

Commissioner of Income Tax, Madras v. A. Gajapathy Naidu

Civil Appeal No. 617 of 1963

[1964] 7 SCR 767 | 1964-04-16

Accrual and correct assessment year: later compensation without an earlier accrued right could not be related back merely because it arose from an earlier supply contract.

Indian Income Tax Act, 1922: sections 4(1)(b)(i), 34, 35 and 66(1)

3-judge bench | K. Subba Rao, J. | J. C. Shah, J. | S. M. Sikri, J.

Assessment years: 1951-52

Trade-receipt character was not contested

The High Court's finding that the amount was a taxable trade receipt was not challenged before the Supreme Court; the appeal decided only the proper assessment year.

No earlier enforceable right

The Government's 24 November 1950 order created the payment right after the original bread-supply year. The result should not be extended to a contract that already confers an enforceable price-adjustment right.

English reopening doctrine rejected

The Court declined to relate the receipt to an earlier transaction by reopening commercial accounts; its reasoning depended on the Indian statutory language and mercantile accrual.

01 FACTS OF THE CASE

The assessee supplied bread to a government hospital under a 1948-49 contract and, using mercantile accounts, credited the contract price for that year. After the year closed, representations sought relief for the loss. By order dated 24 November 1950 the Government directed compensation of Rs. 12,447, which the assessee received in accounting year 1950-51. Revenue assessed it in assessment year 1951-52. The High Court agreed that it was a trade receipt but related it back to the earlier contract year despite finding that no right to the amount existed then (SCR pp.768-770; PDF pp.2-4).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court held that the Indian Act had to be construed on its own language rather than by extending English account-reopening authorities. Under the accepted meaning of 'accrue' and 'arise', income accrues when a right to receive it comes into existence. For mercantile accounting, the relevant questions are the accounting method and the year when the enforceable right arose; no statutory fiction allowed a later-created right to be moved to the year of an earlier transaction (SCR pp.770-773; PDF pp.4-7). The English excess-profits cases did not control. The Court instead approved the Allahabad approach that an additional payment created by a later review order accrued when that order created the right, even though it concerned an earlier contract (SCR pp.773-775; PDF pp.7-9).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court allowed Revenue's appeal with costs, set aside the High Court's order and directed that the second referred question be answered in the affirmative. The compensation was properly assessed for assessment year 1951-52 (SCR p.775; PDF p.9).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue on timing. The later payment was assessable when the right arose and payment was made, rather than being related back to the earlier bread-supply year (SCR pp.774-775; PDF pp.8-9).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: start with the assessee's accounting method and the instrument that creates the right to receive. Record the original contract, any review or escalation clause, the later sanction and payment dates, and whether the earlier year contained an enforceable entitlement. Do not shift income between years solely because a later payment is commercially connected with an older transaction; then separately verify the governing statutory regime for the actual year (based on SCR pp.770-775; PDF pp.4-9).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 9-page SCR report read and checked. The editorial headnote was distinguished from the judgment text and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 9-page count match catalogue asset 1964_7_767_775; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeal No. 617 of 1963, the stated bench, issues, reasoning and operative result. No published AKHB note or archived reviewed record with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The Court construed accrual under section 4(1)(b)(i) of the Indian Income Tax Act, 1922 for assessment year 1951-52. It did not undertake a present-law review of accrual, government compensation or income-computation provisions.

LATER TREATMENT

Source checked 2026-10-10. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

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