs. 10,96,584/- less Rs. 3,23,096/-). Considering this, the addition of Rs. 10,96,584/- on account of under valuation is reduced to Rs. 7,73,488/-.”*

8.3. Aggrieved, both the assessee as well as the revenue are in appeal before us on the following ground:-

**I.T.A. No. 882/Kol/2015 for the assessment year 2010-11**

*2. On the facts and circumstances of the case the Ld. CIT(A) has erred in reducing the addition of Rs. 10,96,584/- to Rs. 7,73,488/- on account of expenditure towards making charges not included during the valuation of closing stock.*



**I.T.A. No. 442/Kol/2015 for the assessment year 2010-11**

*3. For that the Ld. CIT(A) erred in confirming the addition of Rs. 7,73,488/- out of addition of Rs. 10,96,584/- made by the AO on account of alleged non inclusion of making charge in the value of closing stock when the same was duly included in the valuation and the statement of which was filed in the course of assessment proceedings.*

*4. For that the Ld. CIT(A) erred in confirming the addition of making charge when the same system of accounting was followed from earlier years and the books of accounts have also been accepted by the AO.*

8.4. We have heard the rival submissions. At the outset, we find that the assessee had stated that it had included making charges of Rs 14,82,742/- in the closing stock. But this statement made by the assessee has been accepted by the ld CITA without verifying the said fact. Hence we deem it fit and appropriate, in the interest of justice and fairplay, to remand this issue to the file of the ld AO, with a direction to verify the fact of inclusion of making charges of Rs 14,82,742/- in the valuation of closing stock. If the said making charges are included in the valuation of closing stock by the assessee, then a separate addition towards the same is not warranted, as admittedly the assessee had made total payment of making charges to karigars including for the portion of wastage. Accordingly, the grounds raised by the assessee and revenue as above are allowed for statistical purposes.

**9. ADDITION OF RS 4,02,67,751/- U/S 115JB OF THE ACT**

Ground No. 3 of Revenue Appeal

The ld AO observed that the assessee company had not prepared its profit and loss account according to Part II and Part III of Schedule VI of the Companies Act and notified accounting standards, in view of the fact that the assessee had followed LIFO method for valuation of closing stock which is not in accordance with AS-2 issued by ICAI. He said that since the assessee had not prepared the profit and loss account by following the notified accounting standards, the ld AO is empowered to make

alterations to the book profits reported by the assessee. Accordingly, the Id AO made an addition of Rs 4,02,67,751/- ( 3,91,71,167/- towards closing stock valuation and Rs 10,96,584/- towards making charges not included in closing stock) to the book profits computed u/s 115JB of the Act. The Id CITA deleted the said addition in view of the fact that he had deleted the addition made towards valuation of closing stock in the sum of Rs 3,91,71,167/- and observed that the Id AO cannot make any addition to book profit other than those contemplated in Explanation to section 115JB(2) of the Act. Aggrieved, the revenue is in appeal before us on the following ground:-

**I.T.A. No. 882/Kol/2015 for the assessment year 2010-11**

*3. On the facts and circumstances of the case the Ld. CIT(A) has erred in deleting the addition of Rs. 4,02,67,751/- while computing the Book Profit u/s 115JB. AO is empowered by the I.T. Act, to make the adjustment in the book profit if the accounts are not prepared in accordance with the accounting standard prescribed by the ICAI.*

9.1. We have heard the rival submissions. We had already deleted the addition made towards valuation of closing stock in the sum of Rs 3,91,71,167/- due to difference in method of valuation as per Ground No.1 of revenue appeal. We have held that LIFO is also a recognized method of accounting. Hence it cannot be said that the valuation method is not in consonance with the accounting standards and Part II and Part III of Schedule VI of the Companies Act. Hence no such addition could be made to the book profit u/s 115JB of the Act. With regard to the other item of making charges inclusion in the closing stock of Rs 10,96,584/- , the assessee had stated that it had already included the making charges including wastage (i.e amount paid to karigars) in the valuation of closing stock, which has been directed to be verified by the Id AO in the earlier grounds supra by us. The Id AO would decide this ground vis a vis inclusion of the same in the book profits u/s 115JB of the Act accordingly. If any addition is sustained under the normal provisions of the Act, the same addition need to be made in the computation of book profits u/s 115JB of the Act. If no addition is made under the

normal provisions of the Act, then no addition is to be made u/s 115JB of the Act also. Accordingly the Ground No. 3 of revenue appeal is partly allowed for statistical purposes.

10. In the result, both the appeals of the assessee as well as the revenue are partly allowed for statistical purposes.

**Order pronounced in the Court on 17.04.2018**

Sd/-  
[A.T. Varkey]  
Judicial Member

Sd/-  
[ M.Balaganesh ]  
Accountant Member

Dated : 17.04.2018

SB, Sr. PS

Copy of the order forwarded to:

1. M/s Roopshree Jewellers (P) Ltd., 3, Chettan Seth Street, 2<sup>nd</sup> Floor, Kolkata-70007.
2. ITO, Ward-9(3), Kolkata, Aayakar Bhawan, P-7, Chowringhee Square, Kolkata-700069.
3. C.I.T(A)- , Kolkata
4. C.I.T.- Kolkata.
5. CIT(DR), Kolkata Benches, Kolkata.

True copy

By Order

Senior Private Secretary  
Head of Office/D.D.O., ITAT, Kolkata Benches

