

Commissioner of Income Tax, Kanpur v. The Elgin Mills Ltd., Kanpur

Civil Appeal No. 1665 of 1974 with Civil Appeal No. 145 of 1976

[1986] 3 SCR 408 | 1986-07-31

Historical profits-tax capital computation: investment and rehabilitation reserves qualified on the facts, but forfeited-dividend balances represented an existing liability and were excluded.

Companies (Profits) Surtax Act, 1964: Second Schedule, rule 1 and its Explanation | Super Profits Tax Act, 1963: capital and reserve computation under the Second Schedule | Companies Act, 1956: Schedule VI, Part III, clause 7 (reserve/provision distinction)

3-judge bench | R. S. Pathak, J. | Sabyasachi Mukharji, J. | K. N. Singh, J.

Mixed result; account labels are insufficient

The Court accepted the specified reserves on the facts but excluded forfeited dividends. The decision does not make every investment, depreciation or doubtful-debt account a reserve merely because of its name.

Historical statutory scope

The ruling concerns profits-tax and surtax capital computation under the old enactments and the 1956 Act accounting framework.

01 FACTS OF THE CASE

Elgin Mills, a textile manufacturer, sought inclusion of investment reserve of Rs. 85 lakh, rehabilitation reserve of Rs. 40 lakh and forfeited-dividend reserve of Rs. 96,374 in capital for its AY 1964-65 surtax deduction. The officer rejected the accounts, while subsequent appellate decisions accepted some or all of them. The Tribunal applied the same reserve principles as in the connected AY 1963-64 Super Profits Tax proceedings, and the High Court upheld inclusion of all three for the surtax reference. In the connected appeal, the disputed accounts also included capital and depreciation reserves; there the High Court had already excluded forfeited dividends. Revenue contended in particular that the investment reserve met known losses connected with the assessee's Bombay subsidiaries and was therefore a provision rather than a reserve.

Source: [SCR pp. 410-415](#) / [PDF pp. 3-8](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated the meaning of reserve under the two profits-tax enactments as comparable, consistently with Vazir Sultan Tobacco. Classification required the substance of the account, not its label: a reserve appropriated current or accumulated profits retained for the business, whereas a provision charged profits to meet a liability or diminution known at the balance-sheet date. The appropriation, the parties' conduct and the absence of a known liability had to support reserve treatment. Metal Box and Vazir Sultan supplied the controlling distinction; bad-and-doubtful-debt classification depended on the facts. Applying those principles and the findings below, the Court accepted the investment and rehabilitation reserves in the surtax appeal and the investment, rehabilitation, capital and depreciation reserves in the connected appeal. Forfeited dividends were different: the relevant precedent described declared dividends left uncollected by shareholders, paid and debited to the account when claimed, so that the account represented an existing liability.

Source: [SCR pp. 413-418 / PDF pp. 6-11](#)

03 JUDICIAL DECISION

Civil Appeal No. 1665 of 1974 was allowed only to the extent of excluding the forfeited-dividend reserve; it otherwise failed, leaving investment and rehabilitation reserves included. Civil Appeal No. 145 of 1976 was dismissed: the first four accounts remained reserves, while forfeited dividends remained excluded as the High Court had ordered. The parties were directed to bear their own costs in both appeals.

Source: [SCR pp. 417-418 / PDF pp. 10-11](#)

04 OUTCOME / IN WHOSE FAVOUR

Mixed, with substantial reserve treatment retained by the assessee. Revenue's limited success concerned the forfeited-dividend item in the first appeal; its second appeal failed because that item was already excluded below and the remaining four reserves were upheld. This was a final item-specific disposition, not a wholesale Revenue or assessee victory and not a remand.

Source: [SCR p. 418 / PDF p. 11](#)

05 AKHB REVIEW POINT

AKHB analysis: for a legacy capital-base dispute, reconstruct each account from resolutions, appropriation entries, balance sheets, underlying liabilities and later payments. Separate profit appropriation from a charge against profits and test what liability or impairment was known on the relevant date. Dividend balances require special attention to continuing shareholder claims; a forfeiture label cannot decide their character. Preserve the different result for each account and each appeal, and verify the governing enactment independently before using this historical reserve/provision analysis in a present matter.

Source: [AKHB analysis based on SCR pp. 415-418](#)

SOURCE & VERIFICATION

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

Full 11-page SCR report read; the editorial headnote on PDF pages 1-3 was distinguished from the judicial text beginning on PDF page 3 (SCR p. 410).

[Open cited source rendition](#)

Exact bytes and parsed 11-page count match catalogue asset 1986_3_408_418; the entire report and judicial reasons were read.

The report contains no numbered judicial paragraphs; printed SCR and physical PDF pages are used for pinpoints.

Civil Appeal No. 1665 of 1974 concerns AY 1964-65. The connected Super Profits Tax proceedings described at SCR pp. 411-414 relate to AY 1963-64 and Income-tax Reference No. 196 of 1971.

The Court expressly states that the Saran Engineering appeal, Civil Appeal No. 1599 of 1974, would be decided by another judgment. It is not merged into this Elgin Mills note.

STATUTORY SCOPE

The decision concerns historical capital computation under the Super Profits Tax Act, 1963 and Companies (Profits) Surtax Act, 1964, informed by the Companies Act, 1956 balance-sheet framework. It does not automatically classify an account for current taxation or financial reporting.

LATER TREATMENT

Source checked 2026-10-10. Comprehensive subsequent treatment and present statutory/accounting equivalence have not been verified; no current citator clearance is represented.

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