Commissioner of Income Tax, Udaipur v. Udaipur Chemicals & Fertilisers (P) Ltd.

Income Tax Reference Application 85/1998

Income Tax Reference Application 85/1998 | 2007-05-29

Bank valuation difference without findings on actual stock discrepancy does not justify a reference.

Income-tax Act,1961: sections 256(1), 256(2)

High Court of Judicature for Rajasthan | Division Bench, Jodhpur | P.B. Majmudar | Dinesh Maheshwari

Assessment years: 1982-83

01 FACTS OF THE CASE

The manufacturer returned a loss of Rs.7,02,880. The AO compared closing stock, debtors and advances of Rs.20,13,748 in its books with Rs.23,37,248 declared to the bank and added the entire Rs.3,23,500 difference. The bank enquiry remained unanswered as limitation approached. CIT(A) deleted the addition and the Tribunal agreed, finding no established discrepancy in actual stock quantity or its date.

Source: PDF pp.2–4

02 DISCUSSION BY THE HON'BLE COURT

The Court held that valuation variation alone was inconclusive. The AO had not established an actual quantitative discrepancy or when it occurred. Reliance on a similar earlier-year addition did not cure that defect; that addition had itself failed in appeal. Revenue authorities involving proved quantity differences or supporting material were distinguished.

Source: PDF pp.5–10

03 JUDICIAL DECISION

The Court found no question of law calling for reference and rejected Revenue's section 256(2) application without costs. The Tribunal had already refused Revenue's section 256(1) request.

Source: PDF pp.1 and 10

04 OUTCOME / IN WHOSE FAVOUR

Deletion of Rs.3,23,500 remained undisturbed. The ruling turns on this evidentiary record; it does not prohibit use of bank stock statements where actual excess stock is established.

Source: PDF pp.7–10

05 EXPERT COMMENTS

AKHB Expert Comments — editorial analysis, distinct from the Court's findings.

Reconcile like with like: The compared totals included debtors and advances as well as closing stock. A useful reconciliation therefore separates the components, identifies the relevant date and explains valuation bases before drawing conclusions about physical stock. The missing finding was not simply a numerical mismatch but an actual stock discrepancy attributable to the relevant period. (PDF pp.2, 4 and 6–7)

An incomplete enquiry cannot supply its own conclusion: The AO proceeded while the bank response was outstanding and limitation was approaching. That chronology explained the assessment but did not establish concealed stock. Likewise, repeating the previous year's treatment did not replace findings for AY 1982-83; the Court independently examined the current year's evidentiary deficiency. (PDF pp.3 and 5–7)

Bank statements remain relevant evidence: The Court distinguished authorities involving quantitative differences, unreliable accounts or other supporting material. It did not license inflated statements to lenders or make bank records inadmissible. Its narrower lesson is that the whole valuation difference cannot automatically become income without the factual enquiry needed to connect it to unexplained stock. (PDF pp.7–10)

Source: PDF pp.2, 4 and 6–7

SOURCE & VERIFICATION

Original High Court judgment PDF — AKHB source repository

Complete 11-page original reviewed; source bytes verified.

Full original and all five panels re-reviewed on 21 October 2026.

Open cited source rendition

Complete original source and all five note panels checked; original docket identities preserved.

STATUTORY SCOPE

Current law and subsequent treatment not independently verified.

LATER TREATMENT

Source checked 2026-10-21. Subsequent proceedings and current judicial treatment have 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.

PROFESSIONAL DISCLAIMER

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.