

Commissioner of Income Tax, Mysore, Bangalore v. Mysore Electrical Industries Ltd.

Civil Appeal No. 1794 of 1970

[1971] Supp SCR 521 | 1971-04-27

Companies (Profits) Surtax: later directors' appropriation related back to the opening day for capital computation.

Companies (Profits) Surtax Act, 1964: sections 2 and 4; Second Schedule rule 1

5-judge bench | S. M. Sikri, C.J. | G. K. Mitter, J. | C. A. Vaidialingam, J. | P. Jaganmohan Reddy, J. | I. D. Dua, J.

Assessment years: 1964-65

Historical relation-back treatment

The conclusion arose from appropriations out of the immediately preceding year's profits for identified reserves. It should not be treated as a general accounting power to backdate later decisions.

01 FACTS OF THE CASE

For the year ended 31 March 1963, the directors on 8 August 1963 proposed Rs.2,56,000 as plant modernisation and rehabilitation reserve, Rs.1,00,000 as loan redemption reserve and Rs.89,557 as development rebate reserve. The issue was whether these amounts entered the company's capital as at 1 April 1963 for the first surtax assessment year.

Source: [SCR pp. 521-523](#) / [PDF pp. 1-3](#)

02 DISCUSSION BY THE HON'BLE COURT

Accounts for the year ending 31 March could not practically be finalised and presented on 1 April. The later determination to divide the prior year's undistributed profits into the specified reserves related to the opening of the new accounting year. The Court preferred the Bombay approach recognising this effect over the contrary Madras view that no reserve existed until formal allocation.

Source: [SCR pp. 523-525](#) / [PDF pp. 3-5](#)

03 JUDICIAL DECISION

The High Court's conclusion was upheld. Revenue's appeal was dismissed with costs, and the identified appropriations were treated as effective from 1 April 1963 for the rule 1 capital computation.

Source: [SCR p. 525 / PDF p. 5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee company on including the three reserves in historical surtax capital.

Source: [SCR pp. 524-525 / PDF pp. 4-5](#)

05 AKHB REVIEW POINT

AKHB analysis: preserve the year-end accounts, directors' recommendation, shareholder action and the exact statutory definition of reserve. Relation back here followed the annual accounts and the then surtax schedule; it is not a substitute for examining current recognition and tax rules.

Source: [AKHB analysis based on SCR pp. 523-525 / PDF pp. 3-5](#)

SOURCE & VERIFICATION

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

Full 5-page SCR report read, separating the editorial headnote from the judicial text.

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Full source read; exact original bytes match the catalogue SHA-256. Judicial text is unnumbered, so SCR and PDF page pinpoints are used.

STATUTORY SCOPE

The judgment concerns the first assessment year under the Companies (Profits) Surtax Act, 1964 and the then Second Schedule. It does not certify treatment under later reserve, dividend or minimum-tax provisions.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment has not been verified; no current citator clearance is represented.

AI DISCLOSURE

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