

# Commissioner of Income-tax, Bombay City v. Chunilal V. Mehta and Sons (P) Ltd.

Civil Appeal No. 1535 of 1968

[1972] 1 SCR 117 | 1971-08-11

## Accrual of predetermined managing-agency termination compensation before enactment of section 10(5A).

Indian Income-tax Act, 1922: sections 10(5A) and 66(1) | Finance Act, 1955: insertion of section 10(5A)

2-judge bench | K. S. Hegde, J. | A. N. Grover, J.

Assessment years: 1956-57

### Historical statutory scope

The ruling concerns compensation fixed by a particular contract, a mercantile accounting method and non-retrospective enactment of section 10(5A). It is not a blanket rule for disputed or unliquidated damages or present compensation taxation.

### Principal and interest have different results

The compensation principal escaped the attempted AY1956-57 charge; the High Court's separate answer taxing interest remained affirmed.

## 01 FACTS OF THE CASE

The assessee's managing agency was terminated on 23 April 1951. Its agreement prescribed compensation for premature termination, but it claimed a larger sum and sued. In November 1955 the High Court decreed Rs.2,34,000 under the contractual liquidated-damages formula, and the amount was received in December 1955. The assessee maintained mercantile accounts. Revenue sought to tax the receipt in AY 1956-57 under section 10(5A), introduced in 1955 without retrospective operation. The High Court held that the principal had accrued in 1951 and was not taxable in that assessment year, while interest was taxable.

Source: [SCR pp. 119-122](#) / [PDF pp. 3-6](#)

## 02 DISCUSSION BY THE HON'BLE COURT

Clause 14 fixed the compensation, and the right arose on termination in April 1951. Claiming an excessive amount did not make the existing contractual entitlement contingent until the decree. Read with the rest of the Act, section 10(5A) addressed amounts due for a mercantile taxpayer and amounts received for a cash-basis taxpayer. The Court rejected a deemed 1955 accrual simply because the charging provision was new. The delayed profit-and-loss entry reflected the dispute; the accounting method, rather than the date of that entry alone, determined the relevant accrual analysis.

Source: [SCR pp. 122-125 / PDF pp. 6-9](#)

## 03 JUDICIAL DECISION

The Court affirmed the High Court's answers and dismissed Revenue's appeal with costs. The Rs.2,34,000 compensation accrued on 23 April 1951 and was not taxable under section 10(5A) in AY 1956-57. The affirmed answer separately treated the interest as taxable in that year.

Source: [SCR pp. 121, 123 and 126 / PDF pp. 5, 7 and 10](#)

## 04 OUTCOME / IN WHOSE FAVOUR

The assessee succeeded on the compensation principal and the attempted 1956-57 charge. That success did not extend to interest, whose taxation under the High Court's answer was left intact.

Source: [SCR pp. 121 and 126 / PDF pp. 5 and 10](#)

## 05 AKHB REVIEW POINT

AKHB analysis: read the compensation clause to decide whether an enforceable, quantified entitlement already existed or depended on future determination. Record the termination, contractual accrual, litigation, decree and receipt dates separately, together with the taxpayer's accounting method and commencement of the charging provision. Distinguish principal from interest, and do not extend this fixed-contract holding automatically to contested unliquidated damages or modern statutory compensation rules.

Source: [AKHB analysis based on SCR pp. 122-126 / PDF pp. 6-10](#)

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**STATUTORY SCOPE**

The ruling concerns compensation fixed by a particular contract, a mercantile accounting method and non-retrospective enactment of section 10(5A). It is not a blanket rule for disputed or unliquidated damages or present compensation taxation.

**LATER TREATMENT**

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