

Commissioner of Income-tax, Madhya Pradesh, Nagpur v. Swadeshi Cotton and Flour Mills

Civil Appeal No. 587 of 1963

[1964] 7 SCR 810 | 1964-04-17

Mercantile accounting and profit bonus: liability arose when the employee claim was settled by industrial adjudication, not in the earlier profit year to which the bonus related.

Indian Income-tax Act, 1922: sections 10(2)(x), 10(5) and 66A(2)

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

Assessment years: 1950-51

Historical profit-bonus rule

The Court applied the 1922 Act and the industrial-law understanding of profit bonus then before it; present deduction, payment and employee-bonus rules require independent verification.

01 FACTS OF THE CASE

Swadeshi Cotton and Flour Mills paid Rs.1,08,325-9-3 to employees in calendar year 1949 under an Industrial Tribunal award dated 13 January 1949, although the profit bonus related to 1947. The company debited the amount in its 1948 profit-and-loss account before those books closed and actually paid it in 1949. For assessment year 1950-51, corresponding to calendar year 1949, the tax authorities rejected the deduction under section 10(2)(x), reasoning that a mercantile-system liability should have been estimated for 1947. The Madhya Pradesh High Court answered the referred deduction question in the assessee's favour.

Source: [Bonus, award, accounting entries and referred question: SCR pp.810-812 / PDF pp.1-3](#)

02 DISCUSSION BY THE HON'BLE COURT

Reading section 10(2)(x) with section 10(5), the Court asked when the assessee became legally liable under the mercantile system. Profit bonus was not treated as an automatic deferred wage: employees had to make a year-specific claim, which could fail if there was a loss or no claim, and liability arose only when the claim was settled amicably or through industrial adjudication. Because the Industrial Tribunal settled this claim in 1949, that was the year of incurrence. The Court also rejected reopening earlier accounts as inconsistent with the Indian Act's annual scheme. It construed 'year in question' in proviso (b) to section 10(2)(x) as the year in respect of which bonus was paid, not the year in which deduction was claimed.

Source: [Mercantile incurrence, profit-bonus conditions and annual accounts: SCR pp.812-815 / PDF pp.3-6](#)

03 JUDICIAL DECISION

The Court held that the profit-bonus liability was incurred in 1949 when the Industrial Tribunal made its award, upheld the High Court's answer allowing the claim for assessment year 1950-51 and dismissed Revenue's appeal with costs.

Source: [Year of incurrence, rejection of reopening and dismissal: SCR pp.814-815 / PDF pp.5-6](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. The deduction stood in the accounting year 1949 because legal liability to profit bonus crystallised through the award in that year, even though the bonus related to 1947. The Court did not establish a current rule for every form of employee bonus or provision.

Source: [Assessee outcome and historical limitation: SCR pp.814-815 / PDF pp.5-6](#)

05 AKHB REVIEW POINT

AKHB analysis: for mercantile deduction timing, document the event that converts a contingent demand into an enforceable liability. For employee bonus, retain the claim, settlement or award, board and ledger entries, actual payment evidence and the profit year to which the payment relates. Test those facts against the currently applicable deduction and payment provisions rather than carrying this 1922 Act result forward without verification.

Source: [AKHB analysis based on legal incurrence and annual-account reasoning](#)

SOURCE & VERIFICATION

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

Full 6-page SCR source file read and visually inspected; the editorial headnote and court appearances on PDF p.1 were separated from Sikri J.'s unnumbered opinion beginning on PDF p.2.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and six-page count match catalogue asset 1964_7_810_815; all pages were read and visually inspected.

The report verifies Civil Appeal No. 587 of 1963, the 17 April 1964 decision date and the three-member bench.

The source states both that the bonus was debited in the 1948 accounts and that it was paid in calendar year 1949; the holding concerns when legal liability was incurred for the 1949 accounting year.

The source prints '1940' once at SCR p.814 in the conclusion, but the award date, surrounding reasoning and headnote consistently establish 1949; the evident typographical error is not adopted.

STATUTORY SCOPE

This decision interprets sections 10(2)(x) and 10(5) of the Indian Income-tax Act, 1922 for assessment year 1950-51 and the then industrial-adjudication setting. Current bonus-deduction and timing provisions have not been checked.

LATER TREATMENT

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

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