

Commissioner of Income Tax, Chennai v. M/s Bilahari Investment (P) Ltd.

Civil Appeal No. 1625 of 2008 / Civil Appeal Nos. 1626–1632 of 2008

[2008] 3 SCR 477 | 2008-02-27

Whether, for the chit-discount issue still in dispute, Revenue could substitute proportionate spreading for the completed-contract method previously accepted from these assessees.

Two-judge bench | S.H. Kapadia, J. | B. Sudershan Reddy, J.

Assessment years: 1991-92, 1992-93, 1993-94, 1994-95, 1995-96, 1996-97, 1997-98

Chit discount only; method and factual limits matter

The Revenue appeals failed on chit discount because the accepted method was not shown to distort profits and the supplied computations were revenue-neutral. The assessees had already accepted the contrary treatment of chit dividend. Future accounting-standard questions were expressly left open, and the reporter's section 211(2) label belongs to the Companies Act. The later Taparia comparison limits overreading of quoted matching language; current law and comprehensive later treatment remain unverified.

01 FACTS OF THE CASE

The assessee companies subscribed to chits as a business activity and maintained mercantile accounts, historically computing the chit result at the end of its period under the completed-contract method. Revenue had accepted that method over several years. For AYs 1991-92 through 1997-98 it sought proportionate recognition/spreading, describing the treatment as deferred revenue expenditure or percentage completion (paragraphs 2–8).

Two matters must be separated. The assessees had accepted the Tribunal/High Court conclusion against the completed-contract treatment of chit dividend, so that controversy was settled. The High Court had ruled for them only on the remaining chit-discount issue, and the Revenue's appeals brought that limited issue to the Supreme Court (paragraphs 9–11).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court explained that income can be identified through different accounting methods. Completed-contract accounting accumulates costs and recognises the result on completion; percentage-completion accounting seeks periodic recognition according to the stage of completion. These descriptions framed the choice presented, rather than prescribing one method for all businesses (paragraphs 15–18).

For these assesseees, the Assessing Officer had made no finding that the accepted completed-contract method distorted a particular year's profit. The chit scheme was an integrated arrangement over time, and the computations produced before the Court showed the proposed change to be revenue-neutral. Prior acceptance, absence of demonstrated distortion and the actual tax-effect statements supported leaving the High Court's result intact (paragraphs 19–20).

Revenue's reliance on newer accounting concepts and AS 22 did not lead to their application in this batch. The Court expressly left consideration of those standards in future chit cases open, without expressing an opinion on that future question (paragraph 21).

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

03 JUDICIAL DECISION

The eight Revenue appeals were dismissed without costs, subject to the express reservation concerning future accounting-standard questions. The High Court's rejection of compulsory proportionate spreading of the chit discount stood. No remand was ordered, and the already accepted chit-dividend treatment was not reopened (paragraphs 9–11 and 21–22).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assesseees on the remaining chit-discount issue

Revenue's batch of eight appeals dismissed; no costs

Final for the identified chit-discount controversy in this batch; dividend treatment was settled separately

Depends on the consistently accepted method, absence of a distortion finding and revenue-neutral computations. It does not permit deferring every receipt, override an applicable statutory rule or decide future AS 22/accounting-standard issues.

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

05 AKHB REVIEW POINT

First isolate the income or expenditure item and what remains contested. Bilahari supports the particular accepted chit-discount method on the record before the Court; citing its method-consistency language to defer all chit dividends would contradict paragraphs 9–11. Preserve a year-by-year computation and evidence addressing distortion rather than relying on consistency alone.

The source quotes the Bombay High Court's Taparia Tools discussion of matching. A separately checked Supreme Court comparison, Taparia Tools (23 March 2015), paragraphs 12–21, holds that the statutory entitlement to the claimed upfront-interest deduction could not be denied merely because the books spread it over time, and rejects the lower courts' contrary result. This comparison cautions against turning the quoted matching discussion into a universal compulsory-spreading rule. It is not a finding that Taparia expressly overruled Bilahari's chit-discount holding; the actual statutory provision and facts remain controlling.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity, eight appeals and historical years

Source url: [Open cited source](#)

Pdf pages: 1; 4; 5

Paragraphs: Cover; report list; 1–4

Source role: reported metadata and judicial text

2.

Topic: Scheme and proposed accounting substitution

Source url: [Open cited source](#)

Pdf pages: 5; 6; 7

Paragraphs: 4–8

Source role: judicial text

3.

Topic: Dividend concession and discount-only scope

Source url: [Open cited source](#)

Pdf pages: 7

Paragraphs: 9–12

Source role: judicial text

4.

Topic: Revenue-cited embedded authorities

Source url: [Open cited source](#)

Pdf pages: 8; 9; 10; 11

Paragraphs: 13–14

Source role: judicial text containing quoted authorities

5.

Topic: Method distinction and factual basis

Source url: [Open cited source](#)

Pdf pages: 11; 12

Paragraphs: 15–20

Source role: judicial text

6.

Topic: Correct Act attribution, future standards reservation and disposal

Source url: [Open cited source](#)

Pdf pages: 12; 13

Paragraphs: 21–22

Source role: judicial text

7.

Topic: Later comparison on statutory deduction versus book spreading

Source url: [Open cited source](#)

Pdf pages: 12; 13; 14; 15; 16; 17; 18; 19

Paragraphs: 12–21

Source role: bounded later judicial comparison

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

Accounting methods under the 1961 act: Income computation/chit-discount controversy; no numbered 1961-Act accounting-method provision is expressly construed in the judicial text. No unverified section number has been assigned.

Section 211(2): Companies Act reference in paragraph 21, not section 211 of the Income-tax Act; the reporter heading misattributes the Act.

JUDICIAL AUTHORSHIP AND SEPARATE OPINIONS

S.H. Kapadia, J.

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SPECIFIED LATER COMPARISONS AND THEIR LIMITS

1.

Kind: bounded later judicial comparison

Source url: [Open cited source](#)

Pdf pages: 12; 13; 14; 15; 16; 17; 18; 19

Paragraphs: 12–21

Finding: Supreme Court Taparia Tools (2015) rejected compulsory spreading of the upfront-interest deduction claimed under the applicable statutory provision and held that book treatment was not conclusive.

Limit: Bounded editorial comparison to the matching discussion quoted in Bilahari; no claim that Bilahari was expressly overruled or that all later accounting/statutory developments were audited.

SOURCE & VERIFICATION

Hon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 13 PDF pages; SHA-256

18e9c3922bb864ee22d695b630bc19f2e075ccf7f34c5594ef78b6d0ce247c46. Original bytes preserved.

Judicial paragraphs 1–22 on physical pages 5–13 (SCR 481–489). Pages 1–4 and upper page 5 are reporter/editorial material. Paragraph 12 is the assessee's case; paragraphs 13–14 introduce Revenue-cited extracts from Taparia Tools (Bombay HC) and J.K. Industries, with nested quotations distinguished. No adjacent judgment.

Open cited source rendition

The batch range is expressly stated; no individual appeal-to-year allocation is supplied.

The live dispute was chit discount. Paragraph 10 records the assessee's acceptance of the adverse chit-dividend treatment; the note must not treat the entire chit accounting position as an assessee win.; The reporter heading on page 1 labels section 211(2) as an Income-tax Act provision, but judicial paragraph 21 identifies the Companies Act. No income-tax section 211 holding is attributed.; Paragraphs 13–14 contain long quoted authorities, including a nested headnote quotation, introduced through Revenue's submissions. They must not be presented wholesale as new standalone holdings of this Court.; The judicial text uses percentage-completion and deferred-revenue-expenditure terminology for the proposed proportionate treatment. Those labels are not treated as universally interchangeable accounting standards.; The Court states revenue neutrality after examining the statements before it; this note does not reconstruct unavailable numerical schedules or assert neutrality for another taxpayer/year.

STATUTORY SCOPE

Current statutory equivalence and 2025 Act applicability have not been verified.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent judicial or statutory audit. The independently checked comparisons below are bounded and separate from the original holding; no current-law or 2025-Act certification.

IDENTIFIED SOURCE LINKS

reported judgment - PDF pages: 13

SHA-256: 18e9c3922bb864ee22d695b630bc19f2e075ccf7f34c5594ef78b6d0ce247c46

bounded comparison judgment - PDF pages: 19

SHA-256: 720994cb2941788d499e5c145b8d735f33da2330c5d7ea5313d6682b7877f2d3

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AI-assisted research checked against the identified source. Extraction, interpretation or omission errors remain possible. Source review does not mean independent approval by a practising professional. Verify every material statement against the complete original judgment.

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