

Commissioner of Income Tax, Calcutta v. British Paints India Ltd.

Civil Appeal Nos. 1918–19 of 1976

[1990] Supp. 3 SCR 525 | 1990-12-13

Whether the Assessing Officer could correct a consistently used valuation of work in process and finished paints at raw-material cost alone, excluding all production overhead, to arrive at the correct annual taxable income.

145

Two-judge bench | T. Kochu Thommen, J. | M.M. Punchhi, J.

Assessment years: 1963-64, 1964-65

Historical stock-valuation ruling with year-specific corrections

For AYs 1963-64 and 1964-65, this decision upheld a supported correction of raw-material-only valuation, applied to both opening and closing manufactured stock; the results were an addition in the first year and a deduction in the second. It preserves genuine lower-market valuation and fact-specific accounting distinctions and is not a universal ban on direct costing. Read section 145 and the no-specific-stock-provision observation in their historical setting. Later statutory valuation regimes, comprehensive judicial treatment and 2025 Act mapping remain unverified.

01 FACTS OF THE CASE

British Paints manufactured and sold paints. It valued goods in process and finished products at 84.49% of total cost, representing raw materials, and excluded overhead charges constituting the remaining 15.51%. It relied on longstanding practice, expert accounting support and the limited storage life of paints. The correctness of the recorded accounts was not otherwise challenged, and the figures allowed the necessary valuation corrections to be made (physical pages 5–8/SCR 529–532).

The authorities found no evidence that the stock had deteriorated in value; the assessee had not claimed a deduction for deterioration or damage. Revaluing both opening and closing stock, the ITO added Rs 1,04,417 for AY 1963-64 but allowed a deduction of Rs 3,338 for AY 1964-65. The AAC and Tribunal agreed. The High Court nevertheless accepted the assessee's consistent method, leading to the two Revenue appeals (physical page 6/SCR 530).

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

02 DISCUSSION BY THE HON'BLE COURT

The then first proviso to section 145(1) addressed a distinct situation: accounts could be correct and complete, and regularly maintained, yet the method could fail to reveal the true taxable income. The Officer had to decide that factual question on the relevant material and correct principles. Past acceptance created no estoppel, but the decision did not authorize arbitrary substitution merely because a different method was preferred (physical pages 7–8, 11–12/SCR 531–532, 535–536).

Stock valuation serves annual profit measurement. Opening and closing stock must be considered, ordinarily at cost or lower market value. A fall below actual cost can justify recognizing an anticipated stock loss; a decline merely in expected profit does not. The method must give a true picture of income, even where another presentation might serve reserves, dividends or management purposes. Excluding production expenditure from both ends of the account can still shift profits between self-contained assessment years, particularly with rising turnover and prices (physical pages 9–16/SCR 533–540).

Duple Motor Bodies was distinguished on its facts. Its direct-cost method included labour as well as materials for unfinished motor-coach bodies whose market value and overhead allocation posed special difficulties. British Paints instead excluded every manufacturing cost apart from materials. The Court upheld the supported factual conclusion that this method distorted income, while recognizing that the nature and special character of a business can justify appropriate adjustments. It did not announce that every direct-cost method or every documented market-value write-down must fail (physical pages 9–10, 13–16/SCR 533–534, 537–540).

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

03 JUDICIAL DECISION

Both Revenue appeals were allowed. The Calcutta High Court judgment was set aside, leaving the Tribunal's affirmation of the ITO's valuation computations standing. The successful Revenue received costs throughout. The correction retained the distinct results for the two years: the Rs 1,04,417 addition for 1963-64 and Rs 3,338 deduction for 1964-65. There was no remand (physical pages 6 and 16/SCR 530-E-F and 540-B-C).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the accounting-method dispute

Both Revenue appeals allowed; High Court judgment set aside; costs throughout

Final historical stock-valuation merits determination

The supported correction involved raw-material-only valuation of manufactured stock and both opening and closing stocks. It is not a universal rejection of consistent methods, genuine lower-market valuations or all direct-cost approaches; nor are both assessment-year adjustments additions.

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

05 AKHB REVIEW POINT

Reconstruct what the taxpayer's "cost" actually contains before relying on the method's label. Separate raw materials, labour and other production costs, test any lower market value with valuation-date evidence, and calculate the consequence for opening as well as closing stock. The Rs 3,338 deduction in the second year is a useful safeguard against describing every accounting-method correction as an addition.

A stable practice is relevant evidence, but does not end the historical section 145 inquiry into whether correct annual profit can be deducted. Equally, the authority must identify the distortion and use the available records and proper principles. Check the statutory version and applicable valuation requirements separately before applying the decision to a later year.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, grouped appeals and assessment years

Source url: [Open cited source](#)

Pdf pages: 1; 5

Paragraphs: SCR 525; 529-E-H

Source role: reported metadata and judicial text

2.

Topic: 84.49% method, overhead exclusion and opposite year adjustments

Source url: [Open cited source](#)

Pdf pages: 6; 8

Paragraphs: Unnumbered judicial text; SCR 530-B-H; 532-B-E

Source role: judicial text

3.

Topic: Historical first proviso and material-supported accounting inquiry

Source url: [Open cited source](#)

Pdf pages: 7; 8; 11; 12

Paragraphs: Unnumbered judicial text; SCR 531-B-H; 532-A-E; 535-F-536-G

Source role: judicial text

4.

Topic: Duple distinction, lower market value and annual profit limits

Source url: [Open cited source](#)

Pdf pages: 9; 10; 11; 13; 14; 15

Paragraphs: Unnumbered judicial text; SCR 533-535; 537-539

Source role: judicial text

5.

Topic: Application and operative relief with costs throughout

Source url: [Open cited source](#)

Pdf pages: 15; 16

Paragraphs: Unnumbered judicial text; SCR 539-E-540-C

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

T. Kochu Thommen, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

HISTORICAL STATUTORY CONTEXT

AYs 1963-64 and 1964-65 under the then section 145(1) and its first proviso. The observation that the Act contained no specific stock-valuation provision describes the historical legal setting; later inventory provisions, standards and current statutory text have not been reviewed.

IDENTIFIED PROCEDURAL HISTORY

Revenue certificate appeals from the Calcutta High Court judgment of 22 August 1974 in Income Tax Reference No. 9 of 1970. ITO calculations were affirmed by the AAC and Tribunal; the High Court rejected the Tribunal's treatment, and the Supreme Court reversed the High Court.

ROLE AND SCOPE OF EACH IDENTIFIED PROVISION

1.

Section: 145(1), first proviso

Role: Historical statutory power and duty to recompute income where a regularly employed method does not permit its proper deduction, even if the accounts are correct and complete; reproduced at SCR 531.

2.

Section: 13 of the Indian Income-tax Act, 1922

Role: Predecessor provision discussed through cited authorities, not the operative Act for these two appeals.

OPERATIVE 1961 ACT PROVISIONS

145(1), first proviso (historical version)

SOURCE & VERIFICATION

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

Identified source rendition: 16 PDF pages; SHA-256

1986a74f076089b98428435e9c90cc178592823a5accd53fb6321622089dad5e. Original bytes preserved.

Unnumbered judgment of Thommen J. begins on physical page 5/SCR 529-G and continues through the Revenue appeals allowed with costs throughout on physical page 16/SCR 540-C. Editorial headnotes and proceeding details on physical pages 1-5 read separately. No adjacent judgment.

[Open cited source rendition](#)

Printed SCR volume, first page, date, bench and grouped appeal numbers verified against source images. The repository identifier 1990INSC386 is not represented as an independently verified published neutral citation.

Accounting years ended 31 December 1962 and 31 December 1963 respectively (physical page 5/SCR 529-H).

The editorial headnote at SCR 526 describes a reference at the instance of Revenue; the note does not repeat that attribution because the underlying High Court rejected the Tribunal's Revenue-favouring result. The judicial history is stated from SCR 529–530 without inventing an applicant correction.; The database records only Civil Appeal No. 1918/1976. The printed jurisdiction heading at SCR 529 confirms the grouped Civil Appeal Nos. 1918–19 of 1976.; The source's unnumbered judicial paragraphs are cited by physical PDF and printed SCR pages; editorial numbered propositions are not judicial paragraph numbers.

STATUTORY SCOPE

Apply the statutory version governing the relevant assessment year. No current-law certification or automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment has not been verified. No bounded later-treatment check is claimed in this note; no current-law certification or Income-tax Act, 2025 mapping is supplied.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 16](#)

SHA-256: 1986a74f076089b98428435e9c90cc178592823a5accd53fb6321622089dad5e

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