

# Kedarnath Jute Mfg. Co. Ltd. v. Commissioner of Income Tax, Central Calcutta

Civil Appeal No. 1899 of 1967

[1972] 1 SCR 277 | 1971-08-17

## **Mercantile accounting: accrued sales-tax liability despite dispute and missing book entry.**

Indian Income-tax Act, 1922: sections 10(1), 10(2)(xv) and 10(5)

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

Assessment years: 1955-56

### **Historical accrual ruling**

The Court applied the 1922 Act. This note does not represent clearance under later statutory payment conditions or subsequent case law.

## **01 FACTS OF THE CASE**

The jute manufacturer followed mercantile accounting and claimed Rs.1,49,776 as sales tax on sales in the previous year ended 31 December 1954. Its original return preceded the sales-tax demand of 21 November 1957; a revised return claimed the deduction on 9 November 1959. The income-tax assessment was completed on 11 March 1960 while the sales-tax challenge remained pending. The deduction was refused because liability was disputed and no provision appeared in the books; the Tribunal and High Court sustained the refusal.

Source: [SCR pp. 278-279](#) / [PDF pp. 2-3](#)

## **02 DISCUSSION BY THE HON'BLE COURT**

Tax liability arose from taxable transactions, independently of its later assessment and quantification. The outstanding challenge did not extinguish the quantified liability while the challenge had not succeeded. Under the mercantile method, an accrued business liability could be deducted although payment lay in the future. Entitlement depended on the governing law: an omitted accounting entry or the taxpayer's mistaken view of its rights could not by itself defeat an otherwise available deduction.

Source: [SCR pp. 280-282](#) / [PDF pp. 4-6](#)

### 03 JUDICIAL DECISION

The Court allowed the appeal, set aside the High Court judgment and answered the reference in favour of the assessee and against Revenue. It held the Rs.1,49,776 sales-tax deduction justified and awarded the assessee costs in both courts.

Source: [SCR p. 282 / PDF p. 6](#)

### 04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on the particular accrued sales-tax liability under the historical Act and mercantile accounting method. The decision does not resolve an express statutory payment condition under another statutory version.

Source: [SCR pp. 281-282 / PDF pp. 5-6](#)

### 05 AKHB REVIEW POINT

AKHB analysis: separate the taxable-event date, assessment or demand date, challenge status, payment date and accounting entry. Establish the legal accrual and applicable accounting method with transaction records and the demand. The absence of a provision is not the same as absence of liability; however, verify the statutory version and any specific deduction restriction before using this historical ruling in a present claim.

Source: [AKHB analysis based on SCR pp. 281-282 / PDF pp. 5-6](#)

### SOURCE & VERIFICATION

#### Supreme Court Reports scan - public eSCR mirror

Full 6-page SCR report read, separating editorial headnote from judicial reasoning; no neighbouring case text used.

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Full source read; page pinpoints used because judgment paragraphs are unnumbered. Exact original bytes match the catalogue SHA-256.

### STATUTORY SCOPE

This decision applies the Indian Income-tax Act, 1922 to the stated historical assessment years. Current statutory applicability and any Income-tax Act, 1961 or 2025 crosswalk are not determined.

### LATER TREATMENT

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

**AI DISCLOSURE**

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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