

**आयकर अपीलीय अधिकरण, चण्डीगढ़ न्यायपीठ , चण्डीगढ़**  
**IN THE INCOME TAX APPELLATE TRIBUNAL, CHANDIGARH**  
**BENCH 'A' CHANDIGARH**

**BEFORE: SHRI A.D.JAIN, VICE PRESIDENT AND**  
**SHRI VIKRAM SINGH YADAV, ACCOUNTANT MEMBER**

**आयकर अपील सं./ITA No. 158/CHD/2020**

निर्धारण वर्ष / Assessment Year : 2015-16

M/s Aman City Developers Pvt. Ltd., H.No. 173, Village-Badheri, Sector 41, Chandigarh.	बनाम VS	The ACIT, Circle 5(1), Chandigarh.
स्थायी लेखा सं./PAN /TAN No: AAICA7204P		
अपीलार्थी/Appellant		प्रत्यर्थी/Respondent

निर्धारिती की ओर से/Assessee by : Shri Parikshit Aggarwal, CA

राजस्व की ओर से/ Revenue by : Smt. Tarundeep Kaur, Sr.DR

तारीख/Date of Hearing : 28.06.2023

उद्घोषणा की तारीख/Date of Pronouncement : 05.07.2023

**आदेश/ORDER**

**PER VIKRAM SINGH YADAV,A.M.**

This is an appeal filed by the assessee against the order of the ld. CIT(A)-2, Chandigarh dated 30.11.2019 pertaining to assessment year 2015-16 wherein the assessee has taken the following grounds of appeal:-

1. “That on the facts, circumstances and legal position of the case, the Worthy CIT(A) in Appeal No. 10429/2/2017-18 has erred in passing that order in contravention of the provisions of S. 250(6) of the Income Tax Act, 1961.

2. *That on law, facts and circumstances of the case, the Worthy CIT(A) has erred in confirming the action Ld. AO wherein he had erred in making the impugned additions beyond the issues for which the case was selected under "Limited Scrutiny guidelines" and therefore the impugned additions deserves to be deleted.*

3. *That on law, facts and circumstances of the case, the Worthy CIT(A) has erred in confirming the action Ld. AO wherein he had erred in making addition of Rs. 2,12,45,569/- by enhancing the declared closing stock value by said amount which is 51% of the land cost even when the value of closing stock already declared by the appellant was as per accepted method of accounting and which too was being consistently followed by the appellant.*

4. *That the appellant craves leave for any addition, deletion or amendment in the grounds of appeal on or before the disposal of the same."*

2. Ground No. 1 is general in nature, does not require any specific adjudication.

3. In ground No.2, the assessee has challenged the action of the ld. CIT(A) in confirming the additions made by the AO which were beyond the issues for which the case of the assessee was selected for limited scrutiny. In this regard, the ld. AR submitted that the case of the assessee was selected for limited scrutiny as evident from the assessment order wherein the AO has himself stated that the case of the assessee was selected for limited scrutiny for scrutiny of two issues namely, Real Estate business with high closing stock (verify whether assessee has adopted percentage completion method) and mismatch in amount paid to related persons u/s 40A(2)(b) reported in Audit Report and ITR. It was submitted that the AO exceeded the scope of limited scrutiny by re-

evaluation of closing stock. In this regard, it was submitted that the case of the assessee was selected for limited scrutiny only to verify whether assessee has adopted Percentage Completion Method for valuation of the stock as the closing stock was high. The same was enquired during the course of assessment proceedings and the assessee has duly filed its submission stating that it is following Percentage Completion Method for valuation of closing stock. It was submitted that the AO never disputed the method of valuation of stock implied by the assessee. Therefore, once this verification was done, the scope of limited scrutiny was completed and no further proceedings were warranted. However, the AO has gone beyond the scope of limited scrutiny and proceeded to revalue the stock without converting limited scrutiny into complete scrutiny. As per the Board's Instruction No.20/2015 dated 29.12.2015, it was submitted that in the instant case, the case was selected under Limited Scrutiny Guidelines and the AO never sought permission from the Competent authority for conversion of limited scrutiny to complete scrutiny and therefore, in terms of Board Instruction referred supra wherein it has been specifically laid down that no addition can be made in limited scrutiny cases beyond the issues for which the case was selected. It was, accordingly, submitted that the AO has exceeded his power and jurisdiction in making the

impugned additions while passing the order u/s 143(3) which deserve to be set aside.

4. Per contra, the ld. DR relied on the order of the lower authorities and it was submitted that a perusal of the assessment order shows that the addition has been made on the issue of value of closing stock which is one of the issues of selection of case for limited scrutiny. It was submitted that red-flagging a matter under CASS does not mean that the same is not to be examined in its entirety. It was submitted that when the issue of closing stock had been singled out alongwith examination whether the Percentage Completion Method had been adopted, the two had to be seen in tandem and the outcomes thereof had to be assessed in proper hands. It was submitted that complete enquiry on a particular issue does not mean conversion of the case into one's complete scrutiny.

5. Regarding Ground No.3, the ld AR submitted that as per the Guidance Note on accounting for Real Estate Transaction issued by ICAI, it has been provided as to how the Percentage Completion Method has to be adopted and basis thereof, how the Revenue have to be recognized which in turn will also show the work-in-progress and the closing stock. It was submitted that the assessee has reworked the revenue recognition as per the Percentage Completion

Method as per the Guidance Note issued by the ICAI whereby the closing stocks works out to Rs.4,94,01,649/- and the sales works out to Rs.5,98,62,570/- and after taking into consideration the opening stock of Rs.20,41,000/- and purchases of Rs.9,64,19,577/- it will show gross profit of Rs.1,08,03,643/-. It was, accordingly, submitted that basis the Percentage Completion Method as per the Guidance Note issued by ICAI, there would be change in the value of the closing stock, in addition there would be change in the value of the sales which needs to be recognized in the assessee's trading account and it was, accordingly, submitted that the revised working may be considered placed as APB Page 39 and the matter may be set aside to the file of the AO to examine and verify the same.

6. Per contra, the ld. DR has relied on the findings of the ld. CIT(A) which are contained in para 7.4 and the contents thereof read as under :

*7.4 Vis-a-vis the calculation reworking of the closing stock the case law cited by the assessee and the reasonings propounded have been seen. In the present case the assessee's counsel during the assessment proceedings had accepted the proposition that it was following the percentage completion method. Once that was done it is wrong now to take recourse to the plea A, that it had the option of following the completed project method.*

*It's also the case that the assessee claims that the estimated profits from the project at Rs. 3.74 crores was sacrosanct. If the valuation of land had not been accounted properly the true value of the land would go on to be realized from the customers and would add to the value of sales leading to a higher profitability. The year's profits to that extent have been rightly calculated since the overall profits were bound to increase. It's obvious that the trading account submitted by the assessee was found not to be reflecting closing stock of land and therefore had to be re-drawn by the assessing officer. The AO has worked upon the facts that the assessee's counsel had conceded that it was not maintaining a stock register*

*and that the stock in trade can't be quantified. He had also held that apportioning different rates of construction to different categories of flats was not logical and this-tactic did not lead to calculation of stock on a reasonable basis.*

*The submission also reveal that the assessee claims that since closing stock has been tweaked that should be matched by a corresponding updation of sales/ turnover. The logic if applied would lead to a further enhancement of the profits for the year. Without prejudice it is also the case that revenue recognition under percentage completion method is based on a proportionate basis of the cost and not closing stock of land. Since the costs have not been tinkered with this is not a case for proportionate increase in revenue recognized. In the light of the above, Ground of Appeal Nos. 2 & 3 are dismissed.”*

7. We have heard the rival contentions and purused the material available on record. The case of the assessee was selected for limited scrutiny to *interalia* examine real estate business with high closing stock (verify whether the assessee has adopted percentage completion method). The issue under examination therefore is the real estate business being carried on by the assessee which has a high closing stock and whether the assessee has adopted percentage completion method or not. The percentage completion method as per assessee's own submission and as per the guidance issued by the ICAI is not just limited to valuing the closing stock rather it is a method of accounting and revenue recognition for real estate transactions undertaken by enterprises dealing in real estate as sellers or developers. It encompasses the whole gamut of determination of project costs, project revenues and determination of closing work-in-progress (closing stock) at the end of the reporting period. Therefore, in the instant case, we find that there

is no basis to hold that the scope of limited scrutiny is restricted to determination of whether the assessee has followed the percentage completion method or not rather the scope of the limited scrutiny is to determine whether the assessee has followed the percentage completion method and secondly, how the said method has been actually followed while accounting for the real estate transactions undertaken by the assessee during the financial year relevant to the impugned assessment year. Therefore, the contentions advanced by the 1d AR cannot be acceded to and are hereby dismissed. Hence, ground no. 2 is dismissed.

8. Regarding ground no. 3, the 1d AR has submitted that basis the Percentage Completion Method as per the Guidance Note issued by ICAI, there would be change in the value of the closing stock, in addition there would be change in the value of the sales which needs to be recognized in the assessee's trading account and that the revised working may be considered and the matter may be set aside to the file of the AO to examine and verify the same. The matter is accordingly set-aside to the file of the AO to examine and verify the revised working of revenue recognition and closing stock and decide as per law after providing reasonable opportunity to the assessee.

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

Order pronounced in the open Court on 5<sup>th</sup> July, 2023.

**Sd/-**

**Sd/-**

**आकाश दीप जैन**  
**(AAKASH DEEP JAIN)**  
**उपाध्यक्ष / VICE PRESIDENT**

**विक्रम सिंह यादव**  
**(VIKRAM SINGH YADAV)**  
**लेखा सदस्य/ ACCOUNTANT MEMBER**

**Poonam**

**Date: 05.07.2023**

आदेश की प्रतिलिपि अग्रेषित/ Copy of the order forwarded to :

1. अपीलार्थी/ The Appellant
2. प्रत्यर्थी/ The Respondent
3. आयकर आयुक्त/ CIT
4. आयकर आयुक्त (अपील)/ The CIT(A)
5. विभागीय प्रतिनिधि, आयकर अपीलीय आधिकरण, चण्डीगढ़/ DR, ITAT, CHANDIGARH
6. गार्ड फाईल/ Guard File

आदेशानुसार/ By order,  
सहायक पंजीकार/ Assistant Registrar