# Legal Case Summary: Commissioner of Income Tax, Chennai vs M/S Bilahari Investment (P) Ltd (2008)

Case Title: Commissioner of Income Tax, Chennai vs M/S Bilahari Investment (P) Ltd

Citation: AIR 2008 SC 687, (2008) 299 ITR 1 (SC)

Court: Supreme Court of India

Date of Judgment: 27 February 2008

Bench: S.H. Kapadia, B. Sudershan Reddy

## Facts of the Case:

- The respondent assessee, Bilahari Investment (P) Ltd, was engaged in chit fund business.  
- The assessee followed the Completed Contract Method (CCM) of accounting for chit discount and maintained its books on a mercantile basis.  
- The Assessment Years concerned were 1991-92 to 1997-98.  
- The Income Tax Department rejected the completed contract method and sought to replace it with the Percentage of Completion Method (PCM), treating chit discount as Deferred Revenue Expenditure to be spread proportionately.  
- The assessee argued that the CCM had been consistently followed and previously accepted by the Department for many years.

## Procedural History:

- The Assessing Officer (AO) rejected CCM and applied PCM.  
- The ITAT and High Court both ruled in favor of the assessee, holding that CCM was valid for chit discount accounting.  
- The Department filed appeals before the Supreme Court.

## Issues before the Court:

1. Whether the Completed Contract Method followed by the assessee for chit discount accounting was correct and acceptable under the Income Tax Act, 1961.  
2. Whether the Department was justified in insisting on switching to the Percentage of Completion Method.  
3. Whether consistent past acceptance of CCM by the Department prevented such a change without evidence of profit distortion.

## Judgment:

- The Supreme Court dismissed the Department’s appeals.  
- It upheld the High Court’s decision in favor of the assessee.

## Key Legal Findings:

1. Legitimate Method of Accounting: Both CCM and PCM are recognized methods for revenue recognition. Either may be followed unless shown to distort profits.  
2. Consistency Principle: The Department cannot arbitrarily ask for a method change when the assessees consistently follow a method accepted for years, unless it proves that the method causes profit distortion.  
3. Revenue Neutrality: In chit fund schemes, the overall tax impact over time remains revenue neutral, justifying continued use of CCM.  
4. Accounting Standards: While newer accounting standards (e.g., AS-22) could apply in future cases, they were not applicable in the present case as the Department never relied on them earlier.  
5. Judicial Precedents: Relied on Taparia Tools Ltd. v. JCIT (Bombay HC) and other Supreme Court decisions emphasizing taxable income must reflect commercial reality and consistency.

## Final Decision:

✅ Appeals dismissed  
✅ High Court judgment upheld  
✅ Completed Contract Method allowed for chit discount accounting  
✅ No order as to costs