

Commissioner of Income Tax-IV, Delhi v. M/s HCL Comnet Systems & Services Ltd.

Civil Appeal No. 5800 of 2008

[2008] 13 SCR 837 | 2008-09-23

Whether a provision against doubtful receivables could be added back as an unascertained-liability provision under the then section 115JA Explanation (c).

115JA(2) Explanation (c)

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

Assessment years: 1997-98

Historical liability clause; later asset-diminution amendment

This AY 1997-98 ruling rejects only the liability-provision add-back under the then section 115JA Explanation (c). CBDT Circular 5/2010 records later retrospective asset-diminution clauses from AY 1998-99 (115JA) and AY 2001-02 (115JB); those dates must not be conflated with this case's year. Judicial text uses Rs.92,15,187, unlike the reporter narrative's Rs.95,15,187. Current law and comprehensive later treatment remain unverified.

01 FACTS OF THE CASE

For AY 1997-98, the assessee traded in data-communication equipment and provided satellite-communication services. Its profit-and-loss account contained a debit of Rs.92,15,187 on account of bad debts. The Assessing Officer treated it as a provision for bad and doubtful debts and added it to book profit under section 115JA Explanation (c). The CIT(A), Tribunal and Delhi High Court rejected the addition, and Revenue appealed (paragraphs 2–5).

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

02 DISCUSSION BY THE HON'BLE COURT

The Court applied the historical MAT computation and the limited adjustment powers explained in Apollo Tyres. The Assessing Officer could examine compliance of the accounts with the Companies Act and make the adjustments authorised by the statutory Explanation, but could not otherwise reconstruct the net profit shown in compliant accounts (paragraphs 6–9).

Clause (c) required a provision for meeting a liability that was unascertained. All those ingredients had to be satisfied. A debt owed by the company and a debt receivable by it were different. This provision covered probable diminution in a receivable asset; irrecoverability did not create a liability payable by the assessee. The provision therefore fell outside the particular liability clause invoked by the Assessing Officer (paragraph 10).

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

03 JUDICIAL DECISION

Revenue's appeal was dismissed without costs. The Rs.92,15,187 provision could not be added back under the then Explanation (c) to section 115JA on these facts. No remand or separate ordinary-income bad-debt deduction was decided (paragraphs 10–11).

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

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Revenue appeal dismissed; no costs

Final on the specified clause (c) MAT add-back for AY 1997-98

The judgment construed an unascertained-liability clause, not the later asset-diminution clauses. It does not exempt every bad-debt provision under every statutory version or decide deductibility under ordinary income computation.

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

05 AKHB REVIEW POINT

Identify what the provision covers before applying a MAT add-back: impairment of money receivable is not, by itself, a provision to pay a liability. The result is tied to the wording of the clause actually invoked. It is not a general rule that audited provisions are immune from every statutory adjustment.

The independently checked CBDT Circular 5/2010, paragraphs 40.1–40.4, explains the Finance (No. 2) Act, 2009 additions for asset-diminution provisions: section 115JA Explanation (g) from AY 1998-99 and section 115JB Explanation 1(i) from AY 2001-02, both retrospectively. HCL's AY 1997-98 precedes the stated section 115JA commencement. Do not describe that amendment as reversing this specific assessment-year outcome, or carry the old clause (c) result into years governed by the added clause without analysis.

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

PROPOSITION-SPECIFIC SOURCE PARAGRAPHS AND PDF PAGES

1.

Topic: Identity and reporter/judicial amount discrepancy

Source url: [Open cited source](#)

Pdf pages: 1; 2; 3; 4

Paragraphs: Cover; reporter narrative; 1–4

Source role: reported metadata and judicial text

2.

Topic: Facts, year and proceedings

Source url: [Open cited source](#)

Pdf pages: 3; 4

Paragraphs: 2–5

Source role: judicial text

3.

Topic: Historical text and restricted adjustment power

Source url: [Open cited source](#)

Pdf pages: 4; 5; 6; 7; 8

Paragraphs: 6–9

Source role: judicial text

4.

Topic: Receivable asset versus liability

Source url: [Open cited source](#)

Pdf pages: 8; 9

Paragraphs: 10

Source role: judicial text

5.

Topic: Operative dismissal

Source url: [Open cited source](#)

Pdf pages: 9

Paragraphs: 11

Source role: judicial text

6.

Topic: Later retrospective asset-diminution clauses and effective years

Source url: [Open cited source](#)

Pdf pages: 42; 43

Paragraphs: 40.1–40.4

Source role: official bounded statutory explanatory circular

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

115ja(2) explanation (c): Historical liability-provision add-back for AY 1997-98; subsequent asset-diminution clauses were not before the Court

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 statutory explanatory comparison

Source url: [Open cited source](#)

Pdf pages: 42; 43

Paragraphs: 40.1–40.4

Finding: CBDT explains asset-diminution add-backs under section 115JA Explanation (g) and section 115JB Explanation 1(i), retrospectively from AYs 1998-99 and 2001-02 respectively. HCL concerns AY 1997-98.

Limit: Explanatory circular checked; this is not a comprehensive amendment-history, subsequent-case or present-law audit.

SOURCE & VERIFICATION

[Hon'ble Supreme Court source PDF \(reported judgment\)](#)

Identified source rendition: 9 PDF pages; SHA-256

11b74d6e329149dff4adb5348f0143a50fd913a63fdb235f0970742c13cba536. Original bytes preserved.

Judicial paragraphs 1 (unnumbered leave grant)–11 on physical pages 3–9 (SCR 839–845). Pages 1–2 and upper page 3 are reporter/editorial material. Paragraph 6 quotes historical legislation; paragraph 8 quotes Apollo Tyres. No adjacent judgment.

[Open cited source rendition](#)

The reporter narrative on pages 1–2 states Rs.95,15,187, while judicial paragraphs 2, 4 and 10 consistently state Rs.92,15,187. The note follows the judicial text; no silent harmonisation of the headnote amount.; The judicial text's shorthand describing item (c) as referring to doubtful debt must be read with the actual clause it quotes: provisions for liabilities other than ascertained liabilities.; Apollo Tyres is embedded quoted authority, not a separate case newly reviewed here.; The historical 30% deemed-income mechanism and six listed add-backs are not current MAT rates or an exhaustive list for later statutory versions.

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: 9](#)

SHA-256: 11b74d6e329149dff4adb5348f0143a50fd913a63fdb235f0970742c13cba536

[official bounded statutory explanatory circular - PDF pages: 63](#)

SHA-256: ff5bec3a925019cd8bbcc09d7578e6cdcd202b8b3877852b156d6be76bceca9

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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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