

HC allowed wastage claimed by assessee as no doubt was casted on entries in stock register maintained by assessee

Summary – The High Court of Punjab & Haryana in a recent case of S.V. Auto Industries., (the Assessee) held that where assessee was engaged in manufacture of pins and steel bars and in assessment year 1990-91 it claimed wastage at 2.7 per cent and Tribunal allowed wastage at 2 per cent, when even slightest doubt had not been expressed with regard to genuineness of entries in stock register as also in other books of account of assessee, Tribunal was not correct in allowing wastage at 2 per cent instead of 2.7 per cent

Facts

- The assessee was engaged in the manufacture of pins and steel bars. In the return of income filed for the assessment year 1990-91, it claimed wastage at the rate of 2.7 per cent.
- The Assessing Officer made a certain addition in the income of the assessee on account of excessive wastage shown by it.
- On appeal, the Commissioner (Appeals) deleted the impugned addition made by the Assessing Officer. He held that the claim of wastage of 2.7 per cent could not be termed excessive when wastage to the extent of 4.4 per cent had been allowed in the earlier assessment year 1988-89. Moreover the trading results were being supported by complete stock register and no defects had been pointed out in the said register.
- On second appeal, the Tribunal allowed wastage at 2 per cent.
- On appeal to High Court.

Held

- It may be noticed that in the manufacture of pins and steel bars, MS rounds are converted into bright bars by application of the prescribed manufacturing process. These bars thereafter are cut into pieces according to the size required of the bars by the assessee. In this process, some wastage and scrap emerges as a natural process and this scrap is sold by the assessee at much lower price.\
- The books of account including stock register maintained by the assessee in the course of manufacturing process and business operations have neither been doubted in their correctness, nor have been questioned much less rejected under section 145. Once the books of account have not been doubted in their correctness and much less are rejected, there is absolutely no explanation coming forth from the revenue as to why the Assessing Officer as also the Tribunal went on to substitute their own judgment for the actual figures of wastage emerging from stock register and from the books of account of the assessee.

- Merely because in the last assessment year 1989-90 such wastage was calculated by the assessee at 1.5 per cent, whereas in the current assessment year 1990-91 it is 2.7 per cent, would not mean that the quantity of wastage has been inflated merely to increase actual profits, as scrap is sold at much lower price than finished steel bars manufactured by the assessee.
- In fact, when productions of 5 years earlier to the assessment year in question are compared, it becomes clear that quantum of wastage has never been the same in any two consequent years, though it was somewhere in the same vicinity in the assessment years 1985-86, 1986-87 and 1987-88. In the assessment year 1988-89, quantum of wastage was nearly double of the year under consideration.
- The Assessing Officer has very conveniently by passed the figure of wastage at 4.4 per cent for the assessment year 1988-89 merely mentioning it as an exception in the entire scenario. It remains a fact that in all the earlier assessment years, quantum of wastage as declared by the assessee was based on entries in the stock register incorporating opening stock, closing stock, monthly trading account, bank statements furnished to the bank from time to time, etc. and on entries in other account books and had never been questioned in any other assessment year.
- When the books of account including stock register, etc. have neither been rejected nor are doubted, accounts could not be by passed merely on the whims and fancies of the authorities.
- When even slightest doubt has not been expressed with regard to genuineness of the entries in the stock register as also in other books of account of the assessee, finding of the Tribunal in taking the percentage at 2 per cent instead of 2.7 per cent claimed by the assessee, the same being without any basis or on any sound formula, is not the correct approach of the Tribunal. Rather it is dependent on over generalization of quantum of wastage arrived at by the assessee in the earlier assessment years.
- When the entire matter is tested on factual matrix and by application of law, order of the Commissioner (Appeals) takes precedence over the impugned order of the Tribunal. There is nothing in the order of Commissioner (Appeals) which could be assailed on the fact based situation or on any principle of law. Impugned order of the Tribunal rather is not based on any sound parameters and runs contrary to the entries in the stock register and other books of account, veracity of which entries is not questioned by the revenue even a little.
- Therefore, the appeal filed by the assessee deserved to be allowed.