

M/s. Escorts Farms (Ramgarh) Ltd. v. Commissioner of Income Tax, New Delhi

Civil Appeal Nos. 1124–1125 of 1987

[1996] Supp.7 SCR 18 | 1996-09-26

Whether the actual cost of post-1954 original shares sold after a bonus issue had to be spread over original and bonus holdings for the historical capital-gains computation.

2(14) | 45(1) | 48 | 55(2), historical | 256(1)

Two-judge bench | B.P. Jeevan Reddy, J. | K.S. Paripoornan, J.

Assessment years: 1967-68, 1968-69

Historical averaging must not override later bonus-share cost rules

Actual-cost averaging was upheld for the 1967-68 and 1968-69 assessments; the 1 January 1954 statutory option was unavailable on these acquisitions. Later section 55(2)(aa), including nil cost for qualifying no-payment allotments from 1 April 1996, requires separate analysis. The source's Gujarat/Delhi High Court conflict is preserved; no new share computation or current-law carryover is certified.

01 FACTS OF THE CASE

The company invested in shares and also had agricultural and brick-kiln income. It sold original Escorts Ltd. shares in the previous years ending 30 June 1966 and 30 June 1967. The original shares had been acquired after 1954 and bonus shares were subsequently issued. It sought to retain the whole actual original cost against the shares sold (physical pages 4–5).

The ITO, appellate authorities and Delhi High Court applied averaging over the original and bonus shares, producing the referred capital-gain figures of Rs 32,100 and Rs 12,450 for AYs 1967-68 and 1968-69. The High Court answered question 1 for Revenue and did not answer the conditional question 2. The report does not give a complete holding-by-holding share count or cost calculation (physical pages 4–5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court examined the effect of a bonus issue on the original holding and applied the Dalmia Investment and Gold Company principles. When original and bonus shares rank equally, the historic method spreads original cost over the combined holding; the quoted principle also recognises adjustment where their rights differ. Being an investor rather than a dealer did not defeat this cost allocation, though the applicable income head remained distinct (physical pages 7–12 and 15–16).

Shekhawati General Traders involved an exercised statutory option to use the 1 January 1954 market value for eligible earlier-acquired shares. That fictional statutory cost was not altered by subsequent bonus issues. Here the original shares were purchased after 1954, so that option was unavailable and actual-cost averaging governed. The Court distinguished rather than overruled Shekhawati (physical pages 13–16).

The lengthy British and accounting-text passages explain bonus issues. Their statements about overseas income tax, distributions or accounting entries are not separate rulings on present Indian taxation of a bonus allotment (physical pages 7–12).

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

03 JUDICIAL DECISION

Both assessee appeals were dismissed without costs. The High Court's Revenue-favouring answer to question 1 was upheld, leaving the stated historical averaged-cost computation intact. The conditional question 2 was not independently answered and no fresh numerical calculation was directed (physical page 16, paragraph 12).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue

Two appeals dismissed; question 1 answer upheld; no costs

Final historical actual-cost averaging ruling for AYs 1967-68 and 1968-69

Not a present-day mandate to average every bonus issue; later statutory cost provisions and applicable valuation-date options must be checked.

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

05 AKHB REVIEW POINT

Distinguish actual cost from an eligible statutory substituted cost, and identify the share rights and relevant tax year. The judgment's no-investor/dealer distinction is a cost-allocation point; it does not erase the difference between business profits and capital gains. Nor does it decide that every quoted textbook proposition is Indian tax law.

There is a material later statutory change. In the checked 2011 compilation, section 55(2)(aa)(i) uses the amount actually paid for the original financial asset, while sub-clause (iiia) prescribes nil cost for qualifying additional assets allotted without payment on the basis of another financial-asset holding. Clause (aa) expressly remains subject to the valuation options in clause (b)(i)–(ii). Its extension to no-payment allotments and the insertion of sub-clause (iiia) took effect from 1 April 1996 under the Finance Act, 1995, as shown by footnotes 38 and 40. Those rules were not the law applied to the 1960s assessments here, although the judgment was delivered in 1996. Do not apply its historical averaging formula automatically to a modern bonus-share computation.

The report's front matter names a Gujarat High Court order dated 23 January 1992, whereas the judicial narrative identifies the Delhi High Court judgment dated 23 April 1982. The latter describes the actual appeal history in the reasons; the discrepancy is preserved rather than silently corrected.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, years, figures and conflicting High Court front matter

Source url: [Open cited source](#)

Pdf pages: 1; 3; 4; 5

Paragraphs: Reported caption and jurisdiction front matter; judgment paragraphs 1–3

Source role: reported metadata and judicial text

2.

Topic: Historical charging/computation provisions and 1954 option

Source url: [Open cited source](#)

Pdf pages: 6; 7

Paragraphs: Judgment paragraph 5

Source role: judicial text

3.

Topic: Bonus-allotment explanation and quoted historical allocation principles

Source url: [Open cited source](#)

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

Paragraphs: Judgment paragraphs 6–7

Source role: judicial text

4.

Topic: Shekhawati distinction, actual-cost averaging and final order**Source url:** [Open cited source](#)**Pdf pages:** 12; 13; 14; 15; 16**Paragraphs:** Judgment paragraphs 8–12**Source role:** judicial text

5.

Topic: Later financial-asset costs and 1996 amendment**Source url:** [Open cited source](#)**Pdf pages:** 387; 388; 389**Paragraphs:** Section 55(2)(aa)(i)–(iv), (b)(i)–(ii), footnotes 38/40**Source role:** bounded historical statutory text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

K.S. Paripoornan, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

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

Identified source rendition: 16 PDF pages; SHA-256

5c2bf8c868bc666b17c347b4004a8d19697c3a0f819505062446bece18f831d3. Original bytes preserved.

Complete judicial text physical pages 4–16/SCR 21–33, with textbook extracts separated from Indian judicial holdings and the unanswered conditional question preserved.

[Open cited source rendition](#)

The jurisdiction front matter identifies Gujarat High Court, 23 January 1992, ITA 152/1991; the judicial opening expressly identifies Delhi High Court, 23 April 1982, reported 143 ITR 749. No corrected underlying order was independently obtained.; The historical valuation date 1 January 1954 is specific to the old statutory option; later valuation dates and cost rules are different.; Question 2 was conditional on a negative answer to question 1. It was not separately decided after question 1 was answered for Revenue.; The source supplies capital-gain figures but not all share quantities, prices or bonus dates needed to reproduce a complete computation. None is invented.; The quoted British tax/accountancy texts contain their own rules on distributions and taxability. They are illustrative materials, not independent holdings on Indian tax at allotment.; The body's Shekhawati quotation prints sections 43 and 55(2) in one place, while its surrounding discussion concerns sections 48 and 55(2). No new section 43 ruling is inferred.; The later section 55(2)(aa) comparison and its 1996 commencement prevent a current-law averaging claim; all further statutory and judicial treatment remains unverified.

STATUTORY SCOPE

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

LATER TREATMENT

Source checked 2026-10-04. No comprehensive later-treatment search is certified. Any actually checked later judgment or statute is expressly identified in this note.

IDENTIFIED SOURCE LINKS

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

SHA-256: 5c2bf8c868bc666b17c347b4004a8d19697c3a0f819505062446bece18f831d3

[official department hosted historical statutory compilation - PDF pages: 1251](#)

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

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