

Delhi Cloth & General Mills Co. Ltd. v. Workmen

Civil Appeal No. 622 of 1967

[1972] 1 SCR 594 | 1971-09-03

Notional direct-tax computation for separate establishments when determining allocable surplus under the Payment of Bonus Act

Payment of Bonus Act, 1965: sections 3, 5, 6(c), 7 and Second Schedule | Income-tax Act, 1961 (rate reference within Bonus Act computation)

Three-judge bench; judgment delivered by G. K. Mitter, J. | G. K. Mitter, J. | C. A. Vaidialingam, J. | P. Jagannathan Reddy, J.

Historical ruling; verify current law

The principal statute was the historical Payment of Bonus Act computation, not an income-tax assessment. The 10% operative figure resulted from the parties' post-judgment agreement, while the legal calculation produced 7.31%.

01 FACTS OF THE CASE

Delhi Cloth Mills and Swatantra Bharat Mills kept separate accounts but historically pooled profits for bonus. The management's computation of deductible direct tax produced 7.31% bonus; the workmen's use of a lower tax figure produced 16.64%. The industrial tribunal accepted the workers' approach.

Source: [Primary judgment: facts and procedural setting](#)

02 DISCUSSION BY THE HON'BLE COURT

The Bonus Act operated as a complete code. Once branches were treated as an establishment under section 3, the fiction governed gross profits, prior charges, available surplus, allocable surplus and direct taxes consistently. Section 7 required the rate at which establishment income was liable to tax; it did not require reassessing actual company-wide taxable income. Metal Box supported the notional approach.

Source: [Primary judgment: reasoning](#)

03 JUDICIAL DECISION

Management correctly quantified section 6(c) direct taxes and the tribunal's higher computation was set aside; the legal bonus rate was 7.31%.

Source: [Primary judgment: holdings](#)

04 OUTCOME / IN WHOSE FAVOUR

Appeal allowed without costs. On a renewed offer accepted by the employees, the award was finally modified to 10% bonus, payable before Diwali 1971 without interest.

Source: [Primary judgment: operative disposition](#)

05 AKHB REVIEW POINT

AKHB analysis: keep the statutory establishment fiction consistent across every component, including direct tax, and distinguish a court-computed rate from a later consensual operative rate. This is a bonus-law allocation ruling, not a determination of the company's actual income-tax assessment.

Source: [Primary judgment: review-point basis](#)

SOURCE & VERIFICATION

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

Complete 14-page SCR report read in page-preserving text and every page image inspected, from the reported opening page through the operative disposition.

[Open cited source rendition](#)

Exact catalogue SHA-256 and 14-page count verified; every page was read and visually inspected.

STATUTORY SCOPE

Historical statutory provisions are described as they appeared in the report. Verify the current enactment, amendments and later judicial treatment before reliance.

LATER TREATMENT

Source checked 2026-10-12. No comprehensive later-treatment or present-law clearance is represented. The note reports the historical statutory text and result in this primary report only.

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 complete judgment, governing statutory version 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.