

B. D. Bharucha, Bombay v. Commissioner of Income-tax, Central Bombay

Civil Appeal No. 1230 of 1966

[1967] 3 SCR 238 | 1967-03-21

Historical bad-debt deduction: film-finance advance became a repayable loan and its irrecoverable balance was a revenue loss.

Indian Income-tax Act, 1922: sections 10(2)(xi) and 66(1)

3-judge bench | J. C. Shah, J. | S. M. Sikri, J. | V. Ramaswami, J.

Assessment years: 1956-57

Historical bad-debt provision

The result depended on the 1922 Act, mercantile accounts, the financing business and the repayment clause triggered by delayed release. It is not a general deduction rule for film investments.

01 FACTS OF THE CASE

The assessee financed film producers and distributors. He advanced Rs.40,000 to Tarachand Pictures in 1952 and another Rs.60,000 under a 5 January 1953 agreement concerning distribution of the film Shabab. Clause 3 substituted a share of profit and loss for interest, but clause 7 required repayment with 9% interest if the film was not released in Bombay within fifteen months. Release occurred after that deadline and the film failed. Following litigation and a consent decree, Rs.80,759 remained irrecoverable and was written off on 31 December 1955. Revenue, the Tribunal and the High Court treated it as capital loss rather than a section 10(2)(xi) bad debt.

Source: [Agreement, default and assessment history: SCR pp.239-240 / PDF pp.2-3](#)

02 DISCUSSION BY THE HON'BLE COURT

The agreement had to be read as a whole. Once timely release failed, clause 7 operated and made the principal repayable with interest, producing a loan/financial transaction in the course of the assessee's financing business. A business loss is not capital merely because every payment ultimately reduces capital; character is determined in relation to the business. The debt related and was incidental to the existing business, the mercantile accounts recorded it, it became irrecoverable in the relevant year and it was actually written off. Those facts satisfied the historical allowance conditions.

Source: [Transaction character and bad-debt conditions: SCR pp.241-242 / PDF pp.4-5](#)

03 JUDICIAL DECISION

The Court set aside the Bombay High Court judgment, answered the reference in the affirmative for the assessee and allowed the appeal with costs in the Supreme Court and High Court. The Rs.80,759 balance was a revenue loss deductible as a bad debt under section 10(2)(xi).

Source: [Holding and operative relief: SCR pp.241-242 / PDF pp.4-5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee. The bad-debt deduction succeeded and the adverse reference answer was reversed. The holding is tied to the triggered repayment obligation and the assessee's established financing business.

Source: [Operative outcome: SCR p.242 / PDF p.5](#)

05 AKHB REVIEW POINT

AKHB analysis: classify a disputed loss by examining the entire agreement, the taxpayer's ordinary business, the event that converted or crystallised repayment, accounting treatment, irrecoverability and write-off. A profit-sharing term should not be isolated from default and repayment clauses. For a current claim, separately verify the governing bad-debt provision and later authorities.

Source: [AKHB analysis based on the agreement and business-context reasoning](#)

SOURCE & VERIFICATION

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

Full 5-page SCR report read; editorial headnote on PDF p.1 was separated from the unnumbered judicial text beginning on PDF p.2.

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Exact source bytes and 5-page count match catalogue asset 1967_3_238_242.

The SCR report verifies the title, 21 March 1967 date, three-judge bench, Civil Appeal No.1230 of 1966 and AY 1956-57.

The catalogue's retrospective 1967INSC68 identifier is not printed in the report and is not independently certified here.

STATUTORY SCOPE

This decision applies section 10(2)(xi) of the Indian Income-tax Act, 1922 for AY 1956-57. It does not certify deduction under any present bad-debt provision.

LATER TREATMENT

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

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