

Assistant Commissioner of Income Tax, Vadodara v. Elecon Engineering Co. Ltd.

Civil Appeal Nos. 2057-2065 of 2010

[2010] 3 SCR 108 | 2010-02-26

Historical section 43A treatment of rollover premium paid on forward contracts covering foreign-currency loans used to acquire fixed assets

Income-tax Act, 1961: sections 32, 36(1)(iii), 37, 43(1), and historical section 43A with Explanation 3

Two-judge bench; judgment delivered by S. H. Kapadia, J. | S. H. Kapadia, J. | H. L. Dattu, J.

Historical section 43A text

The ruling distinguishes the pre-Finance Act, 2002 year-end adjustment rule from the substituted actual-payment rule; verify the applicable assessment-year text.

01 FACTS OF THE CASE

Elecon, a manufacturer of gears and mechanical-handling equipment, obtained a foreign-currency loan for business expansion and booked forward contracts with Citibank to secure currency for scheduled instalments. The unutilised balance was rolled forward until later instalments, generating rollover premium of Rs 8,86,280 in the lead AY 1986-87. The Assessing Officer treated the charge as connected with plant and machinery, the CIT(A) allowed it as a revenue item, the Tribunal required capitalisation under Explanation 3 to section 43A, and the Gujarat High Court reversed the Tribunal.

Source: [Primary judgment: facts and procedural history](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court held that the loan purpose controls whether an exchange difference is capital. Because the relevant contract and correspondence were not produced, it proceeded on the basis that the ICICI loan financed plant and machinery. Under the historical section 43A, exchange movements adjusted actual cost at each year-end on the entire outstanding liability, not only instalments paid. Explanation 3 brought gains or losses under a forward contract into that computation. The accounts recorded adverse exchange fluctuations, and the Court rejected the contention that rollover charges were merely interest-like holding charges disconnected from currency movements. Rollover charges relating to fixed assets were to be debited or credited to those assets; charges unrelated to fixed assets went to profit and loss.

Source: [Primary judgment: section 43A reasoning and application](#)

03 JUDICIAL DECISION

The Court restored the Tribunal approach: the fixed-asset rollover charges were capitalised under Explanation 3 to historical section 43A. It rejected further directions on depreciation because the Tribunal had already allowed depreciation on the adjusted cost, and refused to direct relief from interest or penalty.

Source: [Primary judgment: application and ancillary submissions](#)

04 OUTCOME / IN WHOSE FAVOUR

The Department's connected civil appeals were allowed, the Gujarat High Court judgment was set aside and there was no order as to costs. The judgment did not disturb the Tribunal's depreciation allowance on the adjusted fixed-asset cost.

Source: [Primary judgment: operative order](#)

05 AKHB REVIEW POINT

AKHB analysis: first trace the foreign-currency liability to the asset or business activity it financed. For a historical section 43A year, separate fixed-asset rollover differences from charges connected with working capital, retain the Court's factual-assumption caveat, and compute depreciation consistently with the adjusted cost. Do not transpose the old year-end rule to periods governed by the substituted actual-payment text.

Source: [Primary judgment: purpose, timing and classification framework](#)

SOURCE & VERIFICATION

[Supreme Court Reports scan - public eSCR mirror](#)

Complete 15-page Supreme Court Reports rendition, including the lead matter, connected-appeal identification and the operative allowance of the Revenue appeals.

[Open cited source rendition](#)

The complete 15-page report was read and its SHA-256 matched the reconciliation catalogue.

The lead assessment year, connected appeals, fixed-asset assumption, historical statutory distinction and operative order were checked against the judicial text.

The Court proceeded on the fixed-asset purpose because the assessee had not produced the relevant contract and correspondence; that factual assumption is retained.

STATUTORY SCOPE

The Court expressly applied section 43A as it stood before its substitution by the Finance Act, 2002. Under the substituted provision the timing rule changed to actual payment. This note is not a current-law computation opinion.

LATER TREATMENT

Source checked 2026-10-12. Later treatment has not been comprehensively checked. The related Wipro Finance note in the AKHB corpus records a later factual distinction where the foreign-currency borrowing financed a lending business rather than acquisition of an overseas asset by that assessee. No citator clearance is represented.

[Related note: Wipro Finance Ltd. v. Commissioner of Income Tax](#)

AI DISCLOSURE

This AKHB research note was prepared with AI assistance from the identified primary report and has not been represented as independently human-reviewed.

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