

P. M. Mohammad Meerakhan v. Commissioner of Income-tax, Ernakulam

Civil Appeal No. 1230 of 1967

[1969] 3 SCR 659 | 1969-02-12

Adventure in the nature of trade and closing-stock valuation: the organised subdivision and onward sale of an estate formed a profit-making scheme, and the retained plot was stock-in-trade whose value had to enter the annual profit computation under ordinary commercial-accounting principles.

Indian Income-tax Act, 1922: sections 2(4), 10 and 34(1)(a)

3-judge bench; unanimous judgment delivered by V. Ramaswami, J. | J. C. Shah, J. | V. Ramaswami, J. | A. N. Grover, J.

Assessment years: 1956-57

No single adventure-in-trade formula

The Court expressly treated the classification as a total-impression inquiry. No isolated factor-such as subdivision, lack of finance or rapid resale-was announced as universally decisive.

Land is not presumed trading stock

The Court distinguished land from commodities and required the full factual setting: the purchase terms, nomination power, lack of resources to retain or cultivate, subdivision into 23 plots and arranged sales of 22 plots.

Retained plot valued, not treated as sold

The Court upheld annual profit computation by treating the retained land as stock-in-trade under normal accounting practice; it did not fictionalise an external sale of that plot.

Historical and source-specific

The ruling arose under the 1922 Act and the report does not decide later statutory valuation rules, current capital-versus-business tests, or subsequent precedential treatment.

01 FACTS OF THE CASE

The assessee agreed on 15 August 1955 to buy 477.71 acres of Kuttikal Estate for Rs.6,00,000, paying Rs.11,000 in advance, with the conveyance to be made to him or his nominees. He lacked resources to buy an estate even worth Rs.1,00,000 and could not cultivate the land himself. Before the 31 March 1956 conveyance, he divided the estate into 23 plots and found purchasers for 22 plots totalling 373.58 acres for Rs.5,18,500; the remaining 104.13 acres were conveyed to him. The Income-tax Officer valued the retained plot at Rs.2,08,000, calculated Rs.1,26,500 profit and assessed Rs.1,25,000 in round figures under section 34(1)(a) for assessment year 1956-57. The appellate authorities upheld both the adventure-in-trade character and the profit figure, and the Kerala High Court answered the referred question against the assessee (SCR pp.660-662; PDF pp.2-4).

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

Whether a transaction is an adventure in the nature of trade depends on the total impression of all proved facts, not an abstract formula. Relevant indicators may include relationship to the assessee's ordinary business, the commodity's nature, subdivision or alteration, magnitude, organisation and manner of disposal. Land purchase and resale are not automatically trading, but here the nomination term, the assessee's lack of means to retain or cultivate the property, subdivision into 23 plots and organised sales of 22 plots showed a profit-making scheme (SCR pp.662-666; PDF pp.4-8). The assessee's alternative claim-that profit could arise only when the retained plot was sold-also failed. Each assessment year was self-contained; taxable trading profit had to be computed using true commercial-accounting practice, including opening and closing stock. The retained land was therefore stock-in-trade and its value properly entered into the annual profit computation (SCR pp.666-668; PDF pp.8-10).

Source: [Primary judgment: discussion](#)

03 JUDICIAL DECISION

The Court affirmed the Kerala High Court, held that the transaction was an adventure in the nature of trade and that the profit had been correctly estimated by valuing the retained land as stock-in-trade according to normal accountancy practice. The appeal was dismissed with costs (SCR p.668; PDF p.10).

Source: [Primary judgment: decision](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the Commissioner of Income-tax/respondent. The Rs.1,25,000 trading-profit assessment survived both the characterisation and computation challenges (SCR pp.661, 668; PDF pp.3, 10).

Source: [Primary judgment: outcome](#)

05 AKHB REVIEW POINT

AKHB analysis: evaluate a one-off land transaction through the entire commercial sequence-purpose and financing at acquisition, nomination or resale arrangements, subdivision and organisation, capacity to hold or use the property, and manner of disposal. If the land is trading stock, separate the character question from annual profit measurement and account for unsold stock under the applicable valuation regime; do not postpone all computation merely because one parcel remains unsold (based on SCR pp.662-668; PDF pp.4-10).

Source: [Primary judgment: reviewPoint](#)

SOURCE & VERIFICATION

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

Full 10-page SCR report read and checked. The editorial headnote and adjacent-report boundary text were distinguished from the judicial opinion and operative order.

[Open cited source rendition](#)

Exact source bytes, SHA-256 and 10-page count match catalogue asset 1969_3_659_668; every page was reviewed.

The source verifies Civil Appeal No. 1230 of 1967, the stated bench, issues, reasoning and operative result.

No published or archived standalone AKHB note with this source hash, case identity and operative decision was found.

STATUTORY SCOPE

The judgment applies the Indian Income-tax Act, 1922 to assessment year 1956-57 and uses then-prevailing commercial-accounting principles. It does not itself determine the application of later capital-gains, business-income, stock-valuation or reassessment provisions. No current-law or later-treatment clearance was undertaken.

LATER TREATMENT

Source checked 2026-10-11. Later judicial treatment and current statutory applicability have not been comprehensively checked; no current-law or citator clearance is represented.

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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General legal and tax research only; not legal or tax advice. Verify the original judgment, the governing historical statute and subsequent judicial treatment before reliance. The AKHB REVIEW POINT is editorial analysis, not the Court's holding, and no current-law clearance is claimed.