

Commissioner of Income Tax v. M/s. Alcock Ashdown and Co. Ltd. Etc.

Civil Appeal No. 1274 of 1980 / Civil Appeal No. 9796 of 1995

[1997] 1 SCR 939 | 1997-02-05

Whether paid-for plant not yet installed and workshops under construction in an operating integrated industrial undertaking could enter capital employed for the historical industrial-undertaking relief, despite non-use of those particular assets.

84(1) | 80J | 256(1)

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

Assessment years: 1962-63, 1969-70

Capital-employed relief in historical provisions; preserve averaging and costs distinctions

This concerns section 84 for AY 1962-63 and section 80J for AY 1969-70, with the main undertaking already operating and the assets integral to it. Rs 21,17,178 is a disputed capital base, not the relief amount. Do not turn the capital-employed principle into a depreciation rule or omit the approved average-cost qualification. The main appeal was dismissed with costs; the companion without a costs order. No current rate, continuing incentive or 2025 Act mapping is certified.

01 FACTS OF THE CASE

The main appeal concerned a public company with a chain of machine workshops. In calendar year 1961, relevant to AY 1962-63, it began business at its new Bhavnagar industrial undertaking, which included workshops for making small boats. Much plant and machinery had been installed, but paid-for plant worth Rs 11,95,167 remained uninstalled and workshops costing Rs 9,22,011 remained under construction. The company sought inclusion of the aggregate Rs 21,17,178 in capital employed for section 84 relief. Its reported profit of Rs 5,39,791 was a separate figure (physical page 3; paragraph 4).

The ITO excluded these assets because they had not been put to use, and the Appellate Assistant Commissioner agreed. The Tribunal found that the undertaking had already commenced business, formed an integral whole, and included the disputed assets as inseparable parts. It therefore included their cost in capital employed. The Bombay High Court answered the section 256(1) reference for the assessee. Revenue's companion appeal, concerning AY 1969-70 and section 80J, challenged a later High Court judgment following the same decision; separate operational facts for that appeal are not given (physical pages 3-4; paragraphs 1-5).

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

02 DISCUSSION BY THE HON'BLE COURT

The issue was the employment of capital in the undertaking, rather than physical use of each individual asset. The Court held that acquiring or purchasing an asset for the business employs the capital even if that asset is not yet installed or used. This conclusion operated on the Tribunal's findings that the industrial undertaking had commenced business and the disputed assets formed integral parts of it. The Court approved the reasoning in *Indian Oxygen* and the line of High Court decisions adopting that interpretation, including *Ravi Machine Tools* under section 80J (physical pages 6–9; paragraphs 7–10).

The report also preserves an important valuation distinction. Rule 19 separated assets acquired before the computation period from those acquired on or after its commencement; the latter categories called for average cost. In the *Indian Oxygen* passage reproduced and approved by the Court, actual user was relevant to that average-cost calculation, even though it was not a general condition for capital to be employed. The broad conclusion in paragraph 10 should therefore not be presented as deletion of every timing or averaging requirement in the computation rules (physical pages 5–7; paragraphs 6–8).

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

03 JUDICIAL DECISION

Both Revenue appeals were dismissed. CA 1274/1980 was dismissed with costs, leaving the favourable answer on inclusion of Rs 21,17,178 in capital employed intact; CA 9796/1995 was dismissed with no order as to costs. The Supreme Court did not calculate the ultimate exemption or deduction amount, award a refund, or decide a depreciation claim under section 32 (physical page 9; paragraphs 10–11).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assesseees in both appeals

CA 1274/1980 dismissed with costs; CA 9796/1995 dismissed with no order as to costs

Final affirmance of capital-employed treatment under historical sections 84 and 80J

The main undertaking was already carrying on business, and the disputed assets were integral to it. No generic deduction for all idle assets or abandonment of applicable average-cost valuation rules is established.

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

05 AKHB REVIEW POINT

First identify what the provision measures. Capital committed to business assets can be employed in an undertaking even before each asset is installed, but that does not answer a differently worded depreciation or other deduction provision. Preserve proof of purchase or acquisition, payment, the business purpose, commencement of the undertaking and integration of the assets.

Next separate inclusion in the capital base from how that base is measured. The report itself quotes the average-cost distinction, so its general acquisition principle should not be used to erase the rule's computation-period requirements. Rs 21,17,178 is the asset-cost base in dispute, not the deduction, tax saved or refund. Keep the two assessment years and the two costs orders separate. The historical incentive provisions and their quoted rate are not current tax-planning instructions; comprehensive later treatment and 2025 Act mapping remain unverified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, author, two appeals and statutory years

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3

Paragraphs: Judicial paragraphs 1–2; preceding report metadata

Source role: reported metadata and judicial text

Report pages: SCR 939–941D

2.

Topic: Main undertaking facts, precise components and Tribunal findings

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: Paragraphs 4–5

Source role: judicial text

Report pages: SCR 941E–942G

3.

Topic: Historical section 84 and rule 19 computation categories

Source url: [Open cited source](#)

Pdf pages: 5; 6

Paragraphs: Paragraphs 6–7

Source role: judicial text

Report pages: SCR 943–944G

4.

Topic: Capital-employed reasoning and average-cost qualification

Source url: [Open cited source](#)

Pdf pages: 6; 7; 8

Paragraphs: Paragraphs 8–9

Source role: judicial text

Report pages: SCR 944G–946H

5.

Topic: Holdings and separate costs directions

Source url: [Open cited source](#)

Pdf pages: 9

Paragraphs: Paragraphs 10–11

Source role: judicial text

Report pages: SCR 947B–E

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

K.S. Paripoornan, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

RULES ACTUALLY CONSIDERED

Income-tax Rules, 1962, rule 19(1); Income-tax Rules, 1962, rule 19(6)

SCOPE OF THE INCOME-TAX ACT ISSUE

Substantive 1961 act: True

Other act only: False

Standalone 1961 merits note eligible: True

Reason: The two appeals directly determine capital employed under historical sections 84 and 80J; the question is not an independent depreciation or current-repairs deduction.

SOURCE & VERIFICATION

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

Identified source rendition: 9 PDF pages; SHA-256

3ffc8f8cc2595243c77a8568208a55c330e20511945f94451d29afe88e2ea5ec. Original bytes preserved.

Complete judicial text physical pages 3–9; all 9 source pages read, with editorial headnote and cited-authority quotations distinguished.

[Open cited source rendition](#)

CA 1274/1980 concerns section 84 for AY 1962-63 (calendar-year 1961 accounts); CA 9796/1995 concerns section 80J for AY 1969-70. The detailed Bhavnagar facts are stated only for the main appeal.

Section 84 is considered as applicable to AY 1962-63 and section 80J as applicable to AY 1969-70. The Court reproduces the relevant historical section 84(1) and rule 19(1)/(6). The report identifies section 84 as since omitted; no current entitlement, current rate or 2025 Act equivalent is stated.

The source's preliminary appeal particulars on physical page 2 mention only the 27 March 1987 High Court judgment, but judicial paragraph 1 identifies both the 7 July 1978 and 27 March 1987 judgments and both connected appeals.; The reference question on physical page 4 abbreviates the Rs 21,17,178 as cost of workshop under construction. Paragraph 4 on physical page 3 identifies that aggregate as Rs 11,95,167 uninstalled plant and machinery plus Rs 9,22,011 workshops under construction; both components are retained.; The detailed Bhavnagar facts and amounts belong to CA 1274/1980, AY 1962-63. They are not assigned to the section 80J companion appeal, AY 1969-70.; Actual-user language in the approved Indian Oxygen passage is retained for average-cost computation under rule 19. The note does not make the broad paragraph 10 conclusion override that quoted qualification.; The undertaking's business had commenced; no proposition concerning an entirely uncommenced project is invented.; The main appeal was dismissed with costs; the companion was dismissed without an order as to costs. These distinct directions must not be merged.; The six-percent wording reproduced in historical section 84 is not a modern rate or continuing relief. No section 32 depreciation claim or present-law industrial allowance was decided.

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. Comprehensive subsequent judicial and statutory treatment has not been verified. Citations within this judgment are reported as its reasoning, not as independently reviewed later-treatment authorities. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 9](#)

SHA-256: 3ffc8f8cc2595243c77a8568208a55c330e20511945f94451d29afe88e2ea5ec

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