

आयकर अपीलीय अधिकरण, 'ए' न्यायपीठ, चेन्नई  
**IN THE INCOME TAX APPELLATE TRIBUNAL**  
**'A' BENCH, CHENNAI**

श्री एस एस विश्वनेत्र रवि, न्यायिक सदस्य एवं श्री एस. आर. रघुनाथा, लेखा सदस्य के समक्ष  
**BEFORE SHRI S.S. VISWANETHRA RAVI, JUDICIAL MEMBER AND**  
**SHRI S. R. RAGHUNATHA, ACCOUNTANT MEMBER**

आयकर अपील सं./ITA No.:2282/Chny/2025  
निर्धारण वर्ष / **Assessment Year: 2017-18**

<b>Vinayaga Fireworks,</b> 74, Velayutham Road, Sivakasi – 626 123.	vs.	<b>DCIT,</b> Non-Corporate Circle -2, Madurai.
<b>[PAN:AACFV-2752-J]</b> (अपीलार्थी/Appellant)		(प्रत्यर्थी/Respondent)

अपीलार्थी की ओर से/Appellant by : Shri. V.Rajasekaran, CA.

प्रत्यर्थी की ओर से/Respondent by : Ms. T. Mythili, JCIT

सुनवाई की तारीख/Date of Hearing : 04.02.2026

घोषणा की तारीख/Date of Pronouncement : 03.03.2026

**आदेश / O R D E R**

**PER S. R. RAGHUNATHA, AM :**

This appeal by the assessee is filed against the order of the Commissioner of Income Tax (Appeals), National Faceless Appeal Centre (NFAC), Delhi, for the assessment year 2017-18, dated 07.07.2025.

2. The assessee raised the following grounds in its appeal:

*"1. The Respectable Commissioner of Income Tax (A), NFAC, Delhi was not justified while passing the order w/s.250 of the Income Tax Act dated 07/07/2025 for the Assessment year 2017-18 dismissing the claim of appellant allowings SBN Rs.2,79,71,000/- after 08/11/2016 for exchange by the persons other than banking company.*

2. *The order of the learned CIT(A) is bad and erroneous in law and against the principles of natural justice.*
3. *The learned CIT (A) erred in not considering the replies filed by the appellant in proper perspective.*
4. *The learned CIT (A) failed to appreciate the fact that the cash deposits into the bank, made by the appellant after 08/11/2016 were out of the sale proceeds of fireworks and the appellant submitted list of all persons from whom cash received along with PAN i.e all are identifiable persons (for sales to them) and there is no unidentifiable persons and all were duly accounted in the books of accounts. Hence, the AO's conclusion the of not accepting the cash deposits in assessee's account by the customers is wrong.*
5. *The learned CIT(A) failed to appreciate the fact that the A.O. did not follow the standard operation procedure instruction.*
6. *The learned CIT (A) erred in not considering the fact that the Assessing Officer erred in making an addition of Rs.2,79,71,000/- treating it as unexplained money u/s.68 without any basis.*
7. *The learned CIT (A) erred in not considering the scope and effect of the specified bank" Notes (cessation of liabilities) Act dated 28/02/2017 properly.*
8. *The Appellant relies on the decisions in the following cases:*

<b>S.No</b>	<b>Name</b>	<b>PAN No</b>	<b>ITAT No</b>
1	<i>Sonny Fireworks Private Limited</i>	<i>AADCS3010J</i>	<i>ITA.No/1081/Chny/2024</i>
2	<i>Micky Fireworks Industries</i>	<i>AAQFM1108B</i>	<i>ITA.No/264/Chny/2023</i>
3	<i>Sqny Fireworks Industries</i>	<i>ABFFS5604J</i>	<i>ITA.No/1232/Chny/2024</i>
4	<i>Amar sparklers Factory</i>	<i>AAEFA4270G</i>	<i>ITA.No/808/Chny/2023</i>
5	<i>Sony Serpent Eggs Factory</i>	<i>AAVFS4641Q</i>	<i>ITA.No/2337/Chny/2024</i>

9. *And for the other reasons that may be adduced at the time of hearing, the appellant prays that this appeal be admitted, considered and justice be rendered.*

10. *So, the appellant requests the Respectable Income tax Appellate Tribunal to render justice for which kind of order we shall ever be grateful to the Income-tax Appellate Tribunal."*

3. The brief facts of the case emanating from the records are that the assessee is a Firm, engaged in the business of manufacturing crackers

Sivakasi, Tamilnadu. The assessee filed its return of income for the A.Y.2017-18 on 10.01.2018 admitting a total income of Rs.31,16,200/- and the same was processed u/s.143(1) of the Act. Subsequently, the return of income was selected for complete scrutiny under CASS to verify the cash deposit of Rs.2,79,71,000/- during the demonetisation period and accordingly the statutory notices were issued. In response the assessee filed the details called for through e-proceedings. Further, the assessee submitted that the cash in SBNs have been collected from more than 500 customers, who are identifiable without PAN. However, the AO was not convinced with the explanation filed by the assessee and by considering the notification S.O.No.3407 (E) dated 08.11.2016 by the Government of India, concluded that the assessee was not eligible to collect SBN and hence treated the entire cash deposit of Rs.2,79,71,000/- made during the demonetisation period as unexplained and added to the total income u/s.68 of the Act.

4. Aggrieved by the order of the Assessing Officer, the assessee preferred an appeal before the Ld.CIT(A). On perusal of the submission of the assessee the Id.CIT(A) dismissed the appeal by stating that the assessee has failed to discharge the onus of explaining the source of cash deposits during the demonetisation period and confirmed the addition of Rs. 2,79,71,000/- made u/s.68 of the Act.

5. Aggrieved by the order of the Id.CIT(A), the assessee is in appeal before us.

6. The Id.AR for the assessee assailing the action of the Id.CIT(A) submitted that the assessee has maintained regular books of account, duly audited by a Chartered Accountant as per section 44AB of the Act. During the assessment and first appellate proceedings the assessee had submitted the details of cash balances and source for the same as business collections. Further, the assessee had also submitted the details of the customers along with their PAN

(in most of the cases) in support of the collections of cash or cash deposited directly to the account of the assessee on account of the sales proceeds.

The Id.AR also submitted that the AO has not followed the standard operating procedure as specified vide circular dated 09.09.2019 in F.No.225/145/2019-ITA-II, wherein AO was specifically instructed to make comparative analysis of cash sales, cash deposited. The guidelines also suggested observance of special indicators for bogus sales or backdated sales. However, the Id.AR contended that the AO has made any such findings nor rejected the audited books of accounts for any defects / errors.

The Id.AR also took us through the details of the parties list from whom the cash collected against the credit sales made from page No.46 to 64 of the Paper book. Further, the Id.AR drew our attention to page No.65 of the paper book, wherein the assessee has filed the details of the Turnover from A.Y.2015-16 to 2018-19 along with the turnover made during the festival season of Dasara and Deepavali. It is further explained that the Sales has been reduced from Rs.10.90 crores in the A.Y. 2015-16, Rs.9.81 crores in the A.Y. 2016-17, Rs.7.36 crores in the A.Y. 2017-18 and Rs.5.75 crores in the A.Y. 2018-19. Therefore, the Id.AR contended that the very decrease in turnover on year on year basis itself shows that there is no bogus sales to deposit the SBN (cash) are made by the assessee.

In support of the above arguments the Id.AR relied on the following decisions of the coordinate bench of the Tribunal:

- Mrs. Umamaheshwari vs ITO in ITA No: 527/Chny/2022 dated 14.10.2022
- M/s.Mickey Fireworks Ind.vs. ACIT in ITA No:264/Chny/2023 - 26.07.2023
- Rahul Cold Storage Vs. ITO – ITA No.123/Rpr/2022 - 29.11.2022
- Amar Sparklers Factory Vs.ACIT – ITA No.808/Chny/2023 - 11.10.2023
- Panjurajan Kavitha Vs.DCIT - ITA No.1412/Chny/2023 - 07.05.2024
- Sonny Fireworks Pvt Ltd.Vs.DCIT - ITA No.1081/Chny/2024 - 12.07.2024
- Sony Fireworks Industries Vs.ITO - ITA No.1232/Chny/2024 - 09.10.2024

- Sony Serpent Eggs Factory Vs.ITO - ITA No.2337/Chny/2024 – 15.01.2025

In view of the above arguments, the Id.AR prayed for setting aside the order of the Id.CIT(A) and to delete the additions made u/s.68 of the Act.

7. Per contra, the Id.DR for the revenue supported the orders of the authorities and submitted that the assessee had not furnished any other details other than the list of debtors from whom the cash was collected. Hence, the Id.DR prayed for upholding the order of the Id.CIT(A).

8. We have carefully considered the rival submissions, perused the assessment order, the impugned order of the Id.CIT(A), the material placed on record including the paper book filed by the assessee, and the judicial precedents relied upon. At the outset, the undisputed factual matrix is that the assessee is a partnership firm engaged in the business of manufacture and sale of crackers at Sivakasi, Tamil Nadu, which is a seasonal industry predominantly dependent upon festival sales during Dasara and Deepavali. The assessee maintains regular books of account which are duly audited u/s.44AB of the Act. The books of account have not been rejected by the Assessing Officer u/s.145(3) of the Act. The cash deposits impugned in the present appeal are admittedly recorded in the regular cash book maintained by the assessee.

The sole basis for the addition made by the Assessing Officer is that the assessee had deposited a sum of Rs.2,79,71,000/- during the demonetisation period and that, according to the Assessing Officer, the assessee was not an entity authorized under Notification S.O. No.3407(E) dated 08.11.2016 to receive Specified Bank Notes (SBNs). On this premise, the Assessing Officer treated the deposits as unexplained cash credits u/s.68 of the Act. The Id.CIT(A), sustained the entire addition Rs.2,79,71,000/- u/s.68 of the Act on the ground that the assessee failed to satisfactorily explain the source of cash deposits.

In this context, it is essential to examine whether the statutory conditions of sections 68 are attracted. Section 68 applies where any sum is found credited in the books of an assessee and the assessee fails to offer a satisfactory explanation about the nature and source thereof. In the present case, the sums credited represent sales realizations and collections from trade debtors, duly recorded in the books of account. The assessee has furnished the cash book, ledger extracts, list of customers, and comparative turnover details. It is not the case of the Revenue that such credits are found outside the books. Therefore, the foundational requirement for invoking section 68 namely, unexplained credits in the books must be tested in the light of whether the sales themselves have been found to be non-genuine.

9. On perusal of the assessment order, we find that the Assessing Officer has not doubted the sales recorded by the assessee. There is no finding that the sales invoices are fabricated, backdated, or unsupported by stock movement. There is also no rejection of books of account. It is well settled that unless the sales are held to be bogus, the corresponding sales receipts cannot be treated as unexplained cash credits. The addition, therefore, rests solely on suspicion arising from the timing of deposits during the demonetisation period.

The assessee has also placed on record a comparative statement of turnover for assessment years 2015-16 to 2018-19. The turnover has shown a declining trend from Rs.10.90 crores in A.Y. 2015-16 to Rs.7.36 crores in A.Y. 2017-18 and further to Rs.5.75 crores in A.Y. 2018-19. There is no abnormal spike in turnover during the year under consideration. In a seasonal business like fireworks manufacturing, it is commercially natural that substantial cash collections occur during festival months. The Revenue has not brought any material to demonstrate that the cash sales during the demonetisation period were disproportionately higher compared to earlier years.

10. We further note that the CBDT, vide Circular dated 09.09.2019 in F.No.225/145/2019-ITA-II, had laid down a Standard Operating Procedure (SOP) for verification of cash deposits during demonetisation. The guidelines specifically mandate comparative analysis of cash sales vis-à-vis earlier years, identification of abnormal trends, examination of stock records, and identification of indicators of fictitious or backdated sales. The assessment order does not reflect compliance with these guidelines. No comparative chart or adverse stock discrepancy has been brought on record. In the absence of such analytical exercise, the addition appears to be founded on presumption rather than evidence.

The coordinate benches of this Tribunal have had occasion to consider identical issues arising out of demonetisation deposits in the case of fireworks manufacturers and other business assesseees (Supra) and held as follows :

- where cash deposits during demonetisation were duly recorded in books and supported by sales invoices, and where the Assessing Officer had not rejected the books nor found any defect in stock or sales records, addition u/s.68 of the Act was unsustainable.
- the fireworks industry, peak cash collections during festival season are normal business phenomena and, in the absence of evidence of bogus sales or inflation of turnover, deposits cannot be treated as unexplained merely because they were made during demonetisation.
- when books of account are not rejected and sales are accepted, corresponding cash receipts cannot be taxed under section 68 or 69. The Tribunal emphasized that suspicion, however strong, cannot take the place of proof.
- violation, if any, of the demonetisation notification may have consequences under other laws, but for the purpose of the Income-tax Act, the test remains whether the assessee has satisfactorily explained the source of money. When the source is established as recorded business receipts, addition under section 68 is not warranted.

- once cash deposits are linked to recorded sales and the Revenue fails to bring contrary evidence, addition cannot be sustained solely on general observations regarding demonetisation.

In the case of Mrs. Umamaheshwari vs ITO in ITA No: 527/Chny/2022 dated 14.10.2022, the Tribunal has clearly observed that the appointed date for prohibition of transacting in SBNs was 31.12.2016 and held as under:

*“6. I have heard both the parties, perused the materials available on record and gone through orders of the authorities below. As regards, the first objection of the AO on legal tender of Specified Bank Notes on or after 08.11.2016, I find that as per the Specified Bank Notes (Cessation of Liabilities) Ordinance, 2016, which came into effect from 31.12.2016 appointed date for this purpose means 31.12.2016. Further, as per Sec.5 of said Ordinance, from the appointed date, no person shall, knowingly or voluntarily, hold or transfer or receive any Specified Bank Notes. From the above what is clear is that up to the appointed date i.e.31.12.2016, there is no prohibition for dealing with Specified Bank Notes. Therefore, in my considered view, the objection of the AO on this regard in light of said Act is devoid of merits. Further, a similar issue had been considered by the Tribunal, Visakhapatnam Bench, in the case of Sri Tatiparti Satyanarayana in ITA No.76/Viz/2021, where the Tribunal after considering relevant provision of Specified Bank Notes (Cessation of Liabilities) Act, 2017, held that there is no prohibition under the Act to deal with Specified Bank Notes up to 31.12.2016. Therefore, in my considered view, the observation of the AO on this regard totally incorrect and liable to be rejected.*

*7. Having said so, let us come back to explanation of the assessee with regard to source for cash deposits. The assessee explained before the Assessing Officer that she had received a sum of Rs.13 lakhs from Smt.Vedhavathy for sale of property on 09.11.2016. In fact, the AO accepted, the assessee has received consideration for sale of property from Smt.Vedhavathy and the purchaser has also filed a confirmation letter stating that she had paid consideration in cash. Therefore, once the AO is accepted the fact that the assessee has received consideration in cash, then the source for cash deposits during demonetization period should have been accepted out of sale consideration received for property. In my considered view, the Assessing Officer grossly erred in not accepting the source for balance cash deposits of Rs.7,67,500/-, even though, the assessee has filed necessary evidences to prove the availability of source for cash deposits. The Ld.CIT(A) without appreciating the fact simply confirmed the additions made by the AO. Hence, I set aside the order of the Ld.CIT(A) and direct the AO to delete the addition made towards cash deposits of Rs.7,67,500/- u/s.69A of the Act.*

*8. In the result, appeal filed by the assessee is allowed.”*

11. The facts of the present case are materially similar and assuming that the cash has been collected in SBNs after 08.11.2016 is not prohibited and hence such transactions cannot be treated as unexplained once the source is

established. In the present case, the Revenue has not demonstrated that the assessee introduced unaccounted money in the guise of sales. There is no finding of inflated stock, suppressed purchases, fictitious debtors, or abnormal cash balance pattern. The Id.CIT(A), while sustaining partial addition, has not identified specific transactions as non-genuine but has proceeded on general reasoning that the onus was not discharged. In our considered view, the assessee has discharged the primary onus by producing books of account, cash book, customer details and turnover comparison. The burden then shifted to the Revenue to rebut the same with cogent material, which has not been done.

It is a settled principle of law that additions u/s.68 must be based on tangible evidence and not on conjectures. The existence of demonetisation, by itself, does not reverse the burden of proof beyond statutory limits nor justify automatic additions in the absence of specific incriminating material.

In view of the foregoing discussion, and respectfully following the consistent view taken by the coordinate benches in the cases cited supra, we hold that the addition sustained by the Id.CIT(A) u/s.68 of the Act amounting to Rs.2,79,71,000/- is unsustainable in law and on facts and hence the same is directed to be deleted.

12. In the result the appeal of the assessee is allowed.

Order pronounced in the open court on 03<sup>rd</sup> March, 2026 at Chennai.

**Sd/-**

(एस एस विश्वनेत्र रवि)

**(S.S. VISWANETHRA RAVI)**

न्यायिक सदस्य/**Judicial Member**

**Sd/-**

(एस. आर. रघुनाथा)

**(S. R. RAGHUNATHA)**

लेखा सदस्य/**Accountant Member**

चेन्नई/Chennai,

दिनांक/Dated, the 03<sup>rd</sup> March, 2026

**JPV**

आदेश की प्रतिलिपि अग्रेषित/Copy to:

1. अपीलार्थी/Appellant
2. प्रत्यर्थी/Respondent
3. आयकर आयुक्त/CIT– Chennai/Coimbatore/Madurai/Salem
4. विभागीय प्रतिनिधि/DR
5. गार्ड फाईल/GF