



* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

+ **ITA Nos. 344, 483, 484, 489 of 2006**

C.I.T. Appellant
Through : Mr.Sanjeev Sabharwal, Adv.

versus

M/S SONY INDIA (P) LTD. Respondent
Through : Mr.Prakash Kumar, Adv.

CORAM:

HON'BLE MR. JUSTICE T.S.THAKUR

HON'BLE MR. JUSTICE SHIV NARAYAN DHINGRA

ORDER

17.04.2006

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The assessee is engaged in the manufacture and sale of TV and audio system. As a matter of policy, it offers warranty of one year on all the products which it has manufactured and sold. In order to provide for claims arising out of such warranties, the assessee set apart different amounts for different assessment years which it claimed towards deduction. The Assessing Officer, however, disallowed the said claim for deduction on the ground that the same was based on what was only a contingent liability and not a liability within the meaning of Section 37(1) of the Income Tax Act,



1961. The CIT (Appeal) reversed that view in an appeal preferred by the assessee. The Tribunal has in a further appeal preferred before it by the Revenue affirmed that view/^{taken by CIT(A)} The present appeal arising out of the said order assails the view taken by the Tribunal.

We have heard learned counsel for the parties and perused the order under challenge. The issue whether amounts set apart by the assessee to meet claims arising out of warranties issued by it to its customers can be taken as a permissible deduction under Section 37 is no longer res integra in the light of a Division Bench of this Court in *Commissioner of Income Tax Vs. Vinitec Corporation Pvt. Ltd.*, 278 ITR 337. This Court has relied upon the decision of the Supreme Court in *Bharat Earth Movers Vs. CIT*, 245 ITR 428 and *Commissioner of Inland Revenue Vs. Mitsubishi Motors New Zealand Ltd.*, 222 ITR 697 held that the liability arising out of a warranty is an allowable deduction even when the amount payable by the assessee is quantified and discharged in future. The following passage from the above decision is in this regard apposite:

“The ratio decidendi of the above cases is squarely applicable to the facts of the present case. It is not disputed that the warranty clause is part of the sale document and imposes a liability upon the assessee to discharge its obligations under that clause for the period of warranty.



It is a liability which is capable of being construed in definite terms which has arisen in the accounting year. May be its actual quantification and discharge is deferred to a future date. Once an assessee is maintaining his accounts on the mercantile system, a liability accrued, though to be discharged at a future date, would be a proper deduction while working out the profits and gains of his business, regard being had to the accepted principles of commercial practice and accountancy."

In the instant case also, the assessee has on the basis of the past experience and the extent of claims made against it, set apart different amounts for different assessment years. It is not the case of the Revenue that the amounts set apart were unreasonably disproportionate to the amounts which were claimed by the customers on the basis of the warranties in the past. In that view, the Tribunal was justified in holding that the amounts set apart by the assessee was an allowable deduction. No substantial question of law arises for our consideration in this appeal, which fails and is hereby dismissed.


T.S. THAKUR, J


SHIV NARAYAN DHINGRA, J

APRIL 17, 2006

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