

Godhra Electricity Co. Ltd., Ahmedabad v. Commissioner of Income Tax, Gujarat-II, Ahmedabad

Civil Appeal Nos. 5638–5640 of 1983

[1997] 3 SCR 539 | 1997-04-03

Whether disputed enhanced electricity charges had really accrued as taxable income despite accounting entries and an earlier court ruling recognising the company's ability to increase rates.

261 (certificate appeal; substantive accrual/accounting discussion does not expressly number the charging and computation sections)

Two-judge bench | S.C. Agrawal, J. | G.B. Pattanaik, J.

Assessment years: 1969-70, 1970-71, 1971-72, 1972-73

Fact-specific non-accrual, not a rule for every unpaid debt

The four years' disputed enhanced charges were hypothetical on the combined litigation, practical regulatory and takeover facts. Book entries did not establish real accrual, but later unilateral conduct cannot erase income already accrued. Three appeals succeeded without costs. The source conflicts between 20 and 23 June 1974 and records a later suit withdrawal; no current tariff, accounting-rule or comprehensive later-treatment certification is given.

01 FACTS OF THE CASE

The electricity supplier raised tariffs in 1963, triggering representative consumer suits. It ultimately succeeded in that first litigation in February 1969, but the State then advised maintaining the old rates for at least six months. Before that period expired, another representative suit challenged the enhanced charges and obtained an injunction. The undertaking's management was later taken over by the State and transferred to the Electricity Board, preventing the company from pursuing recovery in the circumstances recorded (physical pages 5–7).

The company maintained mercantile accounts and recorded the disputed increases. The ITO added Rs 7,33,676 for AY 1969-70, Rs 2,63,465 for AY 1970-71, Rs 2,98,077 for AY 1971-72 and Rs 3,17,741 for AY 1972-73. The appellate Commissioner deleted the additions and the Tribunal agreed, but the High Court answered the references for Revenue because it considered a legal right to recover had arisen (physical pages 8–11).

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

02 DISCUSSION BY THE HON'BLE COURT

Accrual under mercantile accounting concerns real income, not a hypothetical amount established only by book entries. The probability of realisation must be assessed realistically in the particular circumstances, with statutory language respected. The Court also quoted the important limit: later conduct or an assessee's own assertion cannot simply turn income that has already accrued into no income (physical pages 12–14).

The State's letter was not legally binding, but its practical effect on a licensed supplier mattered alongside continuing litigation, injunction and takeover. Examining the later suit's judgment, the Court rejected the High Court's view that it was confined to charges after 31 March 1969. In this combination of circumstances the disputed enhanced charges had not really accrued in the relevant years. This was a finding on actual accrual, not an election to tax all unpaid debts only on receipt (physical pages 15–17).

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

03 JUDICIAL DECISION

All three company appeals were allowed. The High Court judgment was set aside and the referred questions answered for the company, restoring the Tribunal's exclusion of the disputed additions for the four assessment years. No costs were ordered. The Court did not determine a later collection year, grant a general bad-debt deduction or prescribe current electricity tariffs (physical page 17).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Three appeals allowed; High Court set aside; reference questions answered for assessee; no costs

Final on non-accrual of the specified disputed charges in the four years

No automatic exclusion of every disputed or unpaid debt, no general cash-basis election and no erasure of an already accrued income by later unilateral conduct.

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

05 AKHB REVIEW POINT

Prepare an evidence-based chronology of enforceability, collection obstacles and commercial reality. An accounting entry is not conclusive, but mere delay, litigation or a taxpayer's assertion of uncertainty is not enough to import this result into every receivable. Explain why income did not arise in substance in the relevant year rather than assuming that non-payment alone defeats mercantile accrual.

Distinguish the tax conclusion from the separate electricity litigation. The judgment records that the later suit was eventually withdrawn with liberty in 1979, yet evaluates the reality affecting the assessment years before it. Its historical real-accrual analysis does not certify compliance with later statutory recognition provisions, accounting standards or the 2025 Act, and comprehensive later treatment has not been verified.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, three appeals, years and litigation/takeover history

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5; 6; 7

Paragraphs: Unnumbered judicial text

Source role: reported metadata and judicial text

2.

Topic: Four additions, reference questions and High Court reasoning

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10; 11

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Real-accrual doctrine and limit on post-accrual conduct

Source url: [Open cited source](#)

Pdf pages: 12; 13; 14

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Application, later suit scope, all appeals allowed and no costs

Source url: [Open cited source](#)

Pdf pages: 15; 16; 17

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.C. Agrawal, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 17 PDF pages; SHA-256

f9650f7f90677cb87fe2a9606ceead76373bf9dd770cebc4a2e8066010485169. Original bytes preserved.

Complete unnumbered judicial text physical pages 4–17/SCR 542–555; three certificate appeals from three income-tax references covering four assessment years, with chronology and original relief checked.

Open cited source rendition

The source records the later consumer-suit decree as 20 June 1974 on pages 6 and 16 but as 23 June 1974 on page 15. The conflict is preserved and is not used to invent different proceedings.; The headnote describes a Revenue appeal in the High Court; the judicial body specifies three income-tax references and the present three certificate appeals.; The later suit's withdrawal with liberty on 27 July 1979 is part of the recorded history; the note does not portray the 1974 decree as an indefinitely subsisting final tariff determination.; The section list retains the expressly numbered certificate route. The substantive discussion applies the 1961 Act's income-accrual and accounting principles without expressly enumerating those section numbers.; The first addition contains earlier disputed balances after a railway settlement, not solely one year's newly billed increase.; The judgment recognises the State letter lacked legally binding effect; its practical relevance is not a holding that every informal government request changes a legal accrual.

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. Only the expressly identified bounded comparisons have been checked. No current-law or Income-tax Act, 2025 mapping is certified.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 17

SHA-256: f9650f7f90677cb87fe2a9606ceead76373bf9dd770cebc4a2e8066010485169

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