

Commissioner of Income Tax-Gujarat-II v. Kwaliti Steel Suppliers Complex

Civil Appeal No. 815 of 2007 / Civil Appeal No. 4923 of 2007

[2017] 3 SCR 1022 | 2017-03-21

Whether the Commissioner could use section 263 to require market-price valuation of closing stock when a two-partner firm dissolved on one partner's death but the surviving partner continued the business, and the Assessing Officer had accepted cost valuation.

263

Two-judge bench | A. K. Sikri, J. | Ashok Bhushan, J.

Assessment years: 1993-94

Continuing business and permissible assessment view

The section 263 result concerns cost valuation where the business continued after the firm dissolved on a partner's death. It is not a rule for final business closure or immunity for an unsustainable assessment. Reproduction of Explanation 2 is not a finding on its retrospective application. Current statutory versions and later treatment remain unverified.

01 FACTS OF THE CASE

A registered firm selling scrap of ship materials had two partners, a mother and son. The mother's death dissolved the firm on 1 February 1993, but the son inherited her share and continued the business. The return for assessment year 1993-94 valued closing stock at cost; the Assessing Officer accepted this in the section 143(3) assessment dated 24 February 1995 (paragraphs 1 and 16; physical pages 4 and 11).

Invoking A.L.A. Firm, the Commissioner took the view that dissolution required market-value stock accounting, proposed an uplift based on average gross profit and, by order dated 20 March 1997, set aside the assessment with directions for a fresh order. The Tribunal upheld revision. The Gujarat High Court reversed it under section 260A. Revenue's two appeals reached the Supreme Court, which treated the validity of section 263 revision as the controlling issue (paragraphs 1-5; physical pages 4-5).

Source: [reported judgment / paragraphs 1-5; partnership, assessment year, valuation and procedural history / PDF pages 4, 5 / judicial text](#); [reported judgment / paragraphs 16; son inherited mother's share and continued business / PDF pages 11 / judicial text](#)

02 DISCUSSION BY THE HON'BLE COURT

Section 263 requires both an erroneous assessment order and prejudice to Revenue. The Commissioner must apply his mind to those conditions and cannot exercise an appellate power merely because he prefers another approach. Drawing on Malabar Industrial and the other authority cited in the judgment, the Court explained that an Assessing Officer's legally permissible course, or one of two possible sustainable views, does not become revisable solely because it produces less revenue. An unsustainable view remains distinct from a permissible one (paragraphs 7-11; physical pages 7-10).

The Court therefore examined whether accepting cost valuation was plausible on these facts. It read A.L.A. Firm in its business-closure setting, where stock and other assets must be realised and no future accounting adjustment is available. Here dissolution by operation of law did not terminate the business: the surviving son continued it, and there was no occasion to sell the assets and stock to close operations (paragraphs 12-16; physical pages 10-11).

The discussion of Sampatram and Sakthi Trading explained why closing stock balances the cost of unsold purchases, rather than ordinarily recognising unrealised appreciation as profit in a continuing business. Against that background, the Assessing Officer's acceptance of book/cost value was plausible and permissible. The Commissioner therefore lacked a basis for revision under section 263 (paragraphs 17-20; physical pages 11-13).

Source: [reported judgment / paragraphs 7-11; twin conditions, permissible view and revision/appeal distinction / PDF pages 7, 8, 9, 10 / judicial text](#); [reported judgment / paragraphs 12-20; closure contrasted with continuing business; stock-accounting rationale / PDF pages 10, 11, 12, 13 / judicial text](#)

03 JUDICIAL DECISION

The Court upheld the High Court's order setting aside the Commissioner's revision and dismissed both Revenue appeals with costs. It did not order a new valuation or remand (paragraphs 20-21; physical page 13).

Source: [reported judgment / paragraphs 20-21 / PDF pages 13 / judicial text](#)

04 OUTCOME / IN WHOSE FAVOUR

In whose favour: Assessee

Civil Appeal Nos. 815 and 4923 of 2007 dismissed with costs; High Court's setting aside of revision sustained

Final determination that the cost-valuation view was permissible on the continuing-business facts and section 263 revision could not stand

The holding does not abolish market-value accounting when a business actually closes, nor protect an unsustainable assessment view merely because the Commissioner disagrees. Companion-appeal particulars are not supplied separately.

Source: [reported judgment / paragraphs 20-21; appeals dismissed with costs / PDF pages 13 / judicial text](#)

05 AKHB REVIEW POINT

Separate the legal dissolution of a firm from the commercial closure of its business. Record who continued the activity, whether stock remained in that activity, and whether assets were being realised on cessation. Then test the original assessment against both section 263 conditions; a revenue shortfall alone is insufficient where the chosen view is legally sustainable. The source reproduces Explanation 2 but does not decide its temporal operation or any independent failure-to-inquire issue, so this decision should not be used as an across-the-board shield against revision under later statutory versions.

Source: [reported judgment / paragraphs 6; reproduced Explanation 2, without separate temporal ruling / PDF pages 6, 7 / judicial text](#); [reported judgment / paragraphs 9-20; sustainable view and continuing-business limits / PDF pages 9, 10, 11, 12, 13 / judicial text](#)

DETAILED DISPOSITION AND CONNECTED GROUPS

Issue results

1.

Issue: Continuing-business stock valuation

Result: Acceptance of book/cost value was a plausible and permissible view because the business continued after dissolution

In whose favour: Assessee

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 11; 12; 13

Paragraphs: 15-20

Source role: judicial text

2.

Issue: Section 263 revisional jurisdiction

Result: Commissioner could not revise merely to substitute market-value treatment; both Revenue appeals dismissed with costs

In whose favour: Assessee

Pinpoints

1.

Source url: [Open cited source](#)

Pdf pages: 13

Paragraphs: 20-21

Source role: judicial text

ADDITIONAL STATUTORY CONTEXT, NOT SEPARATE HOLDINGS

143(3); 260A; 119; 120; 129; 144A

ACT IDENTIFIED IN THE REVIEWED SOURCE

Income-tax Act, 1961

SOURCE & VERIFICATIONHon'ble Supreme Court source PDF (reported judgment)

Identified source rendition: 13 PDF pages; SHA-256

feba7fc9fb967ab21b6babcd4a35479d8255b2bcbcd295e08fbf8403c64e653. Original bytes preserved.

Judgment paragraphs 1-21 occupy physical pages 4-13 (SCR 1025-1034). Physical pages 1-3 contain editorial headnote, case references, reported identity, jurisdiction and appearances; page 3 introduces the judgment but contains no numbered judicial reasoning.

Open cited source rendition

Paragraph 1 identifies assessment year 1993-94 and financial year 1992-93 for the narrated dispute. No separate assessment year or factual narrative is supplied for companion Civil Appeal No. 4923 of 2007.

The reported rendition introduces the following judgment of the Court and labels it JUDGMENT without attributing authorship to an individual judge. No author is inferred from the bench order.

Section 263 is the substantive revision provision decided. Sections 143(3) and 260A describe the original assessment and High Court appeal; sections 119, 120, 129 and 144A appear only within the reproduced section 263 text. Explanation 2 is reproduced without a separate applicability or retrospectivity ruling. Section 145 is not cited as a separately adjudicated provision.

The preserved eSCR-reported PDF from the public mirror is the source read; no independently retrieved signed-original hash is claimed.; The local source SHA-256, byte count and physical-page count match the consolidated source index. A fresh web-tool open of the public mirror URL failed during this pass, so present online availability is not certified.; Editorial headnotes are separated from judicial text. Paragraph and physical PDF-page pins refer to the reported judicial text, except identified metadata pins.; Paragraph 1 prints a closing-stock figure of Rs.12 crores, an average gross-profit uplift of 15%, and a resulting addition of Rs.1.82 crores. Those printed figures do not exactly arithmetically reconcile; the note does not silently correct or rely on that calculation.; No individual judgment author is identified in the preserved reported judicial text.; The report lists a companion appeal but gives one substantive factual narrative and one assessment year; separate companion details are not inferred.; The section 263 text reproduced by the judgment includes Explanation 2. Reproduction alone is not treated as a ruling on its applicability to the 1993-94 assessment or retrospectivity.

STATUTORY SCOPE

Historical assessment-year dispute under the Income-tax Act, 1961. No current-law certification or automatic mapping to the Income-tax Act, 2025.

LATER TREATMENT

Source checked 2026-10-04. No comprehensive subsequent-treatment audit has been performed. References to earlier authorities below describe their treatment within this judgment, not an independent cross-judgment verification.

IDENTIFIED SOURCE LINKSreported judgment - PDF pages: 13

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