

Commissioner of Income-tax, Bombay City v Century Spinning and Manufacturing Co. Ltd. and cross-appeal

Civil Appeals Nos. 157 and 158 of 1952

[1954] SCR 203 | 1953-10-08

Business Profits Tax Act, 1947, Schedule II rule 2(1)

Business Profits Tax Act, 1947, Schedule II rule 2(1) | Indian Companies Act, 1913, sections 131-A and 132; Table A regulation 99

5-judge bench | Patanjali Sastri CJI | S. R. Das J. | Vivian Bose J. | Ghulam Hasan J. (author) | N. H. Bhagwati J.

Historical statutory scope

Business Profits Tax Act, 1947 capital-computation ruling. The two cross-appeals form one judgment; adjoining Allahabad Bank and Chainrup fragments are separate. No current-law clearance.

01 FACTS OF THE CASE

The company sought to count Rs. 5,08,637 of undistributed 1945 profits and January-March 1946 profits as reserves when computing capital for business-profits-tax abatement for 1 April-31 December 1946. Directors recommended dividend distribution on 28 February 1946; shareholders approved it on 3 April. The issue was whether the sums constituted reserves on 1 April 1946.

Source: [Primary report: SCR 204-207](#)

02 DISCUSSION BY THE HON'BLE COURT

A reserve required a clear indication by the competent authority that profits were set apart for a general or specific purpose. Merely carrying undistributed profits into the next balance sheet did not suffice. The directors had recommended a dividend, not constituted a reserve; later shareholder approval and actual distribution confirmed that character. The Companies Act provisions on directors' reports, balance sheets and setting aside reserves supported this conclusion. Counsel conceded the separate issue concerning January-March profits.

Source: [Primary report: SCR 207-211; PDF 5-9](#)

03 JUDICIAL DECISION

Revenue's appeal No. 157 was allowed with costs; the company's appeal No. 158 was dismissed with costs. Neither disputed amount qualified as reserves.

Source: [Primary report: SCR 210-211](#)

04 OUTCOME / IN WHOSE FAVOUR

Revenue. Revenue's appeal No. 157 was allowed with costs; the company's appeal No. 158 was dismissed with costs. Neither disputed amount qualified as reserves.

Source: [Primary report: SCR 210-211](#)

05 AKHB REVIEW POINT

Verify appropriation, authority and timing at the statutory measurement date. The ruling concerns this historical capital-computation rule and does not automatically classify every retained earning under modern law.

Source: [Primary report: SCR 208-210](#)

SOURCE & VERIFICATION

[Supreme Court Reports primary scan — public eSCR mirror](#)

Nine pages / SCR 203-211. Allahabad Bank conclusion precedes target; Chainrup caption follows it.

[Open cited source rendition](#)

STATUTORY SCOPE

Historical statutory text and assessment period only. Present statutory equivalence and later judicial treatment are not cleared.

LATER TREATMENT

Source checked 2026-10-19. Subsequent treatment and current-law applicability have not been comprehensively checked.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from an identified primary report. Independent human review is not represented.

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General legal and tax research only; not legal or tax advice. Verify the complete judgment, applicable statutory version and subsequent treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding. No current-law clearance is claimed.