

Commissioner of Income Tax, Patiala v. M/s. Groz Backert Saboo Ltd.

Civil Appeal No. 1482 of 1972

[1979] 2 SCR 371 | 1978-11-22

Whether the business could debit Rs.74,448.20 as the value of gifted raw materials and semi-finished needles introduced as stock, although the company had paid nothing to acquire them.

Business-profit computation in the 1961-Act assessment; the Supreme Court does not number its operative computation provision | 10(3) (High Court's exemption reasoning recorded and displaced, not the Supreme Court's basis for relief)

2-judge bench | P.N. Bhagwati, J. | V.D. Tulzapurkar, J.

Assessment years: 1962-63

Historical conversion-date stock cost, not a general gift exemption

The 22 November 1978 ruling concerns AY 1962-63 and the accepted conversion on 30 September 1961 of gifted capital assets into stock at Rs.74,448.20 market value. It does not affirm the High Court's section 10(3) gift-exemption theory or permit arbitrary book-value deductions. Later section 45(2), separately checked only in a 2011 government-hosted compilation, requires its own statutory analysis. Comprehensive later treatment, current law and 2025 mapping are not verified.

01 FACTS OF THE CASE

The company operated a hosiery-needle manufacturing factory with West German collaborators. In the early part of the financial year ending 31 March 1962, machinery costing Rs.9,45,545 arrived with raw materials and semi-finished needles supplied free of charge. The 4 April 1961 machinery invoice omitted those free goods; after Customs objected, a separate invoice valued wire and strip at Rs.44,448.20 and semi-finished needles at Rs.30,000. The goods were first introduced in the business books on 30 September 1961, with stock-account debits and matching gift-account credits (physical pages 3-4/SCR 373 E-374 C).

The company used those goods to manufacture finished products, and credited sale proceeds to its trading account. On 31 March 1962 it transferred the gift-account credits to capital reserve and debited Rs.74,448.20 to the trading account with contra credits to the stock accounts. The Officer, Appellate Assistant Commissioner and Tribunal rejected that debit because the company had spent nothing on acquisition. On reference, the High Court treated the dispute as whether the gift itself was taxable, and relied alternatively on section 10(3) of the 1961 Act. Revenue appealed by special leave from the Punjab and Haryana High Court's 20 September 1971 judgment in Income Tax Reference No. 12 of 1971 (physical pages 3-5/SCR 373 C; 374 D-375 D).

Source: See the proposition-specific paragraph and PDF-page references below.

02 DISCUSSION BY THE HON'BLE COURT

The Court held that the High Court had misunderstood the dispute: the authorities had disallowed the stock-value debit, rather than assessed the received goods themselves as revenue income. The Supreme Court therefore did not affirm a general section 10(3) gift exemption. The real computation question was the cost to the business of goods originally received free and later introduced as stock (physical page 5/SCR 375 A–G).

The Tribunal's undisputed finding was that the goods arrived by gift in April 1961, and the Court treated them as capital assets subsequently converted into business stock on 30 September 1961. Applying the conversion principle from *Shirinbai Kooka and Hantapara Tea*, it distinguished the original nil cost to the recipient from market value as cost to the business on conversion. For this business-profit computation, sale proceeds of the manufactured products had to be reduced by that conversion-date value (physical pages 5–6/SCR 375 E–376 C).

The Rs.44,448.20 and Rs.30,000 stock debits represented that market value on the facts accepted by the Court. It reasoned that the position was equivalent in principle to collaborators gifting money which the company then introduced into the business to buy the same raw materials and semi-finished products. Whether the initial credit was called a gift account and later transferred to capital reserve did not alter the legal inference from the proved facts. The meaningful entries were the stock debits reflecting the goods' value when introduced into the business (physical pages 6–7/SCR 376 C–377 C).

Source: See the proposition-specific paragraph and PDF-page references below.

03 JUDICIAL DECISION

The Rs.74,448.20 aggregate was properly debited to the trading account and deductible in determining the business profit. The Court dismissed Revenue's appeal and answered the Tribunal's questions for the assessee and against Revenue. Revenue was ordered to pay the assessee's costs of the appeal (physical page 7/SCR 377 B–D).

Source: See the proposition-specific paragraph and PDF-page references below.

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Revenue appeal dismissed; referred questions answered for assessee; Revenue to pay appeal costs

Final reasoned determination of conversion-date stock cost for the stated historical business-profit computation

Undisputed gift, receipt as capital assets, later conversion into stock and accepted market value. No general gift exemption, arbitrary book-value deduction or current comprehensive conversion-tax rule.

Source: See the proposition-specific paragraph and PDF-page references below.

05 AKHB REVIEW POINT

Separate the value of a gift as a receipt from the business cost of assets later introduced as trading stock. Relief here rests on the proved capital-to-stock sequence and accepted conversion-date market value, not on the mere name of a reserve account or on an exemption for all business gifts. The judgment does not identify an operative section number for the business computation, so one should not silently add sections 28 or 29 as express holdings.

A bounded comparison of the government-hosted 2011 compilation shows a separate section 45(2) capital-gains rule for an owner's conversion of a capital asset into stock, with recognition on later sale/transfer and conversion-date fair market value for section 48. That later legislative text is not adjudicated by this 1978 judgment. It prevents treating the old business-profit reasoning as a complete current tax computation; the amending enactment, later changes and present applicability require separate verification.

Source: See the proposition-specific paragraph and PDF-page references below.

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, actual date, docket and assessment period

Source url: [Open cited source](#)

Pdf pages: 1; 3

Paragraphs: SCR 371 heading; 373 C–H

Source role: reported metadata and judicial text

2.

Topic: Free supply, Customs invoice, book entries and referred questions

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: SCR 373 E–375 A

Source role: judicial text

3.

Topic: High Court's misapprehension and section 10(3) reasoning

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: SCR 375 A–D

Source role: judicial text

4.

Topic: Capital receipt, conversion date, market-value cost and money-gift analogy

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: SCR 375 E–376 G

Source role: judicial text

5.

Topic: Account nomenclature, allowable value, dismissal and costs

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: SCR 376 G–377 D

Source role: judicial text

6.

Topic: Bounded later statutory comparison: section 45(2)

Source url: [Open cited source](#)

Pdf pages: 344; 345

Paragraphs: Compilation printed pages 1.303–1.304; subsection (2) at 1.304

Source role: bounded later statutory comparison

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

P.N. Bhagwati, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961 (historical AY 1962-63 business-profit computation)

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 7 PDF pages; SHA-256

d50c1c30512f3aea27c633b2d9fc3d46e24c7b0f17f4da386a6283af99216b35. Original bytes preserved.

Judicial body begins physical page 3/SCR 373 D and ends page 7/SCR 377 C–D. Pages 1–2 and opening page 3 contain editorial headnotes followed by appellate metadata. No neighbouring judgment.

[Open cited source rendition](#)

Actual date is 22 November 1978, although the SCR report is in 1979.; The judicial text addresses the AY 1962-63 assessment dispute and records the High Court's use of the 1961 Act. The Supreme Court decides the conversion-date business cost of the gifted assets, without adopting the High Court's section 10(3) exemption reasoning or identifying an operative business-computation section.; Section 10(3) belongs to the High Court's misframed reasoning. It must not be presented as the Supreme Court's exemption holding.; No operative business-computation section number is specified in the Supreme Court's reasoning; sections 28, 29 or 37 are not silently supplied.; Rs.9,45,545 is machinery cost, separate from Rs.74,448.20 of gifted materials; Rs.74,448 in the second reference question is printed without paise, while the factual amount and holding use Rs.74,448.20.; The judgment treats the assets as capital on receipt and accepts later conversion and market value; it does not decide all factual settings involving goods supplied free of cost.; The 2011 section 45(2) comparison is subsequent legislative context, not a provision applied in this case or a verified current crosswalk.

Judicial opening expressly identifies AY 1962-63 and the accounting year ending 31 March 1962; conversion into business stock was found to occur on 30 September 1961.

STATUTORY SCOPE

No automatic mapping to the Income-tax Act, 2025 and no present-law certification. Identify the applicable statutory version and procedural route separately.

LATER TREATMENT

Source checked 2026-10-05. not_verified. Corpus discovery searches for Groz, Backert, Beckert and Saboo did not locate a verified direct later judicial treatment. A separate bounded legislative comparison reads section 45(2) in the Department of Revenue-hosted 2011 compilation, physical pages 344–345. Its editorial footnote attributes insertion to the Taxation Laws (Amendment) Act, 1984 effective 1 April 1985; the original amending Gazette was not checked and that footnote is not treated as primary amendment proof. No comprehensive later treatment or present-law/2025 mapping.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 7](#)

SHA-256: d50c1c30512f3aea27c633b2d9fc3d46e24c7b0f17f4da386a6283af99216b35

[official hosted statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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