

Commissioner of Income Tax, Madras v. A. Krishnaswami Mudaliar and Others

Civil Appeal No. 250 of 1963

[1964] 7 SCR 776 | 1964-04-16

Historical computation of trading profit: the year-end value of unexpired film-exploitation rights held as stock-in-trade had to be included even under cash accounting.

Indian Income Tax Act, 1922: sections 2(15), 4(1), 10, 10(2), 12 and 13 proviso

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

Assessment years: 1949-50

Trading-stock premise

The firm debited the full acquisition price of a wasting exploitation right while omitting its remaining year-end value; the holding is not a universal classification of every film or intellectual-property right as stock-in-trade.

Computation, not wholesale rewriting

The Court did not require conversion of all cash-system accounts to mercantile accounting. It upheld a closing-stock adjustment needed to deduce annual trading profit.

Valuation amount

The Tribunal reduced the closing value from Rs. 65,000 to Rs. 40,000. The Supreme Court resolved the legal power to include closing stock, not a fresh valuation dispute.

01 FACTS OF THE CASE

A firm formed in December 1947 acquired four-year exploitation rights in the film 'Apoorva Chinthamani' for Rs. 1,00,000 for specified territories. For the previous year 25 December 1947 to 2 August 1948, corresponding to assessment year 1949-50, it credited receipts of Rs. 1,46,849 and debited operating expenses and the entire Rs. 1,00,000 acquisition outlay, but credited no value for the unexpired rights. The Income Tax Officer valued the closing rights at Rs. 65,000 and computed profit at Rs. 93,642; the appellate authority affirmed, and the Tribunal reduced the closing value to Rs. 40,000. The Madras High Court held that cash accounting did not permit this closing-stock addition (SCR pp.776-780; PDF pp.1-5).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 13 ordinarily required computation according to the regularly employed accounting method, but its proviso imposed a duty to consider whether profits could properly be deduced from that method and permitted a suitable basis where they could not. The authorities had not rewritten the books on a mercantile basis; they had addressed the omission of closing stock from a trading computation (SCR pp.780-783; PDF pp.5-8). Whatever the cash, mercantile or hybrid method, annual profit in a trading venture could not ordinarily be deduced while debiting the acquisition cost of stock and ignoring the stock's year-end value. Otherwise profit would be deferred until the initial outlay was recovered and trading profit could be transformed into capital through entries. Ordinary commercial accounting therefore required opening and closing stock, subject to statutory rules and adjustments appropriate to the asset and business (SCR pp.783-789; PDF pp.8-14).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court allowed Revenue's appeal, answered the referred question in the affirmative and awarded Revenue costs in the Supreme Court and High Court. The Income Tax Officer was entitled to add the year-end stock-in-trade value in order properly to deduce the firm's profit (SCR p.789; PDF p.14).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of Revenue. Cash-system bookkeeping did not justify omitting the remaining value of the film-exploitation rights after the full acquisition cost had been debited (SCR pp.784-789; PDF pp.9-14).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: identify the asset's actual trading character and trace both the opening/acquisition debit and its closing value. A chosen accounting method does not control if, on the governing historical provision, it fails to disclose annual profit. Preserve the Tribunal's accepted valuation and distinguish an adjustment needed for true profit from a wholesale substitution of accounting systems. Recheck the applicable later statute and accounting rules before applying the principle to modern film or digital rights (based on SCR pp.780-789; PDF pp.5-14).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 14-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 14-page count match catalogue asset 1964_7_776_789; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeal No. 250 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 decision applies the proviso to section 13 of the Indian Income Tax Act, 1922 to assessment year 1949-50. It does not certify the treatment of film rights, inventory or accounting methods under later legislation or current accounting standards.

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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