

Morvi Industries Ltd. v. Commissioner of Income Tax (Central), Calcutta

Civil Appeals Nos. 2083 and 2084 of 1970 — Supreme Court appeal or expressly printed appeal group decided in this judgment and connected proceedings (full list below)

[1972] 1 SCR 970 | 1971-10-05

Unilateral waiver after commission became due did not erase its accrual; the separate business-expense claim failed for want of commercial purpose.

1922 Act: 4(1)(b)(i) | 1922 Act: 10(2)(xv) | 1922 Act: 66(1)

3 Judges | K. S. Hegde | A. N. Grover | H. R. Khanna

Scope of this decision

Post-accrual unilateral waiver on mercantile accounts; no blanket rule against every waiver.

01 FACTS OF THE CASE

Commission and office allowance remained taxable after the managing agent unilaterally relinquished them following accrual. Morvi Industries managed its wholly owned cotton-mill subsidiary under a 1946 agreement. The agreement entitled it to a ₹1,000 monthly allowance, 12½ per cent of net profits and 1½ per cent on specified purchases and sales. Losses made the profit commission nil, but purchase/sale commission plus allowances totalled ₹50,719 and ₹13,963 for assessment years 1956-57 and 1957-58. The agreement made commission due on 31 December, while payment awaited approval of annual accounts. Resolutions in April 1955 and June 1956 waived amounts already due, before their payment dates. The authorities and Calcutta High Court rejected both non-accrual and deduction claims.

Source: [SCR972-974: agreement, amounts, dates and questions.](#)

02 DISCUSSION BY THE HON'BLE COURT

Khanna J distinguished accrual from receipt and from a deferred payment date. Once the contractual entitlement became due, the assessee acquired a right to claim and the managed company incurred the corresponding liability. A later failure to receive the amount did not retrospectively remove that accrual, although an appropriate deduction might sometimes follow. The appellant kept mercantile accounts, in which legally accrued income and incurred liabilities were recognised before cash movement. Shoorji Vallabhdas did not establish that every waiver prevented income arising: that case concerned an agreement for reduced remuneration, whereas Morvi had unilaterally surrendered income after it accrued. The Court then examined section 10(2)(xv) separately. Deduction required expenditure wholly and exclusively for the appellant's business. There was no evidence that this relinquishment served its business or commercial expediency; the subsidiary's losses alone did not establish that connection.

Source: [SCR974G-976G: accrual, mercantile method, Shoorji and commercial purpose.](#)

03 JUDICIAL DECISION

Both questions were answered against the assessee. The sums were includible on accrual and the equivalent deduction was unavailable on the evidence. The Court did not declare every commercially justified waiver nondeductible, nor hold that a bookkeeping entry alone establishes real income.

Source: [SCR975-976: inclusion and deduction rejection](#).

04 OUTCOME / IN WHOSE FAVOUR

Assessee's appeals dismissed without costs. Inclusion of ₹50,719 and ₹13,963 and refusal of the alternative expense allowance stood.

Source: [SCR976H: dismissal without costs](#).

05 AKHB REVIEW POINT

Keep two inquiries separate: when an enforceable entitlement arose, and whether surrender later qualifies for relief. Obtain the agreement, approval conditions and waiver date rather than treating due and payable as synonyms. This 1922 decision is fact-specific; modern accounting, deduction and real-income questions need their applicable statutory versions and subsequent authorities.

Source: [SCR973,975-976: timing and separate expenditure question](#).

APPEAL AND PROCEEDING NUMBERS

Civil Appeals Nos. 2083 and 2084 of 1970 — Supreme Court appeal or expressly printed appeal group decided in this judgment / Income-tax Reference No. 104 of 1960 — Originating High Court appeal/reference docket; not an additional Supreme Court appeal

SOURCE & VERIFICATION

Original reported Supreme Court judgment

7-page retained public-mirror SCR report. The complete report was read as text and page images. The acquisition URL is preserved provenance; current endpoint availability and authentication as a signed original are not newly verified. All 7 physical text/image pages SCR970-976; text personally read October 7, images personally read October 8 after fresh resumed actor check retained separately; original start preserved. SC2083/2084 of 1970; HC reference 104/1960. Judgment AY1956-57/1957-58 differs headnote 1955-56/1956-57. Amounts 50719/13963 repeated in facts and reference; p975 prints 13973. Accounting close 30 December versus express commission accrual 31 December both preserved. Dismissal without costs; no adjacent judgment.

Open cited source rendition

Reasons give assessment years 1956-57/1957-58; headnote gives 1955-56/1956-57.

SCR 975 prints ₹13,973 once; facts and referred question consistently ₹13,963. The latter is the disputed amount, with the anomaly retained.

Narrative accounting close 30 December and contractual commission due 31 December are both printed; no substitute date is inferred.

STATUTORY SCOPE

Indian Income-tax Act, 1922; 4(1)(b)(i), 10(2)(xv), 66(1)

Full 5, displayed 2026, separates receipt/accrual; 145, displayed 2025, recognises cash or mercantile computation subject to standards and assessment powers; 37, displayed 2025, separately governs the general deduction. No full ICDS, bad-debt or real-income review is claimed.

Full 5 and 276 in the FA 2026 text separately address scope and accounting method; 34, displayed 2026, provides the general deduction and exclusions. These comparisons preserve separate accrual and expense inquiries without certifying a particular modern waiver's treatment.

The operative historical law remains the basis of the holding. Section 1(3) commences the 2025 Act on 1 April 2026, subject to contrary provision; selected 536 savings preserve earlier operations, liabilities and proceedings. Only exact stated versions/bounds were read, not all savings, amendments, rules or applicable facts. No automatic precedent carryover.

LATER TREATMENT

Source checked 2026-10-08. No specific later judicial treatment is adopted here; comprehensive subsequent history remains unverified.

Comprehensive subsequent history and present-law applicability are not certified.

No claim that later treatment is absent. Authorities discussed inside the primary judgment are source-field content, not later-use evidence.

IDENTIFIED SOURCE LINKS

[Income-tax Act,1961: section 5](#)

Official HTML displayed 2026 Complete 5(1)-(2), proviso and both Explanations; HTML 38-73. Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

[1961 section 145\(1\)-\(3\)](#)

displayed 2025 identity/version 38-58; complete 63-67 Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

[Income-tax Act,1961: section 37](#)

Official HTML displayed 2025 Whole 37(1), Explanations 1-3,(2 B), omissions/annotation, HTML 38-95. Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

[Income-tax Act,2025: sections 4-5](#)

As amended by Finance Act 2026 Complete 4(1)-(5) and 5(1)-(4), lines 1046-1082, physical 26-27. Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

[Income-tax Act,2025: section 276](#)

As amended by Finance Act 2026 Complete 276(1)-(3),14971-14983, physical 370. Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

[Income-tax Act,2025: section 34](#)

Official HTML displayed 2026 Complete 34(1)-(3), HTML 38-73. Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

Income-tax Act,2025: bounded commencement and savings

As amended by Finance Act 2026 1(1)–(3), lines 0–13; 536(1),(2) opening and(a)–(e), lines 24385–24408 including FA 2026 amendment footnote; 536(3)–(4), lines 24597–24601. Not whole 536. Fresh personal bounded reading of retained official web-tool text. Capture hashes identify the saved rendition, not raw official HTML/PDF bytes. No source-image or whole-Act/current-applicability certification.

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