

Bharat Earth Movers v. Commissioner of Income Tax, Karnataka

Civil Appeal No. 9271 of 1995

[2000] Supp. 2 S.C.R. 295 | 2000-08-09

For AY 1978-79, whether the employer's provision for employees' earned leave and vacation leave was an accrued business liability eligible for deduction, or a contingent liability because encashment or retirement would occur later.

37(1) | 256(1) | 258

Three-judge bench | S.P. Bharucha, J. | R.C. Lahoti, J. | N. Santosh Hegde, J.

Assessment years: 1978-79

Historical accrual ruling; later payment condition

This appeal concerns AY 1978-79. Section 43B(f), effective 1 April 2002 and upheld in *Exide Industries* (2020), later made leave-encashment deduction subject to payment-linked rules. Preserve the applicable proviso and anti-duplication conditions; this note is not an unqualified present-law accrual-deduction statement.

[Read the reviewed 2020-04-24 final judgment: paragraphs 2 / PDF pages 13, 14, 15, 16 / judgment: paragraphs 35-42 / PDF pages 33, 34, 35, 36, 37, 38 / judgment](#)

01 FACTS OF THE CASE

The company maintained leave-encashment schemes for officers and staff. Officers earned thirty days' leave annually with accumulation capped at 240 days; staff earned eighteen days with a 126-day cap. Within those limits employees could take leave or encash it, while excess leave could not be carried forward or encashed. For AY 1978-79 the company set apart Rs. 62,25,483 for accrued leave encashment and claimed deduction (physical page 3 / SCR 297).

The Tribunal accepted the deduction. The Karnataka High Court held it contingent because an employee might take leave rather than encash it and termination or retirement was uncertain. The company appealed. Its explanation of the reserve accounted for leave salary or encashment without a double claim; the Court found substance in that explanation (physical pages 4-5 / SCR 298-299).

An earlier Supreme Court direction sought a supplementary statement from the Tribunal explaining the accounts. After sixteen months the Tribunal requested another six months. The Court refused that extension and decided on factual particulars in the assessee's earlier statement, whose correctness had not been disputed before the Tribunal or Supreme Court (physical pages 6-7 / SCR 300-301).

Source: [reported judgment / paragraphs Unnumbered opening and scheme passages; SCR 297C-298H / PDF pages 3, 4 / judgment; reported judgment / paragraphs Closing procedural/factual-source passages; SCR 300F-301C / PDF pages 6, 7 / judgment](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court distinguished uncertainty about whether liability has arisen from uncertainty about its amount or payment date. A business liability that has definitely arisen and can be estimated with reasonable certainty is not contingent merely because exact quantification or discharge will occur later. A presently accrued liability can therefore be recognised under the statutory dispensation governing the appeal (physical page 5 / SCR 299, passage beginning The law is settled).

Metal Box supported the commercial-accounting treatment of accrued liabilities under the mercantile system, including satisfactory estimation of future payments for services already rendered. A later condition that might reduce or extinguish an already accrued liability did not by itself make that liability contingent. Calcutta Co. likewise showed that difficulty of estimation does not prevent the authorities from arriving at a proper estimate (physical pages 5-6 / SCR 299-300).

The leave provision corresponded to entitlements already earned by officers and staff and remained limited by applicable accumulation ceilings. On those facts, the Court held the liability accrued rather than contingent and the provision deductible from the receipts of the relevant accounting year. This was not permission to deduct an arbitrary fund unrelated to service already rendered or an estimate incapable of reasonable support (physical page 6 / SCR 300, application passage).

On procedure, section 258 authorised a supplementary statement and Article 144 required authorities to aid the Supreme Court. The Court deplored the Tribunal's failure to comply, but proceeded on the undisputed existing facts and confined its response to an observation; it did not order a fresh remand or impose a sanction (physical pages 6-7 / SCR 300-301).

Source: [reported judgment / paragraphs Unnumbered The law is settled; Metal Box; Calcutta Co.; application; SCR 299A-300E / PDF pages 5, 6 / judgment; reported judgment / paragraphs Before parting and closing procedural passages; SCR 300F-301C / PDF pages 6, 7 / judgment](#)

03 JUDICIAL DECISION

The assessee's appeal was allowed, the High Court judgment was set aside, and the referred question was answered affirmatively in favour of the assessee. The provision proportionate to earned leave entitlement, within applicable ceilings, was deductible for AY 1978-79 under the then governing law. The outcome was final in this appeal, notwithstanding the Tribunal's earlier failure to provide the supplementary statement (physical page 6 / SCR 300).

Source: [reported judgment / paragraphs Unnumbered The appeal is allowed; SCR 300E-F / PDF pages 6 / judgment](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Appeal allowed; High Court judgment set aside; reference answered affirmatively

Final determination of the historical AY 1978-79 leave-encashment provision

A definite accrued liability, reasonably estimable and proportionate to earned leave within scheme ceilings. This historical accrual holding does not override section 43B(f), later inserted effective 1 April 2002 and upheld in Exide Industries (2020).

Source: [reported judgment / paragraphs Application and operative paragraphs; SCR 300C-F / PDF pages 6 / judgment](#)

05 AKHB REVIEW POINT

First prove what employees have earned and what the scheme obliges the employer to provide. Reconcile employee balances, accumulation ceilings, salary rates, utilisation, encashment and the reserve. The accrual analysis requires a definite obligation and a reasonable estimate; the bookkeeping label alone is insufficient. Avoid claiming the same leave cost again when it is paid.

For later years, do not turn this 1978-79 decision into an unqualified current deduction rule. Section 43B(f), inserted by the Finance Act, 2001 with effect from 1 April 2002, added a payment-linked condition for an employer's leave liability. Exide Industries (24 April 2020) upheld it and explained that the accrued nature of the liability survives while the tax-deduction timing is regulated prospectively. The historical text reproduced in Exide includes clause (f) in the first proviso for payment by the applicable section 139(1) return-filing due date and an Explanation 3B anti-duplication rule. Verify the governing year's actual statutory text and payment evidence.

The supplementary-statement criticism is a separate procedural point, not a continuing remand or an independent penalty. This note's Exide check is bounded; it does not certify all later treatment or present legislation.

Source: [reported judgment / paragraphs Scheme, accrual and procedure passages; SCR 297-301 / PDF pages 3, 4, 5, 6, 7 / judgment; bounded later authority / paragraphs 2: 35-42 / PDF pages 13, 14, 15, 16, 33, 34, 35, 36, 37, 38 / bounded later authority](#)

PROVISION-SPECIFIC SCOPE

1.

Act: Income-tax Act, 1961

Section: 37(1)

Role: Business-expenditure deduction context

Basis: The cover identifies section 37(1); the judgment decides the section 256(1) question using accrual principles on printed pages 297-300.

2.

Act: Income-tax Act, 1961

Section: 256(1)

Role: Reference procedure

Basis: Opening judicial passage on physical page 3.

3.

Act: Income-tax Act, 1961

Section: 258

Role: Supplementary statement power

Basis: Closing discussion on physical pages 6-7.

4.

Act: Constitution of India

Section: Article 144

Role: Duty to aid the Supreme Court

Basis: Tribunal non-compliance criticised in the closing discussion; no separate sanction imposed.

5.

Act: Income-tax Act, 1961

Section: 43B(f); first proviso; Explanation 3B

Role: Later statutory qualification, not part of the 2000 ruling

Basis: Exide Industries (2020), paragraph 2 and paragraphs 35-42: prospective payment condition effective 1 April 2002, including reproduced statutory saving and anti-duplication provision.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

R.C. Lahoti, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER DECISION AND LIMITS OF THE CHECK

Status: specific later statutory qualification verified

Case id: sc-2020-04-24-exide-industries

Title: Union of India & Ors. v. Exide Industries Limited & Anr.

Date: 2020-04-24

Finding: Exide upheld section 43B(f), effective prospectively from 1 April 2002. Bharat Earth Movers remains an authority on the accrued nature of leave liability under the earlier dispensation; the subsequent provision regulates deduction timing. The quoted first proviso and Explanation 3B remain material.

Pinpoints

1.

Source url: [Open cited source](#)

Paragraphs: 2

Pdf pages: 13; 14; 15; 16

Source role: judgment

2.

Source url: [Open cited source](#)

Paragraphs: 35-42

Pdf pages: 33; 34; 35; 36; 37; 38

Source role: judgment

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 7 PDF pages; SHA-256

40aa5b95d7079739f69ffd017de3f17cc7c1071f8248b3897b3a02fd2100598f. Original bytes preserved.

Editorial headnote on physical pages 1-2; jurisdiction/appearances and full unnumbered judicial text on physical pages 3-7, printed SCR pages 297-301. No numbered paragraphs appear in this rendition; pinpoints use physical/printed pages and opening words, not invented paragraph numbers.

Open cited source rendition

This rendition has unnumbered judicial paragraphs; page/column pins are used rather than importing paragraph numbers from later quotations.

The author is R.C. Lahoti, although the catalogue places an asterisk after S.P. Bharucha.

Section 37(1) is identified by the reported cover and later Exide account; the judicial body expressly identifies sections 256(1) and 258.

No costs direction appears in the bounded source; none is invented.

Exide is a bounded later-source check and overall later_treatment remains not_verified.

Reported SCR citation verified on source cover or running header. Catalogue neutral citation is not independently verified and is not adopted.

AY 1978-79 is expressly stated in the opening judicial text, physical page 3. The later section 43B(f) effective date is a subsequent-law qualification, not the year litigated in this appeal.

STATUTORY SCOPE

Historical Income-tax Act, 1961 provisions applied or discussed in this judgment; any identified later qualification is a bounded check, not a full statutory-version audit.

No automatic Income-tax Act, 2025 crosswalk, comprehensive later-treatment audit or present-law certification.

LATER TREATMENT

Source checked 2026-10-04. Subsequent judicial treatment and later statutory changes have not been comprehensively verified. Any separately identified authority is a bounded check, not a citator or current-law certificate.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 7

SHA-256: 40aa5b95d7079739f69ffd017de3f17cc7c1071f8248b3897b3a02fd2100598f

bounded later authority - PDF pages: 38

SHA-256: c714a6ebdbf3cdac88decdfc385b6c28b520a2319fa74388e68cb98d50ff5663

Related note: Union of India & Ors. v. Exide Industries Limited & Anr.

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