Ajay Food Products v. Income Tax Officer and others

ITA No. 16/2007

ITA No. 16/2007 (J&K and Ladakh HC at Jammu, decided 11.03.2026) | 2026-03-11

Addition of Rs. 7,00,000 for unexplained excess stock upheld where the hypothecation statement submitted to State Bank of India on 25.09.2000 specified both exact quantities and values of Soya DOC and Soya Nuggets (exceeding book stock by ~39,500 kgs and ~5,500 kgs) and carried a certification of truth and conformity with permanent books.

High Court of Jammu & Kashmir and Ladakh | 2-judge bench (Division Bench at Jammu) | Arun Palli, C.J. | Rajnesh Oswal, J.

Assessment years:

Distinguishes Ashok Kumar v. ITO, (2006) 201 CTR (J&K) 178 on quantity-cum-value certification

Note that the CIT(A) had already reduced the AO's original addition of Rs. 7,77,218 to Rs. 7,00,000 by order dated 08.09.2004, which was the quantum upheld by the ITAT and the High Court.

01 FACTS OF THE CASE

Ajay Food Products, a partnership firm manufacturing Soya Nuggets from Soya Beans, availed a cash credit facility from State Bank of India, Purani Mandi, Jammu against stock hypothecation. As on 25.09.2000, the firm's books of account recorded 20,666 kgs of DOC Soya (valued at Rs. 3,51,322) and 2,573 kgs of Soya Nuggets (valued at Rs. 51,460), whereas the hypothecation statement filed with the Bank on the same date declared 60,000 kgs of DOC Soya (valued at Rs. 10,20,000) and 8,000 kgs of Soya Nuggets (valued at Rs. 1,60,000) — an excess of Rs. 7,77,218. Rejecting the plea that the bank statement contained routine inflated estimates to obtain higher credit, the AO added Rs. 7,77,218 vide assessment order dated 31.03.2004. The CIT(A), Jammu modified the addition to Rs. 7,00,000 on 08.09.2004 (allowing a 10% estimation margin), and the ITAT Amritsar Bench dismissed the assessee's appeal on 20.07.2007.

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02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished Ashok Kumar v. ITO: that case involved verified stocks valued at cost and a rough bank valuation without quantities. Here the statement specified quantities and values and certified that the stock position was true, accurate and consistent with permanent books. The Tribunal had found substantial quantity differences, which the assessee never satisfactorily explained beyond the claim of inflating figures for higher credit. Referring to Suraj Bhan Oil, the Court rejected that practice as commercial immorality. It upheld reliance on the bank statement and found no material establishing perversity or absence of evidence in the Tribunal's order.

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03 JUDICIAL DECISION

Answering both substantial questions of law against the assessee and in favour of the Revenue, the High Court of Jammu & Kashmir and Ladakh dismissed ITA No. 16/2007.

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04 OUTCOME / IN WHOSE FAVOUR

In favour of the Revenue; assessee's appeal ITA No. 16/2007 dismissed and Rs. 7,00,000 excess-stock addition affirmed.

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05 EXPERT COMMENTS

AKHB EXPERT COMMENTS — editorial analysis, distinct from the Court's findings.

Admission and the missing reconciliation — The evidentiary force came from specified quantities as well as values, coupled with certification of conformity to permanent books. A generic explanation that inflated figures secured bank finance did not reconcile those documents. The bank's reported lack of physical verification therefore did not neutralise the assessee's own representation.

Why the favourable authority did not govern — Ashok Kumar was distinguished, not overruled. Its verified cost-based trading stock and rough value-only bank declaration differed from this quantity-and-value statement. The judgment consequently does not establish that every difference between bank valuation and books automatically warrants an addition, nor that every admission is incapable of explanation. Here the explanation remained unsatisfactory on the specific record.

Quantum and appellate consequence — The surviving addition was Rs.7,00,000 after the CIT(A) reduced the AO's Rs.7,77,218; dismissal did not restore the original larger amount. The separate perversity challenge failed for want of supporting material.

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SOURCE & VERIFICATION

Original judgment PDF (20260311_JKHC020006282007.pdf)

Reviewed from the complete 8-page official High Court judgment PDF (20260311_JKHC020006282007.pdf, SHA-256: fa73e99c6b812723e25ab53b644febe16c7121662f79126e7e08f6db4710df22).

All 8 original pages read and visually inspected; all five panels audited.

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STATUTORY SCOPE

The judgment does not identify the assessment year or statutory provision under which the stock addition was made.

LATER TREATMENT

Source checked 2026-10-21. Subsequent treatment has not been independently verified.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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