

Commissioner of Income Tax, Bihar-II, Patna v. Bokaro Steel Ltd., Bokaro

Civil Appeal Nos. 2544–2545 (body: 1988; jurisdiction caption: 1998) / Civil Appeal Nos. 642–648 of 1989
[1998] Supp. 3 SCR 680 | 1998-12-18

Whether receipts intrinsically linked to constructing the steel plant reduced capital cost, and whether a reversed locomotive-interest entry represented real income.

22 | 28 | 56 | 256(1)

Two-judge bench | Sujata V. Manohar, J. | G.B. Pattanaik, J.

Assessment years: 1965-66, 1966-67, 1967-68, 1968-69, 1969-70, 1970-71, 1971-72, 1972-73

Construction nexus essential; bank interest was not exempted

The receipts reduced project cost because of their actual construction nexus. The company did not appeal the separate adverse bank-interest finding, and a later book reversal alone does not negate real accrual. The report conflicts on the first appeal group's year and Rs 7,39,332/Rs 7,39,232. No separate rule for every miscellaneous receipt or current-law certification follows; comprehensive later treatment remains unverified.

01 FACTS OF THE CASE

The government-owned company was constructing and installing its steel plant and had not begun business in the relevant years. It provided contractors with quarters for construction workers, hired its plant and machinery to them for that work, and advanced construction funds on interest adjusted against contractor dues. It also charged for stones excavated from its land and used in the same project (physical pages 7–9).

A separate AY 1971-72 entry recorded interest connected with eight locomotives supplied to Hindustan Steel. The arrangement was changed to replacement by eight new locomotives and the entry was reversed in the following year. The Tribunal and High Court accepted the contractor receipts as reducing construction cost and the locomotive entry as hypothetical. Revenue appealed across the identified years. The company's adverse bank-deposit-interest finding was not appealed by it (physical pages 4–9 and 12).

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

02 DISCUSSION BY THE HON'BLE COURT

The contractor arrangements were integral to setting up the plant, rather than independent income-earning activities. Housing, machinery use and advances facilitated construction and affected the charges payable to the contractors; the receipts therefore reduced capital cost. The same reasoning applied to stones taken from the company's land for the construction (physical pages 9–12).

The Court distinguished Tuticorin's independently earned interest on temporary investment of borrowed funds. It expressly did not reopen the unappealed finding taxing this company's short-term bank-deposit interest. Mere receipt before commencement was not a blanket exemption. For the locomotives, the accepted facts were that the original interest arrangement ceased to operate from inception when the transaction was changed; no real interest income resulted. The Court did not hold that any later journal reversal can cancel income already accrued (physical pages 9–13).

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

03 JUDICIAL DECISION

Revenue's appeals were dismissed without costs, sustaining the construction-cost treatment and the finding of no real locomotive-interest income. The bank-interest tax finding remained outside the company's appeal. No depreciation calculation, complete cost schedule or fresh assessment was ordered (physical pages 9 and 13).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee on the Revenue appeals; separate bank-interest finding not challenged

Revenue appeals dismissed; no order as to costs

Final on the construction-linked receipts and identified hypothetical entry

Not all pre-commencement receipts are capital; no general exemption for deposit interest or power to erase accrual by a unilateral later reversal.

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

05 AKHB REVIEW POINT

Trace each receipt to the actual construction arrangement. Contractor invoices, advance terms, machinery use and cost adjustments matter more than the fact that the business had not opened. Separate independently invested surplus or borrowed funds from payments intrinsically linked to creating the asset.

For a claimed reversal, prove why the legal or commercial entitlement never materialised; changing a ledger entry alone is not the factual finding made here. Preserve the original ruling's capital-cost consequence rather than claiming both a full unadjusted asset cost and an excluded receipt. Later statutory and judicial developments are not comprehensively checked.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, conflicting appeal year and full year-wise questions

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: Construction arrangements, locomotive entry and unappealed bank-interest issue

Source url: [Open cited source](#)

Pdf pages: 8; 9

Paragraphs: Unnumbered judicial text

Source role: judicial text

3.

Topic: Capital-cost nexus and Tuticorin distinction

Source url: [Open cited source](#)

Pdf pages: 10; 11; 12

Paragraphs: Unnumbered judicial text

Source role: judicial text

4.

Topic: Changed locomotive transaction, amount conflict and final dismissal

Source url: [Open cited source](#)

Pdf pages: 12; 13

Paragraphs: Unnumbered judicial text

Source role: judicial text

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

Sujata V. Manohar, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 13 PDF pages; SHA-256

2d78eccdde2b758a9f200dad93778dc967c25a10f69ac55a34f271f6453689f0. Original bytes preserved.

Complete unnumbered judicial text physical pages 4–13/SCR 683–692, including all year-wise referred questions. Editorial headnote and discussed precedents distinguished.

Open cited source rendition

The judicial opening calls the first group CA 2544–2545/1988; the jurisdiction caption calls it /1998 and gives a 1997 High Court date. The year conflict is unresolved, while the separate CA 642–648/1989 group and stated assessment years are clear.; The locomotive-interest amount is Rs 7,39,332 in the referred question but Rs 7,39,232 in the concluding narrative. No corrected amount is invented.; Questions 1 and 3 for AY 1972-73 are substantially duplicated in the source. They are not treated as proof of distinct additional receipts.; The year-wise question list includes a Rs 49 miscellaneous receipt without separate detailed analysis. The note does not invent a free-standing rule for all miscellaneous project receipts.; Short-term bank interest was held taxable below and was not appealed by the assessee; the Supreme Court expressly declined to examine it anew.; The tender-form, water/electricity and grass/tree examples are from Indian Drugs and Pharmaceuticals, not additional Bokaro transactions established in this report.

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: 13

SHA-256: 2d78eccdde2b758a9f200dad93778dc967c25a10f69ac55a34f271f6453689f0

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