

No disallowance of late payment interest just because assessee kept cash balance in hand

Summary – The Ahmedabad ITAT in a recent case of Ashok Weaving Works., (the Assessee) held that Merely because there was some cash balance in hands of assessee, Assessing Officer could not disallow interest on belated payment of purchases made by assessee

Facts

- The assessee was a firm engaged in the business of the manufacturing grey cloth. On scrutiny of accounts, the Assessing Officer noticed that the assessee had paid interest expenditure of Rs 31.13 lakh and also kept cash balance of Rs 18.19 lakh. Further, noticed that such interest was paid to the creditors who had supplied yarn to the assessee.
- The assessee contended that it made purchases of yarn, it had to incur interest expenditure on late payment of the purchase price. According to the assessee it was in the lines of business norms.
- The Assessing Officer was not satisfied with the explanation of the assessee and he observed that there should not be any requirement to keep cash balance of Rs 18.19 lakh and incur expenditure of Rs 31.13 lakh. On *ad hoc* basis, the Assessing Officer made an addition.
- On appeal, the Commissioner(Appeals) disallowed said expenditure
- On appeal:

Held

- The assessee has alleged that it made purchases of yarn of Rs. 2,95,92,854/-. On certain occasion it could not make payment in time. Therefore, it has to make the payment of yarn along with interest on the amount due. The Assessing Officer did not find fault with the purchases made by the assessee nor doubted the existence of the parties who have supplied the yarn. Any way, the Assessing Officer has interfered in the wisdom of assessee of doing the business. The Assessing Officer felt that assessee should do the business in a particular way and should not keep some cash balance in hand. It should discharge its liability towards purchase of yarn. But, *i.e.* not the correct way visited with the Assessing Officer. Therefore, Commissioner (Appeals) has rightly deleted the addition.