

Commissioner of Income-tax, U.P. v. Laxmi Sugar & Oil Mills Ltd.

Civil Appeal No. 1613 (NT) of 1974

[1986] 3 SCR 214 | 1986-07-16

Reserve versus provision: additional cane-price amounts in capital computation.

Super Profits Tax Act, 1963: sections 2(9), 4 and Second Schedule rule 1

2-judge bench | R. S. Pathak, J. | Sabyasachi Mukharji, J.

Assessment years: 1963-64 (super profits tax), 1961-62 and 1962-63 (underlying accounting debits)

Substance of the amount, not its balance-sheet label

The result rests on findings that no liability existed, no payment was intended or made, and the entries were reversed. It does not convert every unascertained liability or accounting provision into a reserve.

01 FACTS OF THE CASE

The company debited Rs. 5,40,000 and Rs. 2,76,000 for alleged additional cane-price liabilities and showed the total Rs. 8,16,000 under current liabilities and provisions at 30 September 1962. For super profits tax AY 1963-64, the officer excluded it from capital. The Tribunal found that the tax deduction had been refused and accepted as such, no payment was made, and the entries were reversed in the next accounting year. It treated the amount as a reserve, which the High Court upheld.

Source: [SCR pp. 216-217](#) / [PDF pp. 3-4](#)

02 DISCUSSION BY THE HON'BLE COURT

The statutory standard deduction depended on capital computed under the Second Schedule, including qualifying other reserves whose amounts had not been allowed in income-tax profit computation. Drawing on Vazir Sultan Tobacco and Metal Box, the Court distinguished a charge against profits for anticipated liabilities from an appropriation retained as capital in the business. The balance-sheet description was not conclusive: the true nature of the retained amount controlled. Here the evidence disclosed no liability and no intention or actual payment to cane growers.

Source: [SCR pp. 217-218](#) / [PDF pp. 4-5](#)

03 JUDICIAL DECISION

The Court held that the amount was a reserve forming part of capital under rule 1 of the Second Schedule. The Revenue appeal failed and was dismissed with costs.

Source: [SCR p. 218 / PDF p. 5](#)

04 OUTCOME / IN WHOSE FAVOUR

In favour of the assessee on inclusion of this amount in capital for super profits tax. The Court did not allow the previously rejected income-tax deduction or decide that genuine accrued cane-price liabilities must be classified as reserves.

Source: [SCR pp. 216 and 218 / PDF pp. 3 and 5](#)

05 AKHB REVIEW POINT

AKHB analysis: examine the underlying obligation, intended use, subsequent payments or reversals and prior tax treatment rather than adopting the account caption. Keep accounting classification, income-tax deductibility and historical super-profits-tax capital computation distinct. Apply modern accounting standards and current tax provisions independently.

Source: [AKHB analysis based on SCR pp. 216-218 / PDF pp. 3-5](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Five-page SCR scan; complete judicial reasoning begins on PDF page 3 and ends on page 5. The issue is capital computation under the Super Profits Tax Act.

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STATUTORY SCOPE

Apply the historical statutory text governing the decision. Current statutory applicability and Income-tax Act, 2025 equivalence have not been verified.

LATER TREATMENT

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

AI DISCLOSURE

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