

Commissioner of Income Tax, Udaipur v. Hindustan Zinc Ltd.

Civil Appeal No. 1179 of 2007

[2007] 7 SCR 302 | 2007-05-18

Whether zinc-concentrate closing stock for AY 1996-97 could be written below cost using the lower international LME price instead of the domestic-price basis previously used.

Two judges | S.H. Kapadia, J. | B. Sudershan Reddy, J.

Assessment years: 1996-97

Historical inventory ruling: fact-bound evidence and later statutory changes

AY 1996-97 only. The Court rejected this LME write-down as reduced prospective profit on the auditors' evidence; it did not prohibit genuine anticipated stock losses or prescribe domestic prices universally. Later section 145/145A and ICDS changes require separate period-specific checks. The primary subsequent review order has not been authenticated. Comprehensive later treatment, current-law applicability and Income-tax Act, 2025 mapping remain not_verified.

01 FACTS OF THE CASE

Hindustan Zinc was a Government company producing zinc concentrate for captive use. For AY 1996-97, approximately 84,000 metric tonnes had accumulated. The Court records low metal content and high silica impurity, inability to consume that quantity, and the decision, made with Government permission, to explore exports. For the stock at 31 March 1996 the company adopted the international London Metallic Exchange price, described in the report as LME, which was Rs. 27.08 crores below weighted average cost. No export sale occurred in financial year 1995-96; the assessee said the goods were exported in later years (physical 4-5/SCR 305-306, paragraphs 1-2).

The Assessing Officer relied on the auditors' statement that the inventory decrease departed from the company's accounting policy and that the domestic-price basis would have increased the profit by Rs. 27.08 crores. CIT(A) partly allowed the assessee's appeal, and the Tribunal deleted the additions. The High Court considered that no substantial question of law arose, leading to Revenue's appeal (physical 4-5, paragraphs 2-4).

Revenue relied on the unchanged auditors' report, the lack of exports during the accounting year and the absence of a proper basis for changing the valuation method. The assessee argued that the stock segregated for export had no domestic buyers, was unsuitable for captive consumption and effectively required separate accounting as a new commodity. It relied on prudence, accounting standards and the anticipated-loss principle; it maintained that LME was the best realizable-value estimate at the closing date. Those submissions, including the proposed new-commodity characterization, are not findings accepted by the Court (physical 5-6/SCR 306-307, paragraphs 5-7).

Source: [reported judgment / paragraphs Paragraphs 1-7; SCR 305-307 / PDF pages 4, 5, 6 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court began with the function of closing stock in measuring the year's trading results. Drawing on *Chainrup Sampatram*, it explained that bringing unsold stock into the account balances the cost entered for goods not yet sold; closing stock is not itself a separate source of profit. The accepted prudential exception permits market value below cost where that anticipates a real loss, while an unrealized appreciation is not brought into profit (physical 7/SCR 308 A-E, paragraph 8).

British Paints supplied the corresponding distinction. If the market value at the valuation date has fallen below actual cost, a trader may recognize the loss in valuing stock. If the fall merely reduces prospective profit, it does not justify discarding cost. The Court therefore did not impose an across-the-board prohibition on below-cost valuation, or hold that every loss requires an actual sale before recognition (physical 7-8/SCR 308 F-309 A, paragraph 9).

The decisive question was the choice of LME rather than domestic realizable value for this inventory. The Court stated that international prices were lower than domestic prices at 31 March 1996 and that the assessee had previously valued zinc concentrate at domestic net realizable value. It accepted the auditors' estimate of the effect of retaining that basis, rejected the challenge to their report and noted that the report had not been rectified. On that evidence it characterized the write-down as a reduction of prospective profit rather than an anticipated loss (physical 8/SCR 309 B-D, paragraph 10).

The report uses different descriptions of the earlier basis: paragraph 1 refers to weighted average cost for captive consumption, whereas paragraph 10 refers to domestic net realizable value. The note preserves those descriptions without treating cost and domestic market value as interchangeable. The operative reasoning is the Court's assessment of the particular write-down and the auditors' unrectified report, not a universal domestic-price preference for all export inventory.

Source: [reported judgment / paragraphs Paragraphs 8-10; SCR 308-309 / PDF pages 7, 8 / judicial text](#)

03 JUDICIAL DECISION

The Tribunal erred in deleting the additions on the case as found. The Supreme Court allowed Revenue's Civil Appeal No. 1179 of 2007 and set aside the High Court's judgment, with no order as to costs. It gave no remand direction or separate recalculation instruction (physical 8/SCR 309 E, paragraph 11).

Source: [reported judgment / paragraphs Paragraph 11; SCR 309 E / PDF pages 8 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Revenue on the disputed AY 1996-97 inventory write-down

Civil Appeal No. 1179 of 2007 allowed; High Court judgment set aside; no order as to costs

Final substantive, fact-bound stock-valuation ruling; Tribunal's deletion of the additions held erroneous

No remand, no universal ban on anticipated inventory losses, no rule that domestic prices always prevail, and no present-law certification. No additional operative order or quantified demand is invented.

Source: [reported judgment / paragraphs Paragraph 11, appeal and costs / PDF pages 8 / judicial text](#)

05 AKHB REVIEW POINT

Separate a demonstrated fall below cost from a change that only lowers an expected margin. The file should establish what inventory is being valued, the relevant market, its condition, the closing-date evidence, the prior accounting basis and the auditors' findings. An intended future export and a lower international quotation do not, on this decision's findings, establish the anticipated loss needed to support the disputed write-down. The judgment nevertheless expressly recognizes the lower-of-cost-or-market principle; its result should not be expanded into a prohibition of unrealized losses generally.

A bounded later primary comparison, Woodward Governor (8 April 2009), paragraphs 14-16, reiterates that closing-date market losses may be recognized, while unrealized appreciation is not, and that legislation can modify ordinary accounting principles (physical 20-23/SCR 757-760). That case concerns exchange fluctuation and is not direct treatment of Hindustan Zinc; it reinforces why the present fact-bound result should not become a categorical cash-realization requirement.

Statutory periods matter. The retained 2011 compilation's history notes place the substituted section 145 from 1 April 1997 and the initial section 145A from 1 April 1999, both after the narrated AY 1996-97; those are historical compilation checks, not independent Gazette authentication. Official CBDT Circular 8/2018, paragraphs 39.2(v) and 39.3, subsequently describes inventory valuation at the lower of actual cost or net realizable value under the notified ICDS, with the relevant 2018 amendments effective retrospectively from 1 April 2017. The circular is administrative explanatory evidence of that later regime, not the enacted Finance Act itself or a certificate of present applicability.

No primary order in the reported subsequent review proceeding has been authenticated in this review. Comprehensive later treatment, current-law applicability and Income-tax Act, 2025 mapping remain not_verified. Before using the historical rule, check the applicable year's legislation, standards and complete later treatment.

Source: [reported judgment / paragraphs Paragraphs 8-11 / PDF pages 7, 8 / judicial text: reported judgment bounded comparison / paragraphs Paragraphs 14-16; SCR 757-760 / PDF pages 20, 21, 22, 23 / judicial text: official hosted historical statutory compilation bounded / paragraphs Selected 2011 sections 145/145A and historical footnotes, printed 1.677-1.678 / PDF pages 718, 719 / historical statutory compilation: official CBDT explanatory circular bounded / paragraphs Paragraphs 39.2\(v\), 39.3 / PDF pages 37, 38 / official administrative explanation](#)

DETAILED DISPOSITION AND CONNECTED GROUPS

Proceeding outcomes

1.

Case number: Civil Appeal No. 1179 of 2007

Outcome: Allowed; impugned High Court judgment set aside; no order as to costs

Costs: No order as to costs

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

The headnote identifies the 1961 Act and the judicial body actually decides the narrated AY 1996-97 income-tax assessment through AO, CIT(A), ITAT and High Court. No governing Act is inferred from the decision year/title alone, and no section 145 or 145A holding is fabricated.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961: actual business-income/closing-stock assessment; the judicial opinion does not identify a numbered section.

SPECIFIED STATUTORY CHECKS AND THEIR LIMITS

Status: bounded historical compilation and official explanation

Checks

1.

Source url: [Open cited source](#)

Pages actually read: 718; 719

Finding: Selected 2011 sections 145/145A and editorial notes indicate post-AY 1996-97 substitutions/insertion; not substituted for the original assessment-year law.

2.

Source url: [Open cited source](#)

Pages actually read: 1; 36; 37; 38

Finding: CBDT paragraphs 39.2(v), 39.3 explain lower-cost/NRV inventory under ICDS and retrospective 1 April 2017 application of relevant 2018 amendments.

Limit: No amending Gazette, full statute/standards, complete amendment chain, present applicability or 2025 mapping verified.

SPECIFIED LATER TREATMENT CHECKS AND THEIR LIMITS

1.

Case: Commissioner of Income Tax, Delhi v. Woodward Governor India P. Ltd.

Decision date: 2009-04-08

Relationship: later related primary comparison not direct treatment

Result: Paragraphs 14-16 recognize lower-of-cost/closing-market valuation, anticipated losses rather than anticipated profits, and legislative override of accounting principles. No direct Hindustan Zinc citation is relied on.

Source pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 20; 21; 22; 23

Paragraphs: Paragraphs 14-16

Source role: judicial text

Limit: Nine text pages and four images only; no full later judgment review or complete citator conclusion.

OTHER STATUTORY PROVISIONS AND THEIR SEPARATE SCOPE

Sections 145 and 145A appear only in the bounded later statutory comparison, not as numbered provisions adjudicated in this opinion.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 8 PDF pages; SHA-256

4e91da37d1b90e8ba4879dbc677e6f2b08735e1ba1294e7df70958d8a4875501. Original bytes preserved.

Open cited source rendition

full primary text read: True; all primary page images reviewed: False; source integrity verified: True; actual statutory scope verified: True; later treatment comprehensive: not_verified; current law status: not_verified; statutory mapping 2025: not_verified

Printed SCR identity, date and bench verified against material page images. Frozen catalogue INSC identifier is not independently authenticated in this rendition.

Paragraph 2 visibly prints 1996097 once, then expressly 1996-97; the accounting-year end is repeatedly 31 March 1996. The note does not silently treat the malformed number as a distinct year.; Paragraph 1 describes prior weighted average cost, while paragraph 10 describes domestic net realizable value. Both source statements are preserved without manufacturing a numerical reconciliation.; Physical 7, paragraph 8, contains a grammatically incomplete reproduction of the stock-balancing explanation; the note paraphrases the coherent principle and does not repair the source PDF or present an invented quotation.; LME is expanded in the report as London Metallic Exchange with spelling variants; no commodity-price series or real-world benchmark accuracy was independently verified.; The auditors' report, accounting standards, departmental circular mentioned by counsel, later export documents and earlier cited judgments are reviewed only as narrated here unless separately listed.; Woodward Governor is a related later comparison, not an identified citation of this judgment. The primary order in the reported review proceeding has not been authenticated; no affirmative review-disposal claim is relied on.; DOR 2011 is a historical selected-version compilation with editorial history footnotes. CBDT Circular 8/2018 is an official administrative explanation, not an enacted Gazette or present statutory consolidation.

Paragraph 2 expressly identifies AY 1996-97 and the accounting year ending 31 March 1996. Its first occurrence is misprinted 1996097; the same paragraph and the narrated accounting dates resolve the intended year.

Appeal from Rajasthan High Court, Jodhpur, judgment dated 14 November 2005 in D.B. Income Tax Appeal No. 25 of 2003; physical 3/SCR 304 G. No companion appeal is listed.

STATUTORY SCOPE

No Income-tax Act, 2025 crosswalk or automatic carryover. Full amendment history, commencement, savings and case-specific present applicability have not been verified.

LATER TREATMENT

Source checked 2026-10-05. Bounded later primary comparisons are separately recorded. None is represented as a comprehensive citator check or as direct treatment where none was identified.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 8](#)

SHA-256: 4e91da37d1b90e8ba4879dbc677e6f2b08735e1ba1294e7df70958d8a4875501

[reported judgment bounded comparison - PDF pages: 33](#)

SHA-256: 895e612599df7f204b19fb57b298a369f6db4a636a4bfd57976f752dc3d21e3

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

SHA-256: 1ec6e4c38dc1d524d1d40b1fd35d13ac1336c8fc549cef2af1bf723a999c822b

[official CBDT explanatory circular bounded - PDF pages: 42](#)

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