

Indo Rama Synthetics (India) Limited v. Commissioner of Income Tax, New Delhi

Civil Appeal No. 33 of 2011

[2011] 1 SCR 853 | 2011-01-05

MAT book profit: whether differential depreciation withdrawn from a revaluation reserve could reduce book profit under the former clause (i) of the Explanation to section 115JB(2)

Income-tax Act, 1961: section 115JB(2), Explanation clause (i) and proviso, as applicable to AY 2001-02 | Companies Act, 1956: sections 210 and 211; Schedule VI | Accounting Standards 6 and 10

Three-judge bench; judgment delivered by S. H. Kapadia, C.J. | S. H. Kapadia, C.J. | K. S. Panicker Radhakrishnan, J. | Swatanter Kumar, J.

Historical MAT text

The decision applies the clause (i) proviso and accounting framework relevant to AY 2001-02; it is not a current section 115JB computation certificate.

01 FACTS OF THE CASE

Indo Rama revalued fixed assets at 31 March 2000, adding Rs 288.58 crore to asset cost and creating an equal revaluation reserve without increasing profit. For AY 2001-02 it charged depreciation of Rs 127.57 crore, then transferred Rs 26.11 crore of differential depreciation from the reserve and credited that amount in the profit and loss account. The Assessing Officer refused to reduce book profit by that amount; the CIT(A), Tribunal and Delhi High Court agreed.

Source: [Primary judgment: facts](#)

02 DISCUSSION BY THE HON'BLE COURT

The Court treated section 115JB as a self-contained code for book-profit computation. A reserve withdrawal could reduce net profit only if it was credited to the profit and loss account in the statutory sense, and the proviso additionally required the reserve to have increased book profit when created. Here, the revaluation reserve was a balance-sheet equalisation entry. Recouping differential depreciation was a contra adjustment that did not effectively increase net profit. Allowing the reduction would convert a loss shown after full depreciation into a reported profit while producing the kind of artificial presentation the MAT regime sought to address.

Source: [Primary judgment: statutory framework and reasoning](#)

03 JUDICIAL DECISION

Because neither the Rs 288.58 crore reserve nor the later Rs 26.11 crore withdrawal had increased book profit when the reserve was created, the proviso to clause (i) prevented the claimed reduction. The later entry also lacked the effective profit-and-loss impact required by the main clause. The Assessing Officer's add-back was upheld.

Source: [Primary judgment: holding](#)

04 OUTCOME / IN WHOSE FAVOUR

The assessee's civil appeal was dismissed with no order as to costs. No reduction of book profit was allowed for the differential-depreciation amount withdrawn from the revaluation reserve.

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

05 AKHB REVIEW POINT

AKHB analysis: for a historical reserve withdrawal, trace both sides of the entry. Confirm whether creation of the reserve increased book profit in the creation year and whether the later credit genuinely affected net profit rather than merely offsetting an enhanced depreciation charge. Do not transpose this AY 2001-02 analysis without checking the later statutory and accounting framework.

Source: [Primary judgment: application to reserve and depreciation entries](#)

SOURCE & VERIFICATION

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

Complete 19-page Supreme Court Reports rendition, including the full 25-paragraph judgment and operative dismissal.

[Open cited source rendition](#)

The complete 19-page report was read and its SHA-256 matched the reconciliation catalogue.

The AY, amounts, statutory wording, bench and operative dismissal were checked against the judicial text rather than inferred from the headnote.

STATUTORY SCOPE

The Court applied section 115JB and its Explanation as they stood for AY 2001-02. Later amendments, accounting standards and Companies Act changes require separate verification before current use.

LATER TREATMENT

Source checked 2026-10-12. Later judicial treatment and present-law application have not been comprehensively checked. No citator or current-law clearance is represented.

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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