

Associated Banking Corporation of India Ltd. v. Commissioner of Income Tax, Bombay-I

Civil Appeal No. 956 of 1963

[1965] 1 SCR 788 | 1964-10-22

Bad debts and employee defalcation: absence of a write-off entry did not by itself bar the bank's proved bad-debt claim, but the embezzlement loss had not crystallised in the year claimed.

Indian Income Tax Act, 1922: sections 10(1), 10(2)(xi) and 10(2)(xv)

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

Assessment years: 1948-49

Mixed relief

The bad-debt claim succeeded, while the defalcation-loss claim failed for want of crystallisation in the relevant year.

Historical write-off language

Do not apply the 1922 Act formulation without separately testing the present section 36(1)(vii), section 36(2) and accounting record.

01 FACTS OF THE CASE

The bank entered liquidation and, for assessment year 1948-49, claimed irrecoverable advances and losses caused by its secretary's defalcations. No individual write-off entries had been posted. On a supplementary reference, the Tribunal found that at least Rs. 15,00,000 of debts had become irrecoverable in the accounting year, while the defalcations became known to the liquidator only later. The Bombay High Court denied both claims, leading to the bank's appeal.

Source: [Case identity, facts and procedural history](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court read section 10(2)(xi) as empowering the Income Tax Officer to estimate irrecoverable debts, subject to a ceiling where an amount had actually been written off. A missing entry could be evidentially important but was not an automatic jurisdictional bar where its absence was reasonably explained. The embezzlement issue was different: a commercial trading loss did not necessarily arise at the instant of secret misappropriation. Until discovery and until reasonable prospects of restitution had ended, the loss could not be treated as actual and certain in the relevant year.

Source: [Court's reasoning and statutory analysis](#)

03 JUDICIAL DECISION

The Court partly allowed the appeal. It substituted an answer allowing Rs. 15,00,000 as bad debts under section 10(2)(xi), but answered the defalcation-loss question against the bank because the loss had not crystallised in the accounting year. No order as to costs was made.

Source: [Holding and operative order](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee only on bad debts. The embezzlement component remained disallowed for the year claimed; this was not a complete merits victory.

Source: [Operative result](#)

05 AKHB REVIEW POINT

AKHB analysis: maintain separate evidence tracks for debt irrecoverability and employee fraud. A bad-debt file should document the debt, business nexus, write-off treatment and statutory conditions; a fraud-loss file should also establish discovery, recovery action, realistic restitution prospects and the year in which commercial loss became certain.

Source: [Primary reasoning underlying the AKHB analysis](#)

SOURCE & VERIFICATION

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

Full 15-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 15-page count match catalogue asset 1965_1_788_802; the full extracted report and operative pages were reviewed.

The source verifies Civil Appeal No. 956 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 interprets the historical bad-debt and business-expenditure provisions of the Indian Income Tax Act, 1922. It does not state the current statutory conditions under the Income-tax Act, 1961.

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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