

Commissioner of Income Tax, Kanpur v. Saran Engineering Co. Ltd. (with connected reserve-computation matters)

Civil Appeal Nos. 1599 and 1546 of 1974; Special Leave Petition (Civil) No. 4815A of 1977
[1986] 3 SCR 398 | 1986-07-31

Historical super-profits tax and surtax: the substance of an appropriation, rather than its reserve label, governs inclusion in the statutory capital base.

Super Profits Tax Act, 1963: sections 2(9) and 4; Second Schedule | Companies (Profits) Surtax Act, 1964: section 18 and Second Schedule Rule 1 | Income-tax Act, 1961: section 256(2)

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

Different dispositions within one report

The Court gave separate orders for two appeals and one SLP. The obsolescence item was not pressed; the special-survey reference remained distinct. Do not describe every reserve as allowed or every proceeding as the same result.

Capital base is not a deduction

The Court examined reserves for historical super-profits tax and surtax capital computations, rather than authorizing deduction of those appropriations from taxable income.

01 FACTS OF THE CASE

The report decides two civil appeals over reserves in the capital computation under the Super Profits Tax Act, 1963 and a connected surtax reference SLP. British India Corporation's items included capital, stocks and stores, bad debts, obsolescence, loans and insurance, investment and forfeited-money reserves. Saran Engineering claimed capital, rehabilitation, stores, forfeited-money and bad-debt reserves; its capital-reserve controversy was limited to Rs.7,19,488 already allowed by the appellate authority because it had not sought a reference for the balance of its claim. The connected Bombay matter concerned several surtax reserves; the High Court called for a reference on the special-survey reserve alone and refused one for the other items.

Source: [Separate proceedings and reserve facts](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court examined the actual purpose and burden of each fund. Capital amounts not earmarked for an existing liability, stocks and stores funds protecting against possible future diminution, unburdened loans and insurance balances and investment surpluses set aside against future losses could be reserves. The bad-debt reserve qualified on the facts because a separate provision already covered the reasonably necessary liability; nomenclature alone did not decide the issue. Saran's rehabilitation and stores reserves likewise qualified on the findings, while forfeited money did not. In the connected surtax matter, the Court distinguished a present liability, including one legitimately anticipated although not quantified, from a fund against a liability that had not arisen or fallen due. It found no need to call for statements of case for the additional items on the established facts and principles. This conclusion did not cancel the High Court's special-survey reference.

Source: [Item-specific reasoning and present-liability distinction](#)

03 JUDICIAL DECISION

In Civil Appeal No. 1546 of 1974, the Court maintained the High Court's order subject to deleting the obsolescence reserve, which was not pressed, and dismissed the appeal subject to that modification without costs. In Saran's Civil Appeal No. 1599 of 1974, it upheld the relevant capital, rehabilitation, stores and bad-debt reserves, maintained exclusion of forfeited money, and dismissed the appeal without costs. It also dismissed SLP(C) No. 4815A of 1977, leaving the High Court's limited reference order intact, with parties bearing their own costs.

Source: [Civil-appeal orders and qualifications](#)

04 OUTCOME / IN WHOSE FAVOUR

Predominantly favourable to the assessee's reserve claims, but not an across-the-board allowance. Saran retained the amounts that remained in issue before the Court, subject to the forfeited-money exclusion. British India Corporation lost the unpressed obsolescence item. Dismissal of the connected SLP preserved the High Court's decision to refer the special-survey issue alone; that issue was not finally answered here.

Source: [Saran disposition and reference limits](#)

05 AKHB REVIEW POINT

AKHB analysis: prepare a fund-by-fund reconciliation showing origin, appropriation, relevant-date liabilities, actual use and any separate provision already made. A label such as bad debts or contingencies cannot replace that factual inquiry. Identify the amount actually preserved by the reference or appeal and separate a conceded deletion from a ruling on the legal merits. Keep capital-base inclusion distinct from income-tax deductibility, and check later authority and the applicable statute before carrying this historical analysis into a present dispute.

Source: [Substance, proof and limits of reserve treatment](#)

SOURCE & VERIFICATION

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

Full 10-page SCR report read. Editorial headnotes on PDF pages 1-2 and the reporter's concluding label were distinguished from the unnumbered judicial text on PDF pages 3-10.

Open cited source rendition

All 10 pages were read; the exact SHA-256 and page count agree with unresolved catalogue asset 1986_3_398_407.

The existing Jyoti note cites Saran as authority and is not coverage of this decision.

The reporter's headnote and final label broadly say appeals allowed in part, but the Court's own orders at SCR pp. 403, 404 and 407 dismiss the respective proceedings with the express obsolescence modification in Civil Appeal No. 1546 of 1974. This note follows the judicial orders.

The connected SLP narrative refers to a Revenue reference application and later calls the petitioner the assessee. The note does not resolve that textual inconsistency by guessing a party; it records the unambiguous SLP dismissal and surviving special-survey reference.

The text has no numbered judicial paragraphs; SCR and physical PDF page pinpoints are used. No assessment year is supplied because the report does not specify one unambiguously.

STATUTORY SCOPE

These are historical capital-base computations under the Super Profits Tax Act, 1963 and Companies (Profits) Surtax Act, 1964. A reserve's inclusion in that base is not an income-tax deduction and does not establish its treatment under current legislation or accounting standards.

LATER TREATMENT

Source checked 2026-10-10. Subsequent judicial treatment and present statutory equivalence have not been comprehensively checked. No current-law clearance is represented.

AI DISCLOSURE

AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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