

## A.L.A. Firm v. Commissioner of Income Tax, Madras

Civil Appeal No. 570 of 1976

[1991] 1 SCR 624 | 1991-02-21

**Whether later awareness of an already reported judicial decision supplied information for historical section 147(b) reopening, and whether stock-in-trade had to enter the dissolved and discontinued firm's closing accounts at market value.**

147(b), historical information-based reassessment | 148

Three-judge bench | S. Ranganathan, J. | N.M. Kasliwal, J. | S.C. Agrawal, J.

Assessment years: 1961-62

### Discontinuance facts and historical reopening are essential

A.L.A. concerned dissolution with business discontinuance and separate businesses thereafter. Sakthi Trading later distinguished a continuing business, for which cost or lower market value remained applicable. Reopening here rested on later awareness of a previously unconsidered judicial decision under historical section 147(b), not a bare change of opinion or today's statutory framework. The circular question was left unanswered; the Rs.1,58,057 figure is an income addition, not tax due. Source date, notice and minor amount discrepancies are preserved. Comprehensive later treatment, modern distribution-law consequences and 2025 mapping remain unverified.

### 01 FACTS OF THE CASE

The firm had carried on money-lending in Malaya since 1949 and, incidentally, dealt in houses, gardens and estates. After reconstitution in March 1960 it dissolved on 13 March 1961 and closed its accounts. Two groups of former partners then carried on separate businesses with the assets and liabilities allotted to them. Its AY 1961-62 profit-and-loss account credited a revaluation difference of \$1,01,248, stated to equal Rs.1,58,057, but the tax adjustment deducted that amount as neither revenue income nor capital gain. The dissolution, revaluation, distribution and partner credits were disclosed. The return and original assessment were completed on 10 April 1962 (physical pages 5-7).

After the firm's nil return for AY 1962-63, the ITO wrote on 3 September 1963 that the earlier revaluation surplus was taxable under the Madras High Court's Ramachari decision, and subsequently reopened under sections 148 and 147(b). Reassessment added Rs.1,58,057. The assessee challenged both jurisdiction and taxation of the surplus and invoked a 1956 Board circular. It failed before the appellate authorities and High Court and appealed to the Supreme Court (physical pages 6-7).

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

## 02 DISCUSSION BY THE HON'BLE COURT

On reopening, the full factual disclosure excluded action under the historical section 147(a), but did not itself answer section 147(b). The latter required information in the officer's possession causing a reason to believe that income escaped assessment. Reviewing the prior authorities, including Kalyanji Mavji and Indian and Eastern Newspaper Society, the Court distinguished subsequent discovery of a previously unconsidered factual or legal aspect from simply changing an opinion after reconsidering the same facts and law already considered. Information could emerge from investigation of an existing record or later legal research; mere awareness that an earlier conclusion was wrong was not, by itself, the required information (physical pages 7–15).

The Court did not accept the Revenue's contention that the same-day assessment meant the officer had ignored the disclosed facts altogether. It considered that he had looked at them and accepted the exclusion, but had missed Ramachari, with no indication that the decision had been brought to his attention. His later awareness of that definite judicial material, though it pre-dated the assessment and diligence could have uncovered it earlier, sustained reopening under section 147(b). This was not authority for unrestricted review or a bare change of opinion (physical pages 16–17).

On computation, the question was valuation of the stock in the accounts immediately before or at dissolution, not whether subsequent distribution of assets was itself a sale or transfer. Closing-stock valuation was necessary to determine trading results even under a cash system. For a continuing business, cost or lower market value avoids anticipation of unrealised profit while recognising the conventional prudential allowance for anticipated loss. The Court considered the special position where the business closes and final accounts must settle the partners' real rights (physical pages 17–24).

The Court endorsed fair/market valuation for that dissolution and discontinuance: stock-in-trade could not remain at a merely book or notional value in the final settlement. Here the partners had themselves made the revaluation; the resulting surplus had to be reflected in the firm's taxable trading profits. It did not accept both reasons previously advanced in Ramachari indiscriminately: it questioned the first, based on year-to-year correction, and found substance in the real-value settlement rationale (physical pages 23–25).

The third reference question, concerning the supposed Board circular, was expressly left unanswered. The circular was not produced, its nature was uncertain, no material showed that these assets were capital assets rather than stock-in-trade, and its reported purport did not resolve the actual issue. No broad holding that all money-lender property is capital, or that circulars may be disregarded generally, follows (physical page 7).

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

## 03 JUDICIAL DECISION

The Court upheld the High Court's answers on the validity of historical section 147(b) reassessment and taxation of the revaluation surplus. It expressly declined to answer the separate circular question. The assessee's appeal was dismissed without an order as to costs; the Rs.1,58,057 addition was sustained, but that is an income addition, not a stated tax liability (physical pages 7, 17 and 25).

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

**04 OUTCOME / IN WHOSE FAVOUR**

In whose favour: Revenue on reopening and stock-valuation merits

Assessee appeal dismissed; High Court answers on questions 1 and 2 upheld; question 3 not answered; no costs

Final historical reassessment-jurisdiction and closing-stock computation ruling

Dissolution accompanied by business discontinuance and separate post-dissolution businesses; not a market-value rule for every continuing reconstitution, not a decision on capital-assets distribution, and not present-law reassessment advice.

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

**05 AKHB REVIEW POINT**

Keep the two inquiries separate. For the historical reopening point, identify precisely what information reached the officer later and whether the same material and legal aspect had already been considered; the date a judgment existed is not the same as proof it was considered. For valuation, establish the asset's stock-in-trade character, actual cessation or continuity of the business, dissolution accounts and settlement basis. Do not infer either current reopening power or a charge on every distribution from this decision.

A bounded later primary-source check materially limits the shorthand rule. In *Sakthi Trading Co. v. CIT*, decided 2 August 2001, the Court expressly treated A.L.A. as involving both dissolution and discontinuance, with two groups thereafter conducting separate businesses. Sakthi's remaining partners continued the same business without interruption, on an unchallenged finding; cost or lower market value therefore remained applicable despite dissolution following a partner's death (Sakthi physical pages 5 and 9–10/SCR 218 and 222–223). This is a directly read distinction, not a finding that A.L.A. was overruled. Later statutory rules on partner receipts and asset distributions, subsequent reassessment amendments and comprehensive later treatment require separate verification.

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

**PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES**

1.

**Topic:** Supreme Court identity; appeal and conflicting High Court dates

**Source url:** [Open cited source](#)

**Pdf pages:** 1; 4; 5

**Scr pages:** 624; 627-G–628-B

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** reported metadata and judicial text

2.

**Topic:** Actual AY, business discontinuance, separate businesses, amounts and reopening

**Source url:** [Open cited source](#)

**Pdf pages:** 5; 6; 7

**Scr pages:** 628-B-630-G

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

3.

**Topic:** Circular question expressly not answered; no capital-asset evidence

**Source url:** [Open cited source](#)

**Pdf pages:** 7

**Scr pages:** 630-A-E

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

4.

**Topic:** Historical section 147(b) test and authorities

**Source url:** [Open cited source](#)

**Pdf pages:** 7; 8; 9; 10; 11; 12; 13

**Scr pages:** 630-F-636-H

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

5.

**Topic:** Information from previously unconsidered material versus bare change of opinion

**Source url:** [Open cited source](#)

**Pdf pages:** 14; 15

**Scr pages:** 637-A-638-E

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

6.

**Topic:** Officer considered facts but missed Ramachari; specific jurisdictional application

**Source url:** [Open cited source](#)

**Pdf pages:** 16; 17

**Scr pages:** 639-E-640-F

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

7.

**Topic:** Stock immediately before dissolution distinguished from subsequent distribution

**Source url:** [Open cited source](#)

**Pdf pages:** 17; 18; 19

**Scr pages:** 640-F-642-H

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

8.

**Topic:** Continuing-business cost/lower-market rule and scrutiny of Ramachari's rationales

**Source url:** [Open cited source](#)

**Pdf pages:** 20; 21; 22; 23; 24

**Scr pages:** 643-A-647-B

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

9.

**Topic:** Real-value settlement and stock surplus; dismissal without costs

**Source url:** [Open cited source](#)

**Pdf pages:** 24; 25

**Scr pages:** 647-B-648-C

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** judicial text

10.

**Topic:** Bounded later distinction: A.L.A. discontinuance versus Sakthi continuity

**Source url:** [Open cited source](#)

**Pdf pages:** 5; 9; 10

**Scr pages:** 218-B-E; 222-E-223-A

**Paragraphs:** Unnumbered judicial text; physical PDF pages are one-based

**Source role:** bounded later judicial text

## **ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS**

147(a), expressly unavailable on the disclosed facts

## **JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS**

S. Ranganathan, J.

## **OTHER STATUTORY CONTEXT**

Indian Income-tax Act, 1922, section 34(1)(b), predecessor reassessment provision; Indian Income-tax Act, 1922, section 23(2), original-assessment notice as described at SCR 628-G

## **ACT IDENTIFIED IN THE REVIEWED SOURCE**

Income-tax Act, 1961

## **SPECIFIED LATER DECISION AND LIMITS OF THE CHECK**

1.

**Case title:** Sakthi Trading Co. v. Commissioner of Income Tax, Coimbatore

**Decision date:** 2001-08-02

**Citation:** [2001] Supp. 1 SCR 214

**Relationship:** Distinguished A.L.A. Firm by actual business continuity; not treated as overruling it

**Review scope:** Complete ten-page rendition read, including complete judicial text and material images. Only the expressly stated dissolution-plus-discontinuance distinction and resulting continuing-business valuation rule are relied upon.

**Source asset id:** S 2001 1 214 223

**Source url:** [Open cited source](#)

**Pdf pages:** 5; 9; 10

**Scr pinpoint:** 218-B-E; 222-E-223-A

**Existing note id:** sc-2001-08-02-sakthi-trading-continuing-stock

**Comprehensive later treatment verified:** False

## ASSESSMENT-YEAR SCOPE AND LIMITS OF THE OPERATIVE DIRECTION

The assessment under appeal is AY 1961-62, with accounts commencing 13 April 1960 and closing on dissolution on 13 March 1961. The nil return for AY 1962-63 is subsequent correspondence background; AY 1984-85 belongs only to the later Sakthi Trading comparison.

## SOURCE & VERIFICATION

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

Identified source rendition: 25 PDF pages; SHA-256

d7f4d905b72936e9e33c7f8175658f73b0c7d7c9b06a80aab6f8aa316570b1bc. Original bytes preserved.

Complete unnumbered judicial text from physical page 5/SCR 628-B (Ranganathan J. opening) through physical page 25/SCR 648-C (dismissal and no costs). Editorial headnote on physical pages 1-4 and appearances separated. No neighbouring judgment.

[Open cited source rendition](#)

AY 1961-62 is the assessed year. The AY 1962-63 nil return prompted later correspondence; Sakthi's AY 1984-85 is a different case. Dollar amounts are reproduced in the source's notation without assuming US currency.; The case-origin line on physical page 4/SCR 627 dates the High Court judgment/order 9 February 1976; the judicial opening on page 5/SCR 628 says 10 January 1975. The Supreme Court decision date is unambiguous; the High Court date discrepancy is not silently resolved.; The third reference question on physical page 6/SCR 629 prints \$1,01,348, whereas the material facts, second question and rupee-equivalence statement consistently concern \$1,01,248. The addition retained is Rs.1,58,057; no tax due is inferred.; The original notice is described as section 23(2) on physical page 5/SCR 628 but as section 143(2) in the later submissions on physical page 16/SCR 639. The property-tax addition is Rs.2,083 in the judicial opening and Rs.2,088 in the headnote. These are preserved source discrepancies, not grounds to invent a separate proceeding.; The Court rejected the contention that same-day assessment proved total non-application of mind; the actual jurisdictional basis was subsequent awareness of Ramachari, not mere officer oversight or a changed conclusion.; The Board-circular question was not decided. Quoted partnership-settlement passages concerning retirement or all assets do not enlarge the tax holding beyond the stock-in-trade issue in this dissolved and discontinued business.; Sakthi Trading is a specifically reviewed later distinction, not an overruling of A.L.A. Modern statutory consequences and comprehensive later judicial treatment remain unverified.

The Court decides the validity of reopening under historical sections 147(b) and 148 of the 1961 Act for AY 1961-62, alongside the historical closing-stock computation. The original-assessment narrative uses section 23(2), while a later passage prints section 143(2). No claim is made that the present reassessment framework or modern dissolution/distribution provisions have the same text or operation.

**STATUTORY SCOPE**

No automatic mapping to the Income-tax Act, 2025 or present-law certification. Apply the statutory text for the relevant year; historical provisions reproduced in the judgment are not a fresh reconstruction of every intervening amendment.

**LATER TREATMENT**

Source checked 2026-10-04. Comprehensive subsequent judicial and statutory treatment has not been verified. Any actually read bounded later judgment is expressly identified. No citator status or current-law certification is supplied.

**IDENTIFIED SOURCE LINKS**

[reported judgment - PDF pages: 25](#)

SHA-256: d7f4d905b72936e9e33c7f8175658f73b0c7d7c9b06a80aab6f8aa316570b1bc

[bounded later judgment check - PDF pages: 10](#)

SHA-256: 6589515bfba48981bb7fdbd3b2f13ba14b1bed0f81c4f6e8713f50387fe581dd

**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.

**PROFESSIONAL DISCLAIMER**

General research information only; not legal or tax advice, a certified judgment or a substitute for the full order. Applicability depends on facts, assessment year, statutory version and jurisdiction. Subsequent treatment is unverified unless identified sources are expressly stated. Downloading does not create a professional engagement. Obtain case-specific advice before reliance.