

The Commissioner of Income Tax, Bombay Presidency - - *Appellant*

v.

The Ahmedabad New Cotton Mills Company, Limited - - *Respondents*

FROM

THE HIGH COURT OF JUDICATURE AT BOMBAY.

JUDGMENT OF THE LORDS OF THE JUDICIAL COMMITTEE OF THE
PRIVY COUNCIL, DELIVERED THE 4TH NOVEMBER, 1929.

Present at the Hearing :

LORD BUCKMASTER.

VISCOUNT DUNEDIN.

LORD TOMLIN.

SIR GEORGE LOWNDES.

SIR BINOD MITTER.

[*Delivered by LORD BUCKMASTER.*]

The question submitted for the opinion of the High Court is in the following terms : “ When the opening and closing stocks ” —their Lordships think that there ought to be introduced “ of a business ”—“ are both undervalued, whether the real profits of the company of a particular year can be ascertained by merely raising the valuation of the closing stock, not taking into consideration the similar undervaluation of the opening stock ” ; and the answer is that, in the opinion of the Board, they cannot.

The method of introducing stock into each side of a profit and loss account for the purpose of determining the annual profits is a method well understood in commercial circles and does not necessarily depend upon exact trade valuations being given to each article of stock that is so introduced. The one thing that is essential is that there should be a definite method of valuation

adopted which should be carried through from year to year, so that in case of any deviation from strict market values in the entry of the stock at the close of one year it will be rectified by the accounts in the next year. It may, of course, be that in so adjusting the figures of stock there may be special cases in which the valuation is so treated as justly to cause it to be open to dispute. But their Lordships have nothing whatever to do with that in this particular case. They are asked to answer a perfectly simple question which, upon the face of it, in the opinion of the Board, should answer itself. If the method of altering both valuations is not adopted it is perfectly plain that the profit which is brought forward is not the real one. It may be more or it may be less, but it has no relation to the true profit if the stock is valued on one basis when it goes out without considering the value of the stock when it comes in. When, therefore, there is undervaluation at one end, the effect is to cause both a smaller debit in respect of the stock introduced into the next account and a larger sum for profits realised by the sale, change in market values being immediately reflected in the price obtained for the goods that are sold; in these circumstances to contend that there should be undervaluation at one end and not at the other is to raise an argument which their Lordships cannot accept.

Further, Section 13 of the Indian Income Tax Act, 1922, says: "Income, profits and gains shall be computed for the purposes of Sections 10, 11 and 12 in accordance with the method of accounting regularly employed by the assessee." Of course, that must be the method regularly and properly employed by the assessee, and it has never been suggested here that this has not been the method regularly employed, nor, in their Lordships' opinion, was it improper.

Their Lordships have merely to consider the point raised by the Commissioner, and it is sufficient to say that for the above reasons the judgment of the High Court is, in their opinion, right.

Their Lordships will therefore humbly advise His Majesty that the appeal be dismissed with costs.

In the Privy Council.

THE COMMISSIONER OF INCOME TAX.
BOMBAY PRESIDENCY.

v.

THE AHMEDABAD NEW COTTON MILLS
COMPANY, LIMITED.

DELIVERED BY LORD BUCKMASTER.

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