IN THE INCOME TAX APPELLATE TRIBUNAL
MUMBAI BENCH "C", MUMBAI

BEFORE SHRI ANIKESH BANERJEE, JUDICIAL MEMBER AND
SHRI MAKARAND VASANT MAHADEOKAR, ACCOUNTANT MEMBER

ITA No.7348/Mum/2025
(Assessment year: 2005-06)

CIE Automotive India Limited (successor of Pranay Sheetmetal Stampings Ltd.) G Block, Bhosari Industrial Estate, Near BSNL Office, Bhosari, Pune **PAN:AABCM66632J**	**vs**	**DCIT Circle 7(1)(1), Mumbai** Aayakar Bhavan, M.K. Road, Mumbai-400020
APPELLANT		**RESPONDENT**

Assessee by	:	Shri Nikhil Tiwari a/w Shri Lekh Mehta
Revenue by	:	Shri R.A. Dhyani (CIT DR)
Date of hearing	:	12/05/2026
Date of pronouncement	:	16/06/2026

O R D E R

Per:Anikesh Banerjee (JM):

The instant appeal of the assessee filed against the order of the NFAC, Delhi [for brevity the "Ld. CIT(A)"], order passed under section 250 r.w.s. 254 of the Income Tax Act 1961 (for brevity 'the Act') for Assessment Year 2005-06, date of order 18.09.2025. The impugned order emanated from the order of the Ld.

Additional Commissioner of Income Tax Range 10(1), Mumbai (for brevity the 'Ld. AO') order passed under section 143(3) of the Act date of order 21.11.2007.

2. The assessee has taken the following grounds:

"On the facts and in the circumstances of the case and in law, the Hon'ble CIT(A) has:

Addition on account of scrap credit of INR 10,39,34,238:

1. Erred on the facts and in circumstances of the case and in law, in confirming the disallowance of deduction of scrap credit given to Mahindra & Mahindra Ltd ('M&M') amounting to INR 10.39.34.238.

Depreciation on Plant and Machinery - CENVAT credit denied of INR 5,16,612

2. Erred in disallowance of depreciation on CENVAT credit for AY 2005-06 amounting to INR 5.16.612.

Disallowance of Provisions of INR 74,79,561

3. Erred in disallowing a sum of INR 22,72,609 in respect of provision for Excise Duty on finished goods and scrap despite of the same being paid before the filing of return of income as per the provisions of section 43B of the Act.

4. Erred in disallowing a sum of INR 45,00,000 in respect of Staff Welfare (towards performance incentive) despite of the same being paid before the filing of return of income as per the provisions of section 43B of the Act.

5. Erred in disallowing a sum of INR 6,00,000 in respect of open GRNs, which are actual business expenses and not ad-hoc provisions.

6. Erred in disallowing a sum of INR 1,06,952 in respect of stock discrepancies.

Disallowance of depreciation amounting to INR 22,89,974

7. Erred in confirming disallowance of depreciation of INR 22,89.974 in respect of new assets acquired and put to use during the year.

8. Without prejudice, if the addition is sustained, the opening written down value of these assets should be increased in subsequent year(s).

Disallowance of direct expenses amounting to INR 1,32,01,934

9 Erred in disallowing an ad-hoc sum of INR 1,32,01,934 in respect of direct expenses and staff welfare expenses incurred the Appellant during the said year.

Erred in not following the earlier CIT(A) order dated 19 March 2013, especially when there is no additional evidence filed and the earlier CIT(A) order had deleted such ad-hoc disallowance.

11. Erred in disallowance of expenditure on ad-hoc basis, without any specific findings on the expenditure not being related to the business.

Non reconciliation of turnover amounting to INR 45,05,567

12. Erred in disallowing INR 45,05,567 on account of non-reconciliation of turnover on account of difference in TDS Certificates and turnover as per profit and loss account.

13. Erred in not following the earlier CIT(A) order dated 19 March 2013, especially when there is no additional evidence filed and the earlier CIT(A) order had deleted such ad-hoc disallowance.

Disallowance of staff welfare expenses of Rs. 20,38,552

14. On the facts and in the circumstances of the case and in law, the learned CIT(A) erred in disallowing a sum of Rs. 20,38,552/- in respect of staff welfare expenses.

15. Erred in not following the earlier CIT(A) order dated 19 March 2013, especially when there is no additional evidence filed and the earlier CIT(A) order had deleted such ad-hoc disallowance."

3. Brief facts of the case are that the assessee is a public limited company listed on the Bombay Stock Exchange and the National Stock Exchange, engaged in the business of manufacturing and supplying auto components with a presence across multiple technologies. The assessee filed its return of income under section 139(1) of the Act declaring a total income of Rs.18,64,99,600/-. The case was selected for scrutiny, and the assessment was completed under section 143(3) of the Act, wherein additions/disallowances aggregating to Rs.34,54,03,370/- were

made. Aggrieved by the assessment order, the assessee preferred an appeal before the Ld. CIT(A). The Ld. CIT(A), vide order dated 19.03.2013, partly allowed the appeal. Thereafter, both the assessee and the revenue filed cross-appeals before the ITAT, Mumbai Bench. The Coordinate Bench of the Tribunal, vide its order in **ITA Nos. 4558/Mum/2013** and **4597/Mum/2013** dated **07.04.2017**, set aside the appellate order and restored the matter to the file of the Ld. CIT(A) for fresh adjudication. Pursuant thereto, the Ld. CIT(A) passed the impugned order and upheld the additions made by the Ld. AO. Being aggrieved, the assessee has preferred the present appeal before us.

4. The Ld. AR appeared on behalf of the assessee and filed a **paper boo**k comprising **pages 1 to 337**, which has been taken on record. The Ld. AR advanced detailed submissions on each ground of appeal, the substance of which is summarized hereunder:–

Ground No.1:-Additions on account of scrap credit Rs.10,39,34,238/-

5. The Ld. AR contended that the assessee is engaged in processing steel sheets into automobile body parts and earned processing charges based on the number of parts manufactured. The assessee customers included Mahindra & Mahindra (M&M), Ashok Leyland and Other OENS. Approximately 80% to 85% of the assessee's revenue derived from M&M on a job work basis, where raw material is supplied by the customer and therefore, resultant scrap belongs to the customer that is M&M. In respect of remaining 15 to 20% of customer where the assessee undertakes manufacturing using its own raw material, the scrap generated belongs to the assessee and corresponding income is duly accounted for and reflected in the Profit and Loss Account. During the appellate proceeding,

the assessee submitted the written submission dated 27.06.2025 before the Ld. CIT(A) and the fact was duly qualified as below:

"Ground wise submission:

2.1. ***Addition on account of scrap credit of INR 10,39,34,238***

2.1.1 *The company, engaged in the business of processing automotive parts, has metal pressing machine as well as other component making machines at its unit situated in Nasik. The major customers of the Company are Mahindra and Mahindra Ltd ('M&M') and Ashok Leyland Ltd. According to the understanding between the customers and the Company, some customers provide steel sheets and for some clients, the Company purchases the same.*

2.1.2 *The Appellant receives processing charges on the basis of number of parts pressed. The steel scrap remaining on processing of these parts is sold by the Company. However, entire receipts from scrap is not the income of the Company since steel sheet is also provided by some customers, and hence the Company needs to pass certain amount of scrap credit to those customers on whose behalf the scrap is sold.*

2.1.3 *During the year under consideration, the Company issued credit notes for scrap credit amounting to INR 10,39,34,328 to M&M as the steel sheets were provided by M&M for processing. Accordingly, the scrap generated during processing of order from M&M would belong to M&M and not the Company, under an existing understanding between the Company and M&M.*

2.1.4 *A provisional rate of scrap of INR 7,500 Metric tonne is agreed and to be netted off against processing charges. If the agreed recovery rate on sale of scrap is excess/ short than the provisional rate, then the same needs to be passed on to/ collected from M&M.*

2.1.5*Based on the above workings, credits notes are issued (refer page nos. 41 to 65 of Annexure 5) along with the journal vouchers and working of scrap credits for your reference. The bank statements showing the payment made to M&M by the company for the scrap credit is also enclosed herewith as Annexure 7 (refer page nos. 95 to 106). Further, M&M has provided confirmation about the above understanding. (refer page nos. 39 to 40 of Annexure 5).*

Prayer

In view of the above, the company submits that disallowance of INR 10,39,34,238 is unwarranted as the scrap credit is an actual liability and not contingent as contended in the Assessment Order and hence should be deleted."

6. The Ld. DR argued and contended that during the course of hearing the written submission supporting the Ld. AO's action based on the expenses is contingent liability as the assessee issued credit note hence cannot be treated as expenditure. And the claim made only in the case of M&M not in the case of all customer. The Ld. DR invited our attention in impugned appellate order **para 7.4.3.** which is reproduced as below:

"7.4.3 CONCLUSION

Therefore, in view of the findings as discussed in Paras I, II, III, IV and V above. I find no reason to interfere with the findings of the Assessing Officer that Mis M&M has failed to furnish any concrete documentary evidence such as copy of supply order, list of materials, purchase orders, details of opening and closing stock, details of production made which could substantiate the basis of the credit for scrap of Rs. 10,39,34,238/- provided by PSMSL to M&M.

Therefore, it is held that the appellant has failed to file corroborative evidences to establish is that the expenditure of Rs. 10,39,34,238/- has been actually incurred and that the same has been laid out or expended wholly and exclusively for the purpose of business of the appellant.

In view of the above, it is my considered opinion that the addition of Rs. 10,39,34,238/- has been correctly made by the Assessing Officer and therefore, the ground of appeal no. 1 raised by the appellant in this regard is Dismissed."

7. We have heard the rival submissions and perused the material available on record. It is an undisputed fact that the assessee is engaged in the business of manufacturing and processing automobile components. The record reveals that a substantial portion of the assessee's business is carried out on a job-work basis for M&M, wherein the raw material, namely steel sheets, is supplied by M&M. Consequently, the scrap generated during the manufacturing process belongs to the owner of the raw material, i.e., M&M, and not to the assessee. We find that the assessee has consistently explained that the scrap generated from the

material supplied by M&M was sold by the assessee and the corresponding value thereof was passed on to M&M through issuance of credit notes in accordance with the commercial understanding between the parties. The assessee has placed on record copies of credit notes, journal vouchers, workings of scrap credit, bank statements evidencing payments made to M&M, and confirmation furnished by M&M acknowledging such arrangement. The revenue has not brought any material on record to establish that the scrap credit retained the character of the assessee's income or that the amount credited to M&M had reverted to the assessee. The disallowance has primarily been made on the ground that the liability was contingent in nature. However, once the scrap belonged to M&M and the assessee had quantified and discharged the liability by issuing credit notes and making actual payments, the liability cannot be regarded as contingent or unascertained. The documentary evidence placed on record sufficiently demonstrates the existence of a business obligation arising out of the contractual arrangement between the assessee and M&M. Mere absence of certain additional documents, as referred to by the revenue authorities, cannot negate the substantive evidences produced by the assessee, particularly when the payments have actually been made and the arrangement stands confirmed by M&M.

8. In view of the aforesaid facts and circumstances, we hold that the scrap credit amounting to Rs. 10,39,34,238/- represents an allowable business expenditure/liability incurred wholly and exclusively for the purposes of business and does not constitute a contingent liability. Accordingly, we set aside the

impugned order of the Ld. CIT(A) on this issue and direct the Ld. AO to delete the addition of Rs. 10,39,34,238/-.

Accordingly, **Ground No. 1**, raised by the assessee is **allowed**.

Ground No.2:- Depreciation of Plant and Machinery and CENVAT Credit disallowed amount to Rs.5,16,612/-.

9. The Ld. DR argued that the assessee filed CENVAT credit on merits as well as on capital goods amount to Rs.41,38,700/- filed on capital goods including tools, spares, stores as detail in Part-II of RG 23C Register maintained by the assessee. The assessee submitted before the revenue authorities that the total amount of Rs.41,38,700/-availed during the year on capital goods and amount of Rs.20,72,249/- is towards fixed assets and Rs.20,66,451/- towards tools, spares and stores. The Ld. AR during the assessment proceeding noted that the assessee received the same VAT credit Rs.41,38,700/- on capital goods during the year under consideration out of which a sum of Rs.28,07,811/- was utilized leaving as closing balance Rs.13,33,828/-. The assessee had failed to reduce the entire same VAT credit from the cost of fix asset and had reduced only Rs.2,72,249/- as result the excess claim of depreciation. The absence of any explanation or reconciliation furnished by the assessee depreciation to the extent of Rs.25% of credit amounting to Rs.10,34,675/- considering that the asset avail within 25% depreciation was disallowed. The Ld. CIT(A) had reduced the depreciation and confirmed the addition amount of Rs.5,16,612/-.

10. The Ld. AR submitted a written note and the due explanation is reproduced as below:

"Appellant's Arguments

60. As submitted earlier, the Appellant availed CENVAT credit amounting to Rs. 41,38,700 in respect of capital goods (Rs. 20,66,451) as well as consumables such as tools, spares and stores (Rs. 20,72,249)

61. Under the excise laws, consumables such as tools, spares and stores are considered to be capital goods and therefore, CENVAT credit can be availed in respect of the same in the manner prescribed for capital goods. However, for income tax purposes, consumables such as tools, spares and stores are considered to be revenue items and therefore, CENVAT credit in respect of the same has not been reduced from the block of assets.

62. Accordingly, the Appellant has rightly only reduced a sum of Rs. 20,66,451 from the block of assets in support of which it has submitted the following documents:

- *Part II of Form RG 23C where details of CENVAT credit availed has been duly accounted for* ***(refer page nos. 238 to 244 of the factual paperbook);***
- *Invoice wise listing of CENVAT credit* ***(refer page nos. 246 to 250 of the factual paperbook);***
- *Sample copy of invoices* ***(refer page nos. 252 to 258 of the factual paperbook)***

63. However, the Hon'ble CIT(A) partly upheld the learned assessing officer's action merely on the basis that the Appellant has not furnished any supporting documentary evidence to substantiate that the assets had been put to use during the relevant previous year.

64. In this regard, reference is drawn towards the Tax Audit Report ***(refer page nos. 260-261 of the factual paperbook),*** *containing the block of assets schedule, it can be appreciated that the details of CENVAT credit attributable to capital goods amounting to Rs. 20,72,249 being duly reduced from the cost of fixed assets as well as the dates on which the assets were put to use by the Appellant during the year have been provided and certified by the tax auditor.*

Prayer

65. In view of the above facts and submissions, it is requested that the disallowance of depreciation amounting to Rs. 5,16,612 on account of alleged non-reduction of CENVAT credit be kindly deleted in full.

66. Without prejudice to the above, in case if your Honour is not agreeable with the Appellant's contentions that the assets have been put to use during the year under consideration, it is

humbly prayed that your Honour direct the learned assessing officer to treat the assets as having been put to use during the subsequent year and allow depreciation thereon."

11. The Ld. DR stated that no concrete evidence was produced to establish that the said asset was actually put to use and the same was rightly conferred by the Ld. AO in the remand report. So, accordingly, the addition confirmed by the Ld. CIT(A) is justified. He further stated that the assessee had not reduced the full CEN VAT credit of Rs.41,38,700/- from the cost of fix asset, having reduced only 20,72,249/- while Ld. AO had disallowed 25% of the entire credit amount and therefore disallowed ought to be restricted 25% of the balance of Rs.20,66,451/-. Accordingly, the Ld. CIT(A) made a revised the alleged addition and confirmed the disallowance of Rs.5,16,612/- which was added back with the total income of the assessee. The Ld. DR prayed to restore the addition confirmed by the Ld. CIT(A).

12. We have heard the rival submissions and perused the material available on record. The controversy revolves around whether the entire CENVAT credit of Rs.41,38,700/- was required to be reduced from the actual cost of fixed assets for the purpose of computing depreciation under the Act. The record reveals that the total CENVAT credit comprised two components, namely, Rs.20,66,451/- relating to capital goods and Rs.20,72,249/- relating to tools, spares and stores.

We find merit in the contention of the assessee that although tools, spares and stores may be treated as capital goods under the Excise Laws for the limited purpose of availing CENVAT credit, the same are treated as consumable or revenue items for income-tax purposes and do not form part of the block of depreciable fixed assets. Therefore, only the CENVAT credit attributable to actual capital assets is required to be reduced from the cost of the relevant block of

assets. The assessee has placed on record the extracts of RG-23C Register, invoice-wise details of CENVAT credit, sample invoices and the Tax Audit Report reflecting the adjustment of CENVAT credit attributable to capital goods from the cost of fixed assets. We further note that the disallowance sustained by the Ld. CIT(A) proceeds on the premise that the assessee failed to establish that the assets were put to use during the relevant previous year. However, the Tax Audit Report contains details of additions to the block of assets along with the dates on which such assets were put to use, and the same has not been controverted by the revenue through any cogent material. Except for making a general observation in the remand proceedings, the revenue has not brought any evidence on record to demonstrate that the assets were not put to use during the year under consideration.

In our considered view, once the assessee has demonstrated that only the CENVAT credit relatable to capital goods formed part of the block of assets and such amount has already been reduced from the cost of fixed assets, there remains no basis for reducing the balance credit relatable to tools, spares and stores from the block of assets. The approach adopted by the Ld. AO in treating the entire CENVAT credit as relatable to fixed assets is factually unsustainable. Consequently, the partial disallowance of depreciation sustained by the Ld. CIT(A) also cannot be upheld.

Accordingly, we set aside the impugned order of the Ld. CIT(A) on this issue and direct the Ld. AO to delete the disallowance of depreciation amounting to Rs.5,16,612/-.

Accordingly, the **Ground no.2** raised by the assessee is allowed.

Ground Nos.3 to 6:- Disallowance provision of Rs.74,79,561/-

13. The Ld. AR argued that the assessee had created provision in books of accounts relate to excise duty on closing stock of scrap Rs.22,72,609/-, Staff Welfare expenses related to performance incentive Rs.45lakh, the provision pertaining to opening GRN Rs.6lakh and provision pertaining to stock depreciation Rs.1,06,952/-. Out of the six ground the assessee has not pressed the grounds related to disallowance of stock discrepancy Rs.1,06,952/- and the opening GRN related to amount to Rs.6lakh which are contained in **Ground no.5** and **6** are not pressing. The Ld. AR submitted a written note and the relevant parts related to these Grounds are reproduced as below:

"As regards Ground No. 3 to 6 - Disallowance of provisions of Rs. 74,79,561:

Brief Facts.

67. During the year under consideration, the Appellant had created certain provisions in the books of account, inter alia, towards:

- *excise duty on closing stock of scrap: Rs. 22,72,609 (ground of appeal no. 3 of the captioned appeal)*
- *staff welfare expenses relating to performance incentives: Rs. 45,00,000 (ground of appeal no. 4 of the captioned appeal)*
- *provisions pertaining to opening GRNs: Rs. 6,00,000 (ground of appeal no. 5 of the captioned appeal)*
- *provisions pertaining to stock discrepancies: Rs. 1,06,952 (ground of appeal no. 6 of the captioned appeal)*

68. These provisions were made in the ordinary course of business based on identified liabilities and commercial considerations, in accordance with the accounting policies consistently followed by the Appellant.

69. Owing to smallness of amounts, the Appellant submits that it is not pressing the grounds relating to disallowance of provision for stock discrepancies (Rs. 1,06,952) (ground of appeal no. 6) and opening GRNS (Rs. 6,00,000) (ground of appeal no. 5).

Assessment Proceedings:

70. During the initial assessment proceedings, the Appellant submitted details of amount paid towards excise duty in the year under consideration ***[Page 153 of factual paperbook, Point 13]*** *Additionally, the Appellant also submitted the following details*

- *Details of excise duty* ***[Page 155 of factual paperbook, Point 11]***
- *Explanation on utilization of excise duty as on 31 March 2005 [****Page 155 of factual paperbook, Point 12]***
- *Movement of performance incentive* ***[Page 156 of factual paperbook, Point 21]***
- *Details of provisions for expenses provided in FY 2004-05* ***[Page 156 of factual paperbook, Point 33, 34]***

71. The learned assessing officer vide order under section 143(3) of the Act dated 21 November 2007 made the disallowance on the following basis ***[refer paragraph no. 18 at page nos. 13 and 14 of the appeal set]***

- *No explanations for the provisions have been provided by the Appellant;*
- *Provision of excise duty on closing stock of finished goods is not allowable under section 43B of the Act,*
- *Provision of staff welfare expenses is not allowable since the total debit in the Statement of Profit & Loss itself is for Rs. 20,38,552 and hence how can provision recognized in the Balancesheet be Rs.45,00,000,*

CIT(A)'s Proceedings (First Round);

72. Aggrieved, the Appellant preferred any appeal before the Hon'ble CIT(A).
73. The Appellant, vide submission dated 3 September 2010 submitted that the provisions were incurred wholly and exclusively for the purposes of business and were duly supported by underlying records. Further, the provision for staff welfare expenses belonged to performance incentive but shown in staff welfare expenses as there is no specific ledger account for performance incentive ***[Page 164-165 of the factual paperbook].***
74. The Hon'ble CIT(A) vide order under section 250 of the Act dated 19 March 2013 upheld the disallowance holding that the Appellant did not furnish any explanation, supporting details, or submissions to substantiate the allowability of the provisions disallowed by the learned assessing officer ***[refer paragraph no. 11.2 at page no. 25 of the appeal set****].*

ITAT's Proceedings:
75. Aggrieved by the Hon'ble CIT(A)'s order, the Appellant preferred an appeal before the Hon'ble ITAT in ITA No. 4558/Mum./2013.

76. During the course of the appellate proceedings before the Hon'ble Tribunal, the Appellant had vide application for admission of additional evidences dated 24 May 2016, submitted the following documents:

- *Details in respect of provision of excise duty on finished goods and scrap along with copy of excise return ER-1* ***(refer page no. 177 to 179 of the factual paperbook)***

77. Post admission of the additional evidences, the Hon'ble Tribunal vide its order dated 7 April 2017 has restored back the issue to the file of the Hon'ble CIT(A) along with additional evidence for consideration, examination and fresh adjudication after affording adequate opportunity to the learned assessing officer and the Appellant of being heard and file details/submissions as required ***[refer page nos. 29 - 32 of the appeal set].***

Remand proceedings conducted by the learned assessing officer:

78. The learned assessing officer vide remand report dated 25 August 2025 ***(refer page no. 329 of the factual paperbook)*** *had held that the Appellant had created provisions towards excise duty on finished goods and scrap, which constituted only a provision and not an ascertained liability whilst continuing with the stand taken in the order under section 143(3) of the Act dated 21 November 2007.*

CIT(A)'s Findings (Second Round);

79. During the remand proceedings, the Hon'ble CIT(A) observed that although the Appellant had furnished certain details, including particulars of provisions made, information relating to the return of excisable goods, availment of CENVAT credit, and quantitative manufacturing details, no evidence was submitted to demonstrate how or when the payment for provisions were made. In the absence of proof regarding payment of the said liabilities, the Hon'ble CIT(A) held that the provisions remained unsubstantiated. Accordingly, the additions made by the Ld. AO were confirmed. [refer page nos. 70-77 of the appeal set]

Summary of the learned DR's note submitted during the hearing of 12 May 2026:

80. During the course of the hearing before your Honour's on 12 May 2026, the learned DR presented his written submission supporting the learned assessing officer's action on the basis that no explanation was provided by the Appellant in connection with these provisions. Further, it mentioned that the provisions made are not ascertained and the Appellant was deriving benefit from sale of scrap while simultaneously creating provisions thereby understating the books profits.

Appellant's Arguments
With respect to excise duty on closing stock amounting to Rs. 22,72,609/-:

81. In this regard it is submitted that the claim of excise duty is allowed on payment basis in terms of section 43B of the Act.

82. Accordingly, the Appellant has claimed the excise duty on payment basis (payments made by 5 May 2005 i.e. before the due date of filing of return) in terms of section 43B of the Act, as evidenced from:

- *Tax audit report* ***(refer page no. 139 of the factual paperbook)***
- *Excise return* ***(refer page nos. 262 to 265 of the factual paperbook)***

83. Accordingly, it can be appreciated that the provision of Rs. 22,72,609 in respect of excise duty on closing stock is not an unascertained liability and allowable under section 43B of the Act.

With respect to staff welfare expenses towards performance incentive of Rs. 45,00,000/-

*84. In this regard, it is submitted that the provision for staff welfare expenses belonged to performance incentive but shown in staff welfare expenses as there is no specific ledger account for performance incentive [**Page 164-165 of the factual paperbook].***

*85. Out of the sum of Rs. 45,00,000, a sum of Rs. 35,75,740/- had been paid before the due date of filing the return of income which has been claimed under section 43B of the Act whilst balance sum of Rs. 9,24,260/-has been suo-moto disallowed by the Appellant under section 43B of the Act (**refer tax audit report at page no. 139 of the factual paperbook).***

*86. In order to substantiate its claims, the Appellant has also provided the employee-wise break-up of performance incentives **(refer page nos. 166 to 167 of the factual paperbook)**alongwith bank statements substantiating payment of performance incentives **(refer page nos. 269 to 286 of the factual paperbook).***

87. Accordingly, it can be appreciated that the Appellant has rightly claimed a sum of Rs. 35,75,740 out of the provision of Rs. 45,00,000 whilst suo-moto disallowing the balance sum of Rs. 9,24,260 and therefore, the disallowance made in this regard ought to be deleted."

14. The Ld. DR vehemently supported the orders of the Ld.AO and the Ld. CIT(A). He filed a **submission of note** dated **20/01/2026** which is kept on record. It was submitted that the impugned amounts were merely provisions created in the books of account and the assessee had failed to establish that the liabilities had crystallized during the relevant previous year. The burden to prove the allowability of the expenditure squarely rested upon the assessee, which remained un-discharged throughout the assessment as well as appellate proceedings. With regard to the provision for excise duty on closing stock amounting to Rs.22,72,609/-, the Ld. DR contended that although the assessee claimed that the liability was allowable under section 43B of the Act on payment basis, no contemporaneous documentary evidence such as challans, bank statements, or proof of payment evidencing discharge of the liability before the due date of filing the return of income was furnished before the Ld. AO or the Ld. CIT(A). Mere reliance on excise returns and internal workings could not substitute the statutory requirement of proving actual payment. Therefore, the conditions prescribed under section 43B were not satisfied.

In respect of the provision for performance incentive amounting to Rs.45,00,000/- the Ld. DR submitted that the assessee itself had shown the amount as a provision and failed to establish that the liability had crystallized as on the balance-sheet date. It was further argued that the claim that a sum of Rs.35,75,740/- was paid before the due date of filing of return was not substantiated before the revenue authorities by cogent and verifiable evidence. The assessee had also failed to demonstrate the basis of quantification of the provision and the corresponding liability accrued during the year. Therefore, the provision was rightly treated as unascertained in nature. The Ld. DR further

submitted that despite the specific opportunity granted pursuant to the directions of the Tribunal, the assessee failed to furnish satisfactory evidence before the Ld. CIT(A) to establish actual payment of the liabilities or their crystallization. The findings recorded by the Ld. CIT(A) clearly show that no documentary evidence was produced to corroborate the assessee's contentions. Accordingly, the additions were rightly confirmed. As regards Ground Nos. 5 and 6 relating to provision for opening GRNs of Rs.6,00,000/- and stock discrepancies of Rs.1,06,952/-, the Ld. DR submitted that since the assessee itself has not pressed these grounds, the same deserve to be dismissed as not pressed. The Ld. DR invited our attention in impugned appellate order **paragraph 9.5** which is reproduced as below.

"9.5 Findings.

I have gone through the facts of the case and the additional evidences filed by the appellant in the Paper Book submitted before the Hon'ble ITAT. The appellant has submitted that evidences related to this ground of appeal is placed at Pages 36 to 41 of the Paper Book. I have perused the same.

At Page No. 36, the appellant has submitted the details of all the provisions made by it. At Page no. 37, 38 & 39, the appellant has submitted the details of ER-3 which is the return of excisable goods and availment of CENVAT credit for the Quarter-4 of 2005 Further, Page no. 40 & 41 relate to quantitative details of manufacturing, its assessable value and the excise duty in Rs. Further, Page No. 41 is the working for journal voucher

However, after consideration of the same, I find that there is no evidence as to how and when the appellant company has made the payment for the provision made of the excise duty of the closing stock of Rs. 22,72,609/- before the due date. The same has not been corroborated through the relevant bank statement to explain the same. Further, similarly no documentary evidences have been submitted to establish that the staff welfare expenses of Rs. 45,00,000/- had been paid by the appellant before the due date of filing of return. Similarly, no evidence is given for the remaining amounts also.

In view of the above, I find no reason to interfere with the order of the Assessing Officer. Therefore, the addition made by the Assessing Officer are Confirmed.

In the result, the ground of appeal no. 4 taken up by the appellant is DISMISSED."

15. We have heard the rival submissions and perused the material available on record. At the outset, we note that the assessee has expressly stated that Ground Nos. 5 and 6 relating to provision for opening GRNs amounting to Rs.6,00,000/- and provision for stock discrepancies amounting to Rs.1,06,952/- are not pressed. Accordingly, **Ground Nos. 5** and **6** are **dismissed** as not pressed.

In respect of **Ground No. 3** relating to provision for excise duty on closing stock amounting to Rs.22,72,609/-, we find that the assessee has placed on record the Tax Audit Report, excise returns and details demonstrating that the liability was discharged before the due date of filing the return of income. The liability towards excise duty is a statutory liability and is allowable under section 43B of the Act upon actual payment. The documentary evidences furnished by the assessee sufficiently establish the nature of the liability and its payment. Therefore, the disallowance made by the Ld. AO and sustained by the Ld. CIT(A) is not justified. Accordingly, the addition of Rs.22,72,609/- is directed to be deleted.

16. With regard to **Ground No. 4** relating to provision for performance incentive amounting to Rs.45,00,000/-, we find that the assessee has furnished employee-wise details of the incentive payable and documentary evidence evidencing payment of Rs.35,75,740/- before the due date of filing the return of income. The balance amount of Rs.9,24,260/- was admittedly disallowed by the assessee suo motu. Thus, the liability had crystallized during the year and stood

substantially discharged before the due date prescribed under the Act. In these circumstances, the disallowance sustained by the Ld. CIT(A) cannot be upheld. Accordingly, the addition relating to performance incentive is directed to be deleted. In view of the above discussion, the disallowances relating to excise duty on closing stock and performance incentive are deleted.

Accordingly, **Ground Nos. 3** and **4** are **allowed**, whereas **Ground Nos. 5** and **6** are **dismissed** as not pressed.

Ground no.7 to 8:- Disallowance of depreciation amount to Rs.22,89,974/-

17. The assessee claimed the depreciation in impugned assessment year amount of Rs.22,89,974 related to building electrical fittings, furniture and fixtures, office equipment. During the assessment proceeding the Ld. AO disallowed the depreciation amount of Rs.22,89,974/- due to the lack of evidence, related put to use of new office building, electrical installation, furniture and fixtures and office equipment. However, no evidence or explanation on this point are furnished and therefore, the depreciation amount of Rs.22,89,974/- is added back with the total income. During the first appellate proceeding the assessee submitted the documentary evidence to establish that the new building added to its fix asset schedule had been connected and put to use of business of the assessee. Accordingly, the addition should not be called for. During the proceeding before the ITAT Mumbai, the assessee had submitted the additional evidence and accordingly, the matter was remanded to the file of Ld. CIT(A). The Ld. CIT(A) called for the remand report and assessee submitted the details of fix assets purchased along with assets put to use under each block of assets. The copy of the list is duly annexed in **APB page 132**. The Ld. AR contended that the

aforesaid addition to fix asset had duly audited and verified by the tax auditor. Thereby the evidence that such assets are indeed put to use during the relevant subjected year. Further there is no adverse remark by the Ld. AO or the Ld. CIT(A) regarding the correctness of the tax audit report and so accordingly the disallowance of depreciation on allegation that assets were not put to use is unsustainable.

18. The Ld. DR strongly relied upon the orders of the Ld. AO and the Ld. CIT(A). It was submitted that the assessee had claimed depreciation of Rs.22,89,974/- on building, electrical fittings, furniture & fixtures, and office equipment without furnishing adequate evidence to establish that the assets were actually put to use during the relevant previous year. The Ld. DR contended that mere inclusion of assets in the fixed asset register or Tax Audit Report does not automatically entitle the assessee to depreciation unless the statutory condition of "put to use" is satisfied. The Ld. DR further submitted that even during the remand proceedings, the Ld. AO specifically noted that supporting documents such as purchase invoices, proof of acquisition, payment details, installation records, and evidence demonstrating actual use of the assets were not furnished. Therefore, the assessee failed to discharge the burden cast upon it under the Act. Accordingly, the Ld. DR prayed that the findings of the lower authorities be upheld.

19. We have heard the rival submissions and perused the material available on record. We find that the depreciation claimed by the assessee pertains to additions made under various blocks of assets, namely building, electrical fittings,

furniture & fixtures, and office equipment. The Ld. AO disallowed the claim on the ground that the assessee failed to furnish evidence establishing that the assets were put to use during the relevant previous year. Though the assessee has relied upon the fixed asset schedule, TAR, and the details of additions placed in the paper book, we find that the crucial requirement for allowance of depreciation is not merely acquisition of the asset but its actual use for the purposes of business. The remand report also records that supporting documents evidencing acquisition, installation, and actual use of the assets were not furnished before the Ld. AO.

Considering the totality of the facts and in the interest of justice, we deem it appropriate to restore this issue to the file of the Ld. AO for fresh verification. The assessee is directed to furnish all relevant documentary evidence, including purchase invoices, payment details, installation records, occupancy/use details of the building, and any other material demonstrating that the assets were put to use during the relevant previous year. The Ld. AO shall examine the same and decide the issue afresh in accordance with law after providing a reasonable opportunity of being heard to the assessee. Accordingly, the impugned order on this issue is set aside and the matter is restored to the file of the Ld. AO for fresh adjudication.

Ground Nos. 7 and **8** are allowed for statistical purposes.

Ground No. 9 to 11 disallowance of direct expenses amount to Rs.1,32,01,934.

20. The Ld. AR contended that the Ld. AO had disallowed 5% of direct expenses which comes amount to Rs.1,32,01,934/- the Ld. AO asked to furnish the details of scrap generated and sold, production data for three years and monthly details

of consumable and production. In absence of such information the Ld. AO held that the quantum job work could not be verified with the reference of electricity consumption, scrap generation and material uses. Accordingly, the Ld. AO treated the expenses in verifiable and suspected suppression of scrap generation. And made the disallowance 5% which comes amount to Rs.1,32,01,994/-. During the first appellate proceeding, the Ld. CIT(A) had duly deleted the addition made by the Ld. Ld. AO on the ground that disallowance was made by the Ld. AO holding that the assessee had submitted books of accounts, and relevant details, no specific enquiry or examination of books was conducted by the Ld. AO and no discrepancies were pointed out. The expenses disallowed were direct business expenses, allowed in earlier years. The Ld. AO failed to justify them as excessive, unreasonable or unverifiable. As disallowance was addition-hoc and based on suspicious it should not be sustained. So, the ground of the assessee was allowed. The revenue had filed the appeal before the ITAT and ITAT had set aside on the ground that the Ld. AO had not get the opportunity to represent the assessee's submission which violation Rule 46A of Income Tax Rules, 1962 (in short the 'Rules'). In the second appellate proceeding, the Ld. CIT(A) called for the remand report. In the remand proceeding the Ld. AO has proceeded the additional ground holding that the no supporting evidence have been furnished before the ITAT to substantiate the claim. The assessee had submitted before the Ld. CIT(A) that no such additional evidence was furnished before the ITAT and there is no such applicability of Rule 46A but without considering the same the said addition was duly sustained.

21. The Ld. AR further contended that the assessee had been produced all details including the books of accounts before the Ld. AO for verification which were duly considered by the Ld. AO during the course of passing the impugned assessment order. The Ld. AR contended that only such expenditure which was directly contributed towards its earning and which has direct nexus between the income and it is related to expenditure firstly, the total expenditure declared by company including depreciation and interest itself is just Rs.20,30,35,343/- and Ld. AO claims that the outside labour and processing charges itself is Rs.21,27,80,790/- does not come at all. Thirdly 5% disallowance made by the Ld. AO does not surrounded by reasons that justifies disallowance as the expenses from its very nature are prime cost and had directed attributed to the business of company, which led earn profit Rs.20,30,35,344/- before tax and computation adjustment as per Income Tax. So, the profit (PBT) is almost 48% of the total turnover of the company.

22. The Ld. AR contended that the Ld. AO without application of mind wrongly calculated the direct expenses the Ld. AR submitted details of expenses which are as follows:

"121. Without prejudice to the above, the Appellant also wishes to submit that in case the Ld. AO had considered the correct amounts as per the financial statements, the disallowance would have been significantly lower and not to the extent computed in the assessment order, thereby clearly demonstrating that the impugned disallowance is based on incorrect facts and is liable to be deleted. The correct disallowance assuming the Assessing Officer's arguments would be as follows:

Sr. No.	***Description***	***Amount (Rs.)***	***Disallowance @ 5% (Rs.)***
1	*Manufacturing expenses (raw material, pkg. material, and bought outs consumed)*	*4,11,49,311*	*20,57,466*

	(22451377+14346922+3704934+646078)		
2	*Power of fuel expenses*	*1,01,08,563*	*5,05,428*
3	*Outside labour and processing charges (3446968+20933822)*	*2,43,80,790*	*12,19,040*
4	***Total***	***7,56,38,664***	***37,81,933***

23. The Ld. DR argued and filed a short note dated 20/01/2026 which has been placed on record. The Ld. AR contended that the addition of ad-hoc disallowance of Rs.1,32,01,934 in respect of direct expenses and staff verified expenses incurred by the assessee. The assessee was unable to submit any additional evidence before the Ld. CIT(A) and also in remand proceeding before the Ld. AO. So without any fresh evidence, only relied on books of accounts produced before the Ld. AO, addition cannot be deleted. Considering this, the Ld. DR prayed to uphold the impugned addition.

24. We have carefully considered the rival submissions and perused the material available on record. The impugned disallowance of Rs.1,32,01,934/- was made by the Ld. AO on a purely ad hoc basis by disallowing 5% of the alleged direct expenses, primarily on the ground that certain details relating to scrap generation, production data, and consumption records were not furnished during the assessment proceedings. However, no specific defect in the books of account was pointed out, nor was the books rejected under the provisions of the Act. Further, no instance of inflation of expenditure, suppression of scrap sales, or unverifiable claim was brought on record by the Ld. AO. We find merit in the contention of the assessee that the Ld. AO had proceeded on incorrect figures while computing the disallowance. The assessee also demonstrated that the direct expenses considered by the Ld. AO were factually erroneous. Moreover,

the assessee had maintained regular books of account, which were produced before the Ld. AO and formed the basis of the assessment itself. The disallowance was made merely on suspicion and surmises without any cogent material establishing that the expenditure claimed was excessive, non-genuine, or not incurred wholly and exclusively for business purposes. We further note that the revenue has failed to place any material on record to substantiate the allegation that additional evidence had been filed before the first appellate authority so as to attract the provisions of Rule 46A. The assessee has consistently maintained that no fresh evidence was furnished either before the Ld. CIT(A) or before the Tribunal. In the absence of any contrary material, the very foundation of the remand proceedings stands weakened.

Considering the overall facts, the substantial profitability disclosed by the assessee, the absence of any defect in the books of account, and the purely ad hoc nature of the disallowance, we hold that the addition cannot be sustained. Accordingly, the disallowance of Rs.1,32,01,934/- is directed to be deleted.

Accordingly, the **Ground No.9 to 11** taken by the assessee stands **allowed.**

Ground Nos. 12 & 13 – Addition on account of Non-Reconciliation of Turnover – Rs. 45,05,567/-

25. The Ld. AR submitted that the assessee was engaged in processing automotive components for its customers and the receipts reflected in the TDS certificates represented gross billing comprising processing charges, excise duty, material value, interest income and hiring charges. However, in the Profit & Loss Account, only the net turnover was recognized after reducing excise duty, while interest income and other receipts were separately accounted for in the books.

The Ld. AR contended that the Ld. AO erroneously compared the gross receipts reflected in the TDS certificates with the net turnover disclosed in the Profit & Loss Account and consequently arrived at an incorrect difference. Detailed reconciliations, TDS details, sales schedules and excise records were furnished before the first appellate authority demonstrating that the receipts appearing in the TDS certificates were duly accounted for in the books of account. It was further submitted that no additional evidence had been filed before the first appellate authority and, therefore, the allegation regarding violation of Rule 46A was factually incorrect. The Ld. AR further submitted that the Ld. CIT(A), in the second round of proceedings, accepted the reconciliation to the extent of Rs.45,16,255/- out of total interest income of Rs.90,21,822/-. The balance addition of Rs.45,05,567/- was sustained merely for want of certain TDS certificates despite the fact that complete reconciliation explaining the difference was already available on record. It was argued that the sustained addition was based on an incomplete appreciation of the reconciliation statement and that the turnover disclosed by the assessee stood fully reconciled with the books of account and financial statements.

26. The Ld. DR strongly relied upon the assessment order, remand report and the findings of the Ld. CIT(A). It was contended that despite repeated opportunities, the assessee failed to furnish complete documentary evidence and TDS certificates in support of the reconciliation. The Ld. AO, during remand proceedings, specifically noted that the difference between the receipts reflected in the TDS certificates and those disclosed in the books remained unexplained. The Ld. DR further submitted that the Ld. CIT(A) had already granted substantial relief after examining the reconciliation and sustaining only the amount which

remained unsupported by documentary evidence. Since the assessee failed to produce complete TDS certificates and corroborative material in respect of the balance amount of Rs.45,05,567/-, the Ld. CIT(A) was justified in confirming the addition to that extent. Accordingly, the order of the Ld. CIT(A) deserves to be upheld.

27. We have heard the rival submissions and perused the material available on record. We find that the primary dispute arose on account of comparison of gross receipts reflected in the TDS certificates with the net turnover disclosed in the Profit & Loss Account after reduction of excise duty and separate accounting of interest income. The record reveals that the assessee had furnished detailed reconciliations explaining the difference and the Ld. CIT(A) himself accepted a substantial portion of the reconciliation by granting relief of Rs.45,16,255/-. We further note that the sustained addition of Rs.45,05,567/- is primarily based on the alleged non-availability of certain TDS certificates. However, the reconciliation furnished by the assessee, read together with the audited financial statements, sales schedules, and interest income records, demonstrates that the receipts reflected in the TDS certificates were duly accounted for in the books. No material has been brought on record by the revenue to establish that the impugned amount represented undisclosed income or had escaped accounting in the regular books. In these circumstances, the addition sustained merely on account of incomplete documentary matching, without disproving the reconciliation furnished by the assessee, cannot be sustained. Accordingly, the addition of Rs.45,05,567/- is directed to be deleted.

Ground Nos. 12 and **13** are allowed.

Ground Nos. 14 & 15 – Disallowance of Staff Welfare Expenses – Rs. 20,38,552/-

28. The Ld. AR submitted that the staff welfare expenses amounting to Rs.20,38,552/- were incurred wholly and exclusively for the purposes of business and pertained to employee welfare activities carried out in the ordinary course of business. It was contended that complete details of such expenditure, along with explanations regarding the nature and purpose thereof, were furnished before the Ld. AO during the assessment proceedings. The Ld. AR further submitted that no additional evidence was filed before the first appellate authority and, therefore, the allegation regarding violation of Rule 46A was misconceived. It was argued that the learned CIT(A), in the first round of proceedings, had correctly appreciated that the disallowance was made on a purely ad hoc basis without pointing out any specific defect, non-business element, or unverifiable expenditure. The subsequent confirmation of the addition in the second round amounted to a mere change of opinion despite there being no fresh material on record. The Ld. AR contended that the Ld. AO neither doubted the genuineness of the expenditure nor established that the expenditure was incurred for non-business purposes. In the absence of any adverse finding, the disallowance of the entire expenditure was arbitrary and liable to be deleted.

29. The Ld. DR relied upon the assessment order, remand report and appellate order. It was submitted that the assessee failed to furnish complete documentary evidence in support of the staff welfare expenditure. Different figures and explanations were furnished at different stages, resulting in discrepancies which remained unreconciled. The Ld. DR further contended that even during the

remand proceedings, the assessee failed to substantiate the claim with proper supporting records. Since the expenditure remained unverifiable and inadequately supported by documentary evidence, the Ld. AO was justified in disallowing the same and the Ld. CIT(A) rightly upheld the disallowance.

30. We have considered the rival submissions and examined the material available on record. The disallowance has been made primarily on the ground that the assessee failed to furnish adequate supporting documents and that certain discrepancies existed in the details submitted during the assessment proceedings. However, we find that the assessee had furnished the details of staff welfare expenditure and explained the nature and purpose of such expenses before the Ld. AO. The expenditure under consideration relates to staff welfare and employee-related activities, which are normal incidents of carrying on business. Neither the Ld. AO nor the Ld. CIT(A) has identified any specific item of expenditure as non-genuine, excessive, personal in nature, or not incurred for business purposes. The entire disallowance has been sustained merely on general observations regarding insufficiency of supporting evidence without bringing any adverse material on record. In our considered view, such an ad hoc disallowance cannot be sustained in the absence of any specific defect or finding against the genuineness of the expenditure. Accordingly, the disallowance of staff welfare expenses amounting to Rs.20,38,552/- is directed to be deleted.

Ground Nos. 14 and **15** are allowed.

31. In the result, the appeal of the assessee bearing **ITA No.7348/Mum/2025** is partly allowed for statistical purpose.

Order pronounced in the open court on 16th day of June 2026.

Sd/- Sd/-

(MAKARAND VASANT MAHADEOKAR) (ANIKESH BANERJEE)
ACCOUNTANT MEMBER JUDICIAL MEMBER
Mumbai,दिनांक/Dated: 16/06/2026
SAUMYA*Sr.PS*

Copy of the Order forwarded to:

1. अपीलार्थी/The Appellant ,
2. प्रतिवादी/ The Respondent.
3. आयकरआयुक्त CIT
4. विभागीयप्रतिनिधि, आय.अपी.अधि., मुंबई/DR, ITAT, Mumbai
5. गार्डफाइल/Guard file.

BY ORDER,

//True Copy//

(Asstt. Registrar), **ITAT, MUMBAI**