

Commissioner of Income Tax, Gujarat v. Elecon Engineering Co. Ltd.

Civil Appeal No. 1 of 1975

[1987] 3 SCR 588 | 1987-07-21

Whether, in computing average capital employed for former section 84, the average-profit figure under Rule 19(5) had to be added to capital calculated under Rule 19(1), despite profits already being reflected in average asset values.

84 (former industrial-undertaking exemption; computation in issue) | 101 (historical rebate context) | 143(3) (original assessment background) | 147(b) (reassessment background only)

Two-judge bench | R.S. Pathak, C.J. | Ranganath Misra, J.

Assessment years: 1964-65

Historical computation only; numerical conflicts in the report

This is a former section 84/Rule 19 computation ruling for AY 1964-65, with exemption eligibility undisputed and no decision on reopening jurisdiction. The scan conflicts on the aggregate and capital amounts; the note preserves the legal result without inventing corrected relief. The parties bore their own costs throughout. Later treatment and present-law mapping remain unverified.

01 FACTS OF THE CASE

The assessee was a public limited company. AY 1964-65 was the second year of production of its new project at Vidyanagar. In the original assessment of 19 March 1965, the Income Tax Officer determined rebate under former sections 84 and 101 at Rs.2,72,372. He reopened the assessment under section 147(b) and, by the reassessment of 29 November 1966, reduced the rebate to Rs.2,51,222. The Appellate Assistant Commissioner dismissed the assessee's appeal (physical pages 2-3; SCR 589-590).

The Tribunal accepted that the Rule 19(5) average-profit amount had to be added to the capital figure worked out under Rule 19(1). At Revenue's instance it referred that precise computation question to the Gujarat High Court. The High Court agreed with the Tribunal; Revenue appealed by certificate. Admissibility of the industrial exemption itself was never disputed. The judgment expressly confines the controversy to the method of computation (physical page 3; SCR 590B-G).

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

02 DISCUSSION BY THE HON'BLE COURT

Former Rule 19(1) provided different bases for valuing purchased assets according to whether they attracted depreciation and whether acquired before or during the computation period. Rule 19(3) required deduction of borrowed money and debts, including specified tax debts. Rule 19(5) deemed profits or losses, unless the contrary was shown, to accrue evenly during the period and to produce corresponding changes in capital employed. Rule 19(6) defined relevant computation expressions. The Court agreed that these provisions had to be read together (physical pages 3–5; SCR 590G–592C).

The computation described in the judgment valued the assets, deducted loans and other liabilities, and added Rs.3,52,503 representing half of the new project's annual profit. Revenue's objection was that profits were already reflected in the average valuation of assets, so an additional half-profit amount would count them again. The Court identified that objection as the only dispute for decision. It accepted the High Court's reasoning that Rule 19(5) prescribed a special deemed method of computation which could not be disregarded for that reason (physical page 5; SCR 592C–G).

The report contains conflicting intermediate amounts, including different capital figures and an inconsistent headnote aggregate. Those conflicts do not obscure the decided legal question: Revenue's objection to the Rule 19(5) addition failed. The Court did not issue a fresh arithmetical assessment or decide a different industrial-exemption eligibility question (physical pages 1–3 and 5).

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

03 JUDICIAL DECISION

The Court found Revenue's appeal devoid of merit and dismissed it, accepting the High Court's conclusion on the Rule 19(5) addition. The parties were directed to bear their own costs throughout (physical page 5; SCR 592G).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on the historical computation question

Revenue's appeal dismissed; parties to bear their own costs throughout

Final merits determination of the referred Rule 19 computation issue

Exemption eligibility was conceded. Reopening under section 147(b) was background, not the question adjudicated. No independently corrected capital figure or new quantified award is supplied.

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

05 AKHB REVIEW POINT

A statutory deemed computation cannot be displaced simply because an ordinary accounting approach appears to include the same economic element. The controlling question here was how former Rule 19 combined asset valuation, debt deduction and the deemed annual-profit adjustment. Any use of the decision should preserve Rule 19(5)'s qualification that the deemed even accrual operated unless the contrary was shown; the judgment does not make every half-profit addition unconditional.

Keep the provision and year fixed. The Court itself records that section 84 had been repealed with effect from 1 April 1968 (physical page 3). Its reasoning addresses AY 1964-65 under that former section and Rule 19. The headnote's parenthetical reference to section 80J does not make this a separate ruling on section 80J or certify a modern equivalent. Likewise, the mere recital of section 147(b) should not be indexed as a holding on reopening jurisdiction.

For a numerical illustration, retain the primary record and flag the report's inconsistent figures rather than silently correcting them. The reported initial rebate and the reassessed rebate identify the litigation's stakes; dismissal of the appeal is not an instruction to create a new monetary award. Comprehensive later treatment and present-law mapping remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and original assessment

Source url: [Open cited source](#)

Pdf pages: 1; 2

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: reported metadata and judicial text

2.

Topic: Tribunal ruling, referred question and undisputed admissibility

Source url: [Open cited source](#)

Pdf pages: 3

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

3.

Topic: Former Rule 19 and its qualified deeming mechanism

Source url: [Open cited source](#)

Pdf pages: 3; 4; 5

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

4.

Topic: Source numerical conflicts

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3; 5

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: editorial headnote and judicial text

5.

Topic: Accepted computation reasoning and exact disposition/costs

Source url: [Open cited source](#)

Pdf pages: 5

Paragraphs: Unnumbered judicial text; SCR page and margin letters where stated

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Ranganath Misra, J.

OTHER STATUTORY CONTEXT

Income-tax Rules, 1962, former Rule 19(1), (3), (5) and (6)

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 5 PDF pages; SHA-256

11bcd41112579a98b4ea3e6a0be4b0d1fdc76ed0f7ad4f4720f78e27480a8893. Original bytes preserved.

Judicial text starts at physical page 2 and ends at physical page 5. Editorial headnotes before the judgment, printed case metadata and the reporter's terminal summary are distinguished from the Court's reasons and order. No neighbouring judgment is included.

[Open cited source rendition](#)

The scan itself has numerical conflicts: the physical page 2 headnote gives aggregate Rs.85,38,837, while judicial page 5 gives Rs.85,88,837; the judicial narrative on page 5 prints capital Rs.41,67,034, while the Tribunal quotation on page 3 and headnote print Rs.41,87,034.; The physical page 1 headnote prints resulting capital Rs.45,39,557; the Tribunal quotation on page 3 and judicial page 5 print Rs.45,39,537. These are source-level variations confirmed visually, not merely OCR errors. No corrected award is inferred.; The headnote parenthesis is section 80J; OCR renders it as 801. The governing provision adjudicated in the body is former section 84 with former Rule 19.; Physical page 5 describes the deletion of Rs.3,52,503 as the assessment; earlier judicial text makes clear that the reduced rebate followed reassessment. The note does not invent a separate assessment event.

STATUTORY SCOPE

No present-law certification or automatic mapping to the Income-tax Act, 2025. Apply the historical provisions for the relevant assessment year.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial treatment has not been verified. The bounded statutory commencement/savings check for Vikram Cotton Mills is separately identified and is not a later-treatment review.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 5](#)

SHA-256: 11bcd41112579a98b4ea3e6a0be4b0d1fdc76ed0f7ad4f4720f78e27480a8893

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