

Commissioner of Income-tax, Calcutta v. M/s Moon Mills Ltd.

Civil Appeal No. 839 of 1964

[1966] 2 SCR 393 | 1965-10-26

Fire-insurance compensation for capital assets: the statutory deemed profit arose in the year the money was actually received, not when the claim became receivable under mercantile accounting.

Indian Income-tax Act, 1922: sections 10(1), 10(2)(vii) (fourth proviso), 10(5), 13 and 66(1)

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

Assessment years: 1949-50

Repealed capital-asset insurance provision

The holding applies the 1922 Act's then section 10(2)(vii) language. Do not transplant its timing result to current depreciation, balancing-charge or insurance-compensation provisions without checking the current text and later authorities.

01 FACTS OF THE CASE

A fire at Moon Mills' factory on 6 August 1948 destroyed stock-in-trade, machinery and buildings. The insurer ultimately paid Rs.65 lakhs on 27 March 1950, including Rs.27,06,593 for the buildings and machinery. The insurer had accepted the claim on 13 December 1948, but the assessee omitted the capital-asset component from its AY 1949-50 return because it had not then received the money. The Income-tax Officer treated the amount as taxable when it became receivable under the mercantile system; the first appellate authority, Tribunal and Calcutta High Court required actual receipt under the statutory proviso.

Source: [Reference question, fire, insurance claim and assessment history: SCR pp.394-395 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court separated commercial-profit computation under section 13 from statutory allowances and deemed profits under section 10(2). Compensation for destroyed stock enters trading profit, but compensation for destroyed buildings and machinery concerns capital assets and becomes profit only to the extent and at the time the statute deems it so. The fourth proviso deemed the specified excess profit of the previous year in which the money was 'received'. That limited fiction could not be enlarged by treating an amount merely receivable as received. Section 10(5)'s express extension of 'paid' to amounts incurred under the accounting method reinforced that other undefined terms, including 'received', retained their natural meanings. Authorities about insurance proceeds for stock-in-trade did not control compensation for capital assets.

Source: [Commercial profits versus statutory computation: SCR pp.396-398 / PDF pp.4-6](#); [Limited fiction, natural meaning of received and capital-asset distinction: SCR pp.399-401 / PDF pp.7-9](#)

03 JUDICIAL DECISION

Because the compensation for the destroyed machinery and buildings was not actually received during the accounting year relevant to AY 1949-50, it could not be assessed in that year under the fourth proviso to section 10(2)(vii). The Court dismissed the Revenue's appeal with costs.

Source: [Actual-receipt holding and dismissal: SCR p.401 / PDF p.9](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. The compensation was not assessable for AY 1949-50 because actual receipt occurred later; the judgment did not hold that the statutory deemed profit could never be taxed in the proper receipt year.

Source: [Year-specific result in the assessee's favour: SCR p.401 / PDF p.9](#)

05 AKHB REVIEW POINT

AKHB analysis: for exceptional receipts, keep three questions separate: their commercial-accounting treatment, any statutory deeming rule that converts a capital item into taxable profit, and the exact trigger word used for timing. A fiction should be applied for its stated purpose, not expanded from 'received' to 'receivable' merely because the taxpayer follows mercantile accounting. Current work must begin with the presently applicable provision and later interpretation.

Source: [AKHB analysis based on the limited fiction and actual-receipt reasoning](#)

SOURCE & VERIFICATION

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

Full 9-page SCR report read. The editorial headnote on PDF pp.1-2 was distinguished from Subba Rao J.'s unnumbered judgment beginning on PDF p.2; the statutory text, accounting analysis, authorities and operative dismissal through PDF p.9 were reviewed.

Open cited source rendition

Exact source bytes, SHA-256 and 9-page count match catalogue asset 1966_2_393_401; every PDF page was read and visually checked.

The judicial text verifies Civil Appeal No. 839 of 1964, decision on 26 October 1965, the three-member bench and AY 1949-50.

No record with the Moon Mills party identity, the [1966] 2 SCR 393 citation or this decision was found in content/supreme-court-cases.json or the archived reviewed releases.

STATUTORY SCOPE

This decision construes the repealed Indian Income-tax Act, 1922, particularly the then fourth proviso to section 10(2)(vii). It does not state the present tax treatment or timing of insurance receipts under the Income-tax Act, 1961.

LATER TREATMENT

Source checked 2026-10-10. Later treatment of the limited-deeming-fiction and actual-receipt reasoning, and the present statutory regime for insurance compensation, have not been comprehensively checked; no current-law clearance is represented.

AI DISCLOSURE

AI-assisted research. The AKHB Review Point is editorial analysis, not part of the Court's judgment.

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