

A BAREILLY ELECTRICITY SUPPLY CO. LTD.

v.

THE WORKMEN & ORS.

August 16, 1971

B [G. K. MITTER AND P. JAGANMOHAN REDDY, JJ]

Industrial Dispute—Bonus—Available surplus—Full Bench formula—Documents filed before Industrial Tribunal whether require formal proof—Depreciation for double shift—Allowances for income-tax, computation of—Return on working capital—Amounts required for rehabilitation—Contingency and Development reserves—Financial capacity.

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The appellant was an electricity supply company. The dispute between the appellant and its workmen relating to the bonus payable for the year 1960-61 was referred to the Industrial Tribunal. The case of the appellant was that after allowing for prior charges no available surplus was left for the payment of bonus. The Tribunal however, computed the available surplus at Rs. 1,29,248 and out of this awarded three months' bonus amounting to Rs. 730,00 to the workmen.

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In appeal to this court it was contended on behalf of the appellant that the Tribunal was in error in disallowing (a) depreciation on account of double shift, (b) income-tax, (c) return on working capital, (d) amounts required for rehabilitation, (e) contingency reserve and (f) development reserve, the latter two of which were statutory reserves which the undertaking had to provide under the schedule to the Electricity Supply Act 1948.

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Inter alia the appellant contended that since the Evidence Act as a whole was not applicable to industrial proceedings certain documents such as balance sheet should have been accepted by the Tribunal without formal proof.

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HELD: (i) In earlier cases decided by this Court in which the Full Bench formula of the Labour Appellate Tribunal had been considered by this Court with reference to Electricity Undertakings and other wise, the following principles were laid down for the purpose of working out the available surplus: (1) first gross profits have to be ascertained and for that purpose balance-sheet and the profit and loss account as required under the Companies Act have to be looked into. If the entries are contested they have to be proved like any other contested fact; (2) The relevant year for which bonus is claimed is a self sufficient unit and the appropriate accounts have to be made on the notional basis in respect of the said year; (3) The ascertainment of depreciation is according to the Income-tax Act and what is allowed as a prior charge is the annual notional normal depreciation and not the actual depreciation which is in fact allowed. Apart from the notional normal depreciation the depreciation allowable under Income-tax Act for multiple shift is also allowable; (4) In calculating the income-tax for deduction as a prior charge it is not the notional normal depreciation alone that has to be deducted but the statutory depreciation namely the concessions given under the Income-tax Act to the employers which would include the depreciation for multiple shifts, if any, and thereafter the income-tax

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will have to be calculated; (5) Return on paid up capital allowable for deduction from the gross profits is 6%; a slightly higher percentage may be allowed in risk undertakings like plantations; (b) In regard to return on working capital, if it is shown that the reserves were available and were actually used as working capital, whether the reserves utilised were depreciation reserves or any other, a return from 2% to 4% is allowable according to the industry, taking into consideration any special circumstances which may justify a claim for a higher interest; (7) Rehabilitation reserve has to be provided for in order to keep the original capital of the business intact. It is necessary in the interest of labour as well as capital to provide for depreciation of the assets yearly and also to provide for rise of prices. For the determination of this reserve it is suggested that the undertaking be first divided into blocks such as 'plant and machinery' on the one hand and other assets like Road, Buildings, Railways sidings etc. on the other. Then the cost of these separate blocks has to be ascertained and their probable future life has to be estimated. Once this estimate is made it becomes possible to anticipate approximately the year when the plant or machinery will require replacement; and it is the probable price of such replacement on a future date that decides the amount to which the employer is entitled by way of replacement cost. The claim for rehabilitation includes the claim for replacements and modernization. The probable cost is reached by adopting a multiplier based on the ratio between the cost price of the plant and machinery and the probable price which may have to be paid for its rehabilitation, replacement or modernisation. After ascertaining the multiplier, a divisor has to be adopted in respect of each block in order to ascertain the annual requirement of the employer in that behalf year after year; (8) In *Mathura Parshad Srivastava's* case the claim for contingency reserve and development which have to be provided under the Electricity (Supply) Act was upheld though these do not constitute prior charges like items (3), (4), (5), (6) and (7) above. The Tribunal cannot fix such a high figure of bonus as to leave insufficient funds in the hands of the company and make it difficult to provide for these two statutory reserves. Various factors including the financial capacity of the undertaking to pay, have to be taken into account in fixing bonus. [251C-254 G]

Mill Owners Association, Bombay v. The Rashtriya Mazdoor Sangh-Bombay & Anr., [1950] L.L.J. 1247, *Muir Mills Co. Ltd., v. Suti Mill Mazdoor Union, Kanpur*, [1951] 1 S.C.R. 991, *U.P. Electricity Supply Co. Ltd., v. Their Workmen*, (1952) 2 L.L.J. 431, *Shree Meenakshi Mills Ltd. v. Their Workmen*, [1968] S.C.R. 878, *Tinavelly-Tuticorn Electric Supply Co. Ltd., v. Their Workmen*, [1960], 3 S.C.R. 68 *Ahmedabad Miscellaneous Industrial Workers Union v. Ahmedabad Electricity Co. Ltd.*, [1962] 2 S.C.R. 934, *Associated Cement Companies Ltd., v. Its Workmen*, [1959] S.C.R. 925 *Surat Electricity Co. Ltd., Staff Union v. Surat Electricity Co. Ltd.*, [1957] 2 L.L.J. 648, *Hamdard Dawakhana Wakf v. Its Workmen & Ors.*, [1962] 2 L.L.J. 772, *Workmen v. Hindustan Motors Ltd.*, [1968] 2 S.C.R. 311 and *Mathura Parshad Srivastava v. Sagour Electric Supply Co.* [1966] 2 L.L.J. 307, referred to.

(ii) Even if all the technicalities of the Evidence Act are not strictly applicable except so far as Section 11 of the Industrial Disputes Act 1947 and the rules prescribed therein permit it, it is inconceivable that

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A the Tribunal can act on what is not evidence such as hearsay, nor can it justify the Tribunal in basing its award on copies of documents when the originals which are in existence are not produced and proved by one of the methods either by affidavit or by witnesses who have executed them, if they are alive and can be produced. Again if a party wants an inspection it is incumbent on the Tribunal to give inspection in so far as that is relevant to the enquiry. [259-D F]

B The application of the principle of natural justice does not imply that what is not evidence can be acted upon. On the other hand what it means is that no materials can be relied upon to establish a contested fact which are not spoken to by persons who are competent to speak about them and are subjected to cross-examination by the party against whom they are sought to be used. [258 H]

C When the appellant in the present case produced the balance sheet and profit and loss account of the company, it did not by its mere production amount to proof of it or of the truth of the entries therein. *If these entries are challenged* the appellant must prove each of such entries by producing the books and speaking from the entries made therein. If a letter or other document is produced to establish some fact which is relevant to the enquiry the writer must be produced or his affidavit in respect thereof be filed and opportunity given to the opposite party who challenges this fact. [259 B-D]

D *Indian Hume Pipe Co. Ltd., v. Their Workmen*, [1959] 2 L.L.J. 357 *Khandesh Spinning and Wvg. Mills Co. Ltd., v. The Rashtriya Girni Kamgar Sangh, Jalgaon*, [1960], 2 S.C.R. 841, *Anil Starch Products Ltd., v. Ahmedabad Chemical Workers Union* Civil Appeal No. 684 of 1957, *Petlad Turkey Red Dye Works Ltd., v. Dyes and Chemicals Workers Union, Petlad*, [1960] 2 S.C.R. 906, *Management of Trichinopoly Mills Ltd. v. National Cotton Textiles Mills Workers Union*; Civil Appeal No. 309 of 1957, *Bengal Kagazkal Mazdoor Union v. Titaghur Paper Mills Co. Ltd.*, [1964] 3 S.C.R. 38 and *Union of India v. Verma*, [1958] 2 L.L.J. 259, referred to.

E (iii) In view of the unsatisfactory oral and documentary evidence the Tribunal was justified in rejecting the claim for depreciation on the basis of double shift. It could not be assumed that in an Electric Undertaking the boilers and turbines must be working throughout, at any rate more than 8 hours. In view of disallowance the amount to be allowed as prior charge towards depreciation will have to be computed after allowing for the notional depreciation. [260 F, 261B]

F (iv) The computation of income-tax by the Tribunal after deducting the statutory depreciation was in accordance with the decisions of this Court and could not be assailed. [262 C-D]

Burn and Co. Ltd., v. Its Workmen. [1954] 5 S.C.R. 82 referred to.

G (v) In considering a claim for return on working capital two questions must be kept in view; whether the reserve were available and if they were, whether they were used as working capital and if so, what is the amount. These are questions of fact and if the employer fails to establish by satisfactory evidence the claim will have to be rejected.

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In this case there was no proof that any of the reserves had been utilised. The claim in this respect was therefore rightly rejected by the Tribunal.

[263 D-E]

(vi) The letters filed by the appellant in support of the replacement cost had not been proved by any of the persons who wrote them or any of the representatives of the firms whose letters they were. There was no oral evidence of the precise requirement for rehabilitation. The Tribunal was justified in holding that the appellant had failed to prove the original cost of the machines, plant and machinery, its age, the probable requirement for replacement, the multiplier and the divisor. In these circumstances this claim also had been properly disallowed.

[264 C-G]

(vii) The provision for contingency reserve and development reserve has been made under the Electricity (Supply) Act for a special purpose, namely to work out the charges to be recovered from the consumers for the supply of Electricity but that does not mean that these are not to be taken into consideration in declaring bonus though they have not been treated as prior charges. In these circumstances the amount of Rs. 55,233 had to be provided for. Except for this amount the computation made by the Tribunal for ascertaining the available surplus was justified.

[265C-D]

(viii) The available surplus found by the Tribunal was Rs. 1,29,248. If Rs. 55,233 is to be provided for contingency reserve and development reserve there will be available surplus of Rs. 74,015. The Tribunal awarded three months bonus amount to Rs. 73,000 which works to Rs. 24,333 per month. Having regard to the financial capacity of this Undertaking one month's bonus which will leave a surplus for the working of the Undertakings will meet the ends of justice. [265 E-F]

CIVIL APPELLATE JURISDICTION : Civil Appeals Nos. 1254 of 1966.

Appeal by special leave from the Award dated November 15, 1965 of the Industrial Tribunal (III), Allahabad in Adjudication Case No. 10 of 1962.

G. B. Pai and *H. K. Puri*, for the appellant.

J. P. Goyal and *M. V. Goswami*, for respondent No. 1.

P. N. Tiwari, for respondent No. 2.

The Judgment of the Court was delivered by

P. Jaganmohan Reddy J.—The Appellant is an Electricity Supply Co., and in this Appeal by Special Leave challenges the Award made against it, by the Industrial Tribunal (III) at Allahabad on 15th November 1965. The dispute between the Appellant and its Workmen is one relating to the bonus payable for the year 1960-61. As an amicable settlement could not be arrived at, the

A State of U. P. by its order dated 24-1-1962 referred the following dispute for adjudication to the Tribunal:

“Should the employers be required to pay bonus to their workmen for the year 1960-61? If so, at what rate and with what details?”

B The case of the Appellant was that after allowing for prior charges no available surplus was left for the payment of bonus to workmen. According to the Company a gross profit of Rs. 6,06,684/- was earned for the year ending 31st March, 1961, but the Tribunal added to it a sum of
 C Rs. 9,949/- as representing extraneous income and consequently computed the gross profit at Rs. 6,16,633/-. The following prior charges were claimed by the Appellant and we have indicated as against each one of these in the opposite columns what the Tribunal has awarded and disallowed:—

		Amount claimed by the Appell- ant	Amount allowed by the Tribunal
	Expenses as per profit and loss account:	Rs. 1,32,156	Rs. 1,32,156
E	Depreciation:		
	Normal	Rs. 2,02,814	Notional normal: 2,02,814
	Double shift.	28,413	Double shift: Nil.
		<u>2,31,227</u>	
		2,31,227	
	Income Tax	1,09,485	1,04,415
	Contingency Reserve	32,900	Nil.
F	Development Reserve	22,333	Nil.
	Return on share capital	48,000	48,000.
	Return on working capital	60,540	Nil.
	Rehabilitation requirement	15,66,497	Nil.
	Total	<u>22,03,138</u>	<u>4,87,385</u>

G After making the necessary allowance as aforesaid to-
 wards deductions claimed as prior charges from the gross
 profit (Rs. 6,16,633/- minus Rs. 4,87,385/-) the Tribunal
 computed the available surplus at Rs. 1,29,248/-. Out of
 H this amount of available surplus three months bonus
 which amounts to Rs. 73,000/- was awarded as bonus
 leaving sufficient funds for the Company to run its under-
 taking.

On behalf of the Appellant it is contended that the Tribunal was in error in disallowing depreciation on account of (a) double shift, (b) Incometax, (c) return on working capital, (d) amounts required for rehabilitation, (e) contingency reserve and (f) development reserve, the latter two of which were statutory reserves which the undertaking had to provide for, under the schedule to the Electricity (Supply) Act.

The reasons given by the Tribunal for disallowing the double shift depreciation was that the Company did not produce any documents to show the total running hours of each boiler or turbine, that in any case the evidence relating to the running of each of the boilers and turbines does not justify the claim for depreciation for the double shift on the entire plant and machinery; that the Company could only claim double shift allowance with regard to certain specified machinery and that in the previous years it had not claimed double shift allowance nor did it claim any deductions before the Incometax authorities for the year in question. For these reasons it held that the Appellant was not entitled to claim the double shift depreciation during the year in dispute. The contingency reserve and the development reserve were disallowed as in the view of the Tribunal they were not a charge on the profits. The rehabilitation requirements were rejected on the ground that the Company had failed to prove the original cost of the plant and machinery; that it had failed to show the actual amount spent on rehabilitation of plant and machinery either in the year in dispute or in any subsequent year; that no rehabilitation allowance was claimed in the previous year; that the cost of the assets of the Company had not been duly proved as engineers were not called and that the quotations produced by the Company could not be relied upon. The return on working capital was disallowed on two grounds; namely that the calculation of the working capital has been made on the basis of the assets and rehabilitation as they stood on the closing day of the year 1960-61 namely on 31-3-61 which is a mistake because whatever may have been the assets and liabilities at the end of the year they would not be the same at the beginning of the year nor could they be applied as the working capital. The second ground is that on the evidence it cannot be established that

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A any reserves were utilised as working capital, nor was there any necessity to do so.

B Before us the learned Advocate of the Appellant has urged that the Tribunal was not justified in rejecting the material placed before it, from which the several deductions claimed by it ought to have been allowed in computing the available surplus. It will be convenient to deal with each of the items separately but before doing so we wish to set out several factors and certain essential features which have to be taken into consideration in claims made by workmen for bonus. The basic assumption which has been accepted by this Court approving the first and second Full Benches of the Labour Appellate Tribunal is that the award of bonus is not by way of an *ex-gratia* payment but in furtherance of social justice the claim of capital and labour which contribute to the earnings of the industrial concern, make it equitable to grant labour the benefit of their efforts if there is a surplus. The first full Bench in the *Mill Owners Association, Bombay v. The Rashtriya Mazdoor Sangh, Bombay and Anr.*(1), had laid down a general formula applicable for determining the available surplus of an Industrial undertaking for the purposes of awarding bonus to its workmen. The first step in this regard is the ascertainment of the gross profits of a concern, which are arrived at after payment of wages and dearness allowances to the employees and other items of expenditure. The next step is to ascertain what are the prior charges which have to be deducted from the gross profits in order to arrive at the available surplus.

The Full Bench formula concerns the claim of capital to prior charges which have to be taken into account to give a fair return to the investor and also to keep the industry working efficiently which in the long run will enure to the benefit of labour. The items considered as prior charges are : (1) fair return on—(a) paid up capital; (b) working capital; (c) reserves utilised as working capital which obviates the necessity to borrow at higher rates of interest. (2) Amount of money required for replacements rehabilitation and modernization of machinery. (3) Depreciation allowed by the Incometax authorities being only a percentage of the Written down value, the fund set apart

(1) [1950] L.L.J. 1247.

yearly for depreciation and designated under that head would not be sufficient for these purposes, so an extra amount would have to be annually set apart under the heading reserves to make up the deficit. The question what is the ratio of the available surplus which could be awarded as a bonus was also considered. The Full Bench felt that the answer was not an easy one, but essentially the quantum of bonus must depend upon the relative prosperity of the concern during the year under review which is reflected in the amount of surplus; the needs of labour at existing wages is also a consideration of importance. It observed in para 37:

“.....but we should make it plain that these are not necessarily the only considerations; for instance no scheme of allocation of bonus could be completed if the amount of which bonus is to be paid is unrelated to the employees' efforts; and even when we have mentioned all these considerations we must not be deemed to have exhausted the subject”.

This Court in *Muir Mills Co. Ltd. v Suti Mill Mazdoor Union, Kanpur*⁽¹⁾, generally accepted as sound the view of the Full Bench, that since labour and capital both contribute to the earnings they should derive benefit, if there is a surplus after meeting the four prior or necessary charges specified in the formula. However, neither the priority as between the four prior charges and their relative acceptance nor the conditions upon which they were allowed was examined by this Court, but it was nevertheless held that bonus is neither a gratuity nor gift nor can it be regarded as deferred payment. The principles enunciated by the First Full Bench had been approved in *U. P. Electricity Supply Co. Ltd. v. Their Workmen*⁽²⁾ as being also applicable to Electricity Undertakings. It was pointed out that in determining the available surplus it is not the profits that have to be determined as required under the Electricity (Supply) Act 54 of 1948, which had to be considered but the gross profits as computed from the balance sheet and profit and loss account to be prepared under the Companies Act, subject to scrutiny if challenged. The reason for

(1) [1955] (1) S.C.R. 991.

(2) [1952] (2) L.L.J. 431.

A non-applicability of the Electric (Supply) Act according
 to this Full Bench was that the object of the Act being to
 reduce the price of electricity which was affected by fixing a
 maximum above which the profits of the concern shall not
 rise, the formula of the first Full Bench which was intended
 to do social justice was at variance with the purpose which
 the Electricity (Supply) Act was intended to subserve.
 B The Tribunal said at page 438:

“There is therefore no basis between the two for
 any convergence on the point of bonus as now under-
 stood; it is not permissible to inject the Full Bench
 C items into the Electricity (Supply) Act and on the other
 hand the accounting under the Electricity (Supply) Act
 is at variance with normal commercial practice under
 the Companies Act and with the basis of our Full
 Bench decision. In the result we have come to the
 D conclusion that our Full Bench decision must be
 applied as a whole for the ascertainment of bonus of
 these concerns. This, however, does not preclude
 consideration of the suggestions for clarification and
 modification.....”

This decision was approved by this Court in *Shree*
Meenakshi Mills Ltd. v. Their Workmen⁽¹⁾ but that was
 E not a case dealing with an Electricity undertaking. The
 case which dealt directly with an Electricity Undertaking
 was *Tinavelly-Tuticorn Electric Supply Co. Ltd.* (also
 referred to as *T. T. E. Supply Co.*) *v. Their Workmen.*⁽²⁾
 F In this case also this Court held that the Full Bench formula
 was applicable to electrical undertakings and to the formula
 relating to the statutory depreciation except for additional
 and initial depreciation—though there was nothing in it
 which would indicate whether the depreciation deductible
 was according to the Electricity (Supply) Act or the Income-
 tax Act. There is however, no doubt that in the U. P.
 G Electricity case the Full Bench did in fact apply the
 Incometax Rules for ascertaining depreciation. In
Ahmedabad Miscellaneous Industrial Workers Union v.
Ahmedabad Electricity Co. Ltd.⁽³⁾ the Full Bench formula
 applying the Incometax Act rules to ascertain depreciation
 as a prior charge was approved. It was also observed that
 H it was not open to the Appellant to raise the question that

(1) [1958] S.C.R. 878.

(2) [1960] (3) S.C.R. 68.

3 [1962] 2 S.C.R. 934.

the provisions of the seventh schedule to the Electricity (Supply) Act should be applied for purposes of calculating depreciation in preference to the income tax rules in working out the Full Bench formula. Even on the assumption that the question was still open, because as Wanchoo, J., observed "it was never directly raised in this Court and specifically decided" they were of opinion that the Income-tax rules should be applied in preference to the provisions of the Seventh Schedule to the Electricity (Supply) Act. The reasons for arriving at that conclusion are given at pages 939-941. In *Associated Cement Companies Ltd. v. Its Workmen*(¹), Gajendragadker, J., (as he then was) said at page 944 with reference to Muir Mills Company case that:

"neither the propriety nor the order of the priority as between the four prior charges and their relative importance nor their content was examined by this Court in that case; and though the formula has subsequently been generally accepted by this Court in several reported decisions. . . . the question about the adequacy, propriety or validity of its provisions has not been examined nor had the general problem as to whether the formula needs any variation, change or addition been argued and considered. It is for the first time since 1950 that in the present appeals, we are called upon to examine the formula carefully and express our decision on the merits of its specific provisions."

Having examined the several aspects of the formula in great detail and if we may say so with respect with some thoroughness the various matters dealt with by the two Tribunals in respect of the prior charges relating to depreciation, income-tax; fair return on capital, fair return on reserves utilised as working capital and any amount required in excess of the depreciation for the purpose of rehabilitation, replacement and modernization of machinery, the formula evolved therein has been approved. In the application of the formula for determining the available surplus, the balance sheet and profit and loss account of an undertaking are important documents. At any rate the proof of the various prior charges has to be given, after affording an

(1) 1959 S.C.R. 925.

A opportunity to the workmen, if need be, by the cross-examination to contest it.

B The formula of the Full Bench both in the Textile case and its application to the Electricity Undertakings as held in the U. P. Electricity case has now been accepted by this Court in several cases with further clarification and elucidation. We can therefore deduce the following principles for ascertainment of the available surplus in respect of an Industrial undertaking and/or an Electricity Undertaking:

C (1) First gross profits have to be ascertained and for that purpose the balance-sheet and the profit and loss account as required under the Companies Act has to be looked into. If the entries are contested then they have to be proved like any other contested fact.

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E (2) The relevant year for which bonus is claimed is a self sufficient unit and the appropriate accounts have to be made on the notional basis in respect of the said year. 'Once the bonus year is taken as a Unit self sufficient by itself the decision of the Labour Tribunal in regard to the refund of excess profits tax and the adjustment of the previous years depreciation and losses against the bonus year's profit must be treated as logical and sound.'

F (3) The ascertainment of depreciation is according to the Incometax Act and what is allowed as a prior charge is the annual notional normal depreciation and not the actual depreciation which is in fact allowed. The formula of the Full Bench in the U.P. Electricity case as explained and clarified in *Surat Electricity Co. Ltd. Staff Union v. Surat Electricity Co. Ltd.*,⁽¹⁾ was approved in the Ahmedabad Miscellaneous Industrial Workers Union case and in the case in *Hamdard Dawakhana Wakf v. Its Workmen & Ors.*⁽²⁾ Apart from the notional normal depreciation the depreciation allowable under Income-tax Act for multiple shift is also allowable.

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(1) [1957] (2) L.L.J. 648.

(2) [1962] (2) L.L.J. 772.

(4) In calculating the Incometax for deduction as prior charge it is not the notional normal depreciation alone that has to be deducted but the statutory depreciation namely the concessions given under the Incometax Act to the employers which would include the depreciation for multiple shifts if any, and thereafter the Incometax will have to be calculated.

(5) Return on paid up capital allowable for deduction from the gross profits is 6%. This is generally the formula adopted by the Full Bench for Industrial Undertakings though it has been known to have allowed a slightly higher percentage of return in risky undertakings like plantations.

(6) Return on working capital. This amount is also allowed but at a lower rate. The formula as approved by this Court is that if it is shown that the reserves were available and were actually used as working capital whether the reserves utilised were depreciation reserves or any other, a return from 2% to 4% is allowable according to the industry, taking into consideration any special circumstances which may justify a claim for a higher interest. The utilisation of the reserves obviate the necessity to borrow from outside sources and pay higher interest which will be to the detriment of labour as the available surplus is likely to be less on this account—*Workmen v. Hindustan Motor Ltd.*(¹)

(7) Rehabilitation reserve also has to be provided for in order to keep the original capital of the business in tact because assets of an Undertaking waste and or lost by the end of a particular period depending on the nature of the Undertaking and its asset. The only value of such assets at the end of the period is the scrap value. It is therefore necessary in the interest of labour as well as capital to provide for depreciation of such assets yearly and also to take into account and provide for the rise in prices after the war. The determination of this reserve poses problems, but it was suggested that a reasonable method would be first to divide the undertaking into

(1) [1968] (2) S.C.R. 311 340, 342, 344.

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A blocks such as "Plant and machinery" on the one
hand and other assets like Roads, Buildings, Railway
sidings etc. on the other. Then the cost of these
separate blocks has to be ascertained and their pro-
bable future life has to be estimated. Once this esti-
mate is made it becomes possible to anticipate
B approximately the year when the Plant or machinery
would need replacement; and it is the probable
price of such replacement on a future date that ulti-
mately decides the amount to which the employer is
entitled by way of replacement cost. The claim for
C rehabilitation includes also the claim for replacements
and modernization. It is quite conceivable that
certain parts of machines, which constitute a block
may need rehabilitation though the block itself can
carry on for a number of years. This process of re-
habilitation is a continued process and unlike rep-
D placement, its date cannot always be fixed or anti-
cipated. So with modernization all these three items
are included in the claim for rehabilitation. It is
therefore necessary for tribunals to exercise their dis-
cretion in admitting all available evidence to deter-
mine this difficult question. For a fuller discussion in
E see: *The Associated Cement Companies* case at pages
966-968. The probable cost is reached by adopting
a multiplier based on the rates between the cost
price of the plant and machinery and the probable
price which may have to be paid for its rehabilitation,
F replacement or modernization. The older the plant,
the higher the multiplier and hence the area of conflict
between the employer and employees is larger, the
former allowing the asset to become older to get a
higher multiplier and the latter feeling aggrieved
because of it as the provision made therefor reduces
the available surplus in the bonus year. After as-
G certaining the multiplier, a divisor has to be adopted
in respect of each block in order to ascertain the
annual requirement of the employer in that behalf
year after year. As this provision constitutes a large
amount which eats into the gross profits and reduces
the surplus the Tribunals must call for all relevant
H material evidence from the employer and the
employees should be allowed to properly test it by
cross-examination.

The deductions specified in items (5), (6) and (7) like those in items (3) and (4) are prior charges.

(8) In *Mathura Parshad Srivastava v. Sagour Electric Supply Co* ⁽¹⁾, at page 309 the claim for contingency reserve and development reserve which have to be provided under the Electricity (Supply) Act was upheld. It was observed that though these do not constitute a prior charge they have to be taken into consideration, to arrive at the figure of bonus after ascertaining the available surplus. The Tribunal cannot fix such a high figure of bonus as to leave insufficient funds in the hands of the Company and make it difficult to provide for these two statutory reserves. After taking these into consideration the ratio of available surplus for distribution as bonus would depend on a number of factors and is not susceptible to any general formula. What these factors are were posed in the form of series of Questions by Gajendragadkar, J., at page 973-974 in the *Associated Cement Co's* case, such as what are the wages paid, what is the extent of the gap between the same and a living wage, has the employer set apart any gratuity fund, what is the extent of the available surplus, what is the general financial position of the employer, what are the dividends paid and has the employer to meet any urgent liability etc. The fact that the employer would be entitled to a rebate of Incometax on the amount of bonus paid to his workmen has also to be taken into account and in many cases it plays a significant part in the final distribution. It was also held that overtime paymentought not to have been taken into account as part of the basic wage in calculating bonus payable. This innovation would make an unreasonable distinction between workmen and workmen on the basis that some have contributed more and the others less to the earning of profits.

We now propose to examine each of the claims of the Appellants in the light of our observations as to the formula applicable in determining its validity or otherwise. At the outset it may be noted that on behalf of the Appel-

(1) [1966] (2) L.L.J. 307.

A lant only a solitary witness, M. K. Ghosh a Chartered
 Accountant of the Company who on his own admission
 had joined the Company six months prior to his giving
 evidence was produced. Obviously this witness could
 not speak about the relevant matters from his personal
 B knowledge. Apart from this infirmity the Tribunal has
 characterised his evidence as contradictory, evasive and
 not reliable. Innumerable statements, letters, balance-
 sheet, profit and loss account and other documents called
 for or otherwise were filed on behalf of the Appellants. It
 cannot be denied that the mere filing of any of the afore-
 C mentioned documents does not amount to proof of them
 and unless these are either admitted by the Respondents
 or proved they do not become evidence in the case.

On this aspect it was observed in Associated Cement
 Companies case at page 956:

D “As a general rule the amount of gross profits
 thus ascertained is accepted without submitting the
 statement of the profit and loss account to close scru-
 tiny. If however, it appears that entries have been
 made deliberately and *male-fide* to reduce the
 amount of gross profits, it would be open to the
 E Tribunal to examine the question.....”

The case of the *Indian Hume Pipe Co., Ltd., v. Their
 Workmen* ⁽¹⁾ however seems to have given scope for the con-
 tention that the balance-sheet could be relied upon for
 F proving that certain amounts stated therein were available
 for use as working capital and that it showed that they were
 in fact so used. In fact in that case it was conceded that
 the reserves were in fact used as working capital. Bhagwati
 J., who delivered the Judgment of the Court, presumably
 to meet the contention that the balance-sheet had not been
 G proved, observed at page 362 thus:

“Moreover, no objection was urged in this behalf,
 nor was any finding to the contrary recorded by the
 Tribunal.”

This case was considered in *Khandesh Spinning & Wvg.
 H Mills Co. Ltd., v. the Rashtriya Girni Kamgar Sangh,
 Jalgaon*, ⁽²⁾ it was pointed out that the observations made

(1) [1959] (2) L.L.J. 357.

(2) [1960] (2) S.C.R. 841.

by Bhagwati J, were not intended to lay down the law that the balance-sheet by itself was good evidence to prove as a fact the actual utilisation of reserves as working capital. Subba Rao J. (as he then was) in that case, while dealing with the importance or rehabilitation reserve in the calculation of the available surplus pointed out that it was necessary for Tribunals to weigh with great care the evidence of both parties to ascertain every sub-item that went into or subtracted from the item of rehabilitation. If parties agreed, agreed figures could be accepted. If they agreed to a decision of affidavits, that course could be adopted. But in the absence of agreement the procedure prescribed by Order XIX, Code of Civil Procedure had to be followed. He said at page 847:

“The importance of this question in the context of fixing the amount required for rehabilitation cannot be over-estimated. The item of rehabilitation is generally a major item that enters into the calculations for the purpose of ascertaining the surplus and therefore, the amount of bonus. So, there would be a tendency on the part of the employer to inflate this figure and the employees to deflate it. The accounts of a Company are prepared by the management. The balance-sheet and the profit, and loss account are also prepared by the Company’s officers. The labour has no concern in it. When so much depends on this item, the principles of equity and justice demand that an Industrial Court should insist upon a clear proof of the same and also give a real and adequate opportunity to the Labour to canvass the correctness of the particulars furnished by the employer.”

At pages 847-850, the *Indian Hume Pipe Co's* case (citation given is incorrect—the correct citation is 1959 (2) LLJ 357) *Tata Oil Mills Co. Ltd., Vs. . Its Workmen* (citation given in the report incorrect) and *Anil Strach Products Ltd. v. Ahmedabad Chemical Workers Union*, ca ses⁽¹⁾ were referred to and discussed. It was pointed out that Anil Starch Products Ltd., again reinforced the view of this Court that proper opportunity should be given to the labour to test the correctness of the evidence given on

(1) Civil Appeal No. 684 of 1957.

A affidavit on behalf of the management in regard to the use of the reserves as working capital.

B In *Petlad Turkey Red Dye Works Ltd., v. Dyes & Chemical Workers Union, Petlad & Anr.* (1), the question whether the balance-sheet can be taken as proof of claim as to a portion of the reserve that has been used as working capital was again considered. The *Khandesh Spinning & Wvg. Mills* case as well as the *Management of Trichinopoly Mills Ltd. v. National Cotton Textile Mills Workers Union*, (2) were referred to with approval. The contention that Indian Hume Pipe's case held otherwise was pointed out to be not justified for "If it had been intended to state as a matter of law that the balance-sheet itself was good evidence to prove the fact of utilisation of a portion of the reserve as working capital" it would have been unnecessary to make the observations referred to at page 362.

D In the *Petlad Turkey Red Dye Works* (1) case it was pointed by reference to the *Trichinopoly Mills* (2) case that the question as regards the sufficiency of the balance-sheet itself to prove the fact of utilisation of any reserve as working capital was also considered and it was held "that the balance sheet does not by itself prove any such fact and that the law requires that such an important fact as the utilisation of a portion of the reserve as working capital has to be proved by the employer by evidence given on affidavit or otherwise and after giving an opportunity to the workman to contest the correctness of such evidence by cross-examination".

F In *Bengal Kagazkal Mazdoor Union v. Titaghur Paper Mills Co. Ltd.* (3) Wanchoo J., (as he then was) observed at page 45 :

G "It is now well settled that the balance-sheet cannot be taken as proof of a claim to what portion of reserves has actually been used as working capital and that the utilisation of a portion of the reserves as working capital has to be proved by the employer by evidence on affidavit or otherwise after giving opportunity to the workmen to contest the correctness of such evidence by cross-examination

(1) [1960] 2 S.C.R. 906.

(2) [1960] 2 L.L.J. (S.C.) 46.

(3) [1964] 3 S.C.R. 38.

(See *Patlad Turkey Red Dye Works Ltd. v. Dyes & Chemicals Workers' Union*)".

An attempt is however made by the learned Advocate for the Appellant to persuade us that as the Evidence Act does not strictly apply the calling for of the several documents particularly after the employees were given inspection and the reference to these by the witness Ghosh in his evidence should be taken as proof thereof. The observations of Venkatram Iyer J, in *Union of India v. Varma*, (1) to which our attention was invited do not justify the submission that in labour matters where issues are seriously contested and have to be established and proved the requirements relating to proof can be dispensed with. The case referred to above was dealing with an enquiry into the misconduct of the Public Servant in which he complained he was not permitted to cross-examine. It however turned out that he was allowed to put questions and that the evidence was recorded in his presence. No doubt the procedure prescribed in the Evidence Act by first requiring his chief-examination then to allow the delinquent to exercise his right to cross-examine him was not followed, but that the Enquiry Officer, took upon himself to cross-examine the witnesses from the very start. It was contended that this method would violate the well recognised rules of procedure. In these circumstances it was observed at page 264:

'Now it is no doubt true that the evidence of the Respondent and his witnesses was not taken in the mode prescribed in the Evidence Act; but that Act has no application to enquiries conducted by Tribunal even though they may be judicial in character. The law requires that such Tribunals should observe rules of natural justice in the conduct of the enquiry and if they do so their decision is not liable to be impeached on the ground that the procedure followed was not in accordance with that which obtains in a Court of Law'.

But the application of principle of natural justice does not imply that what is not evidence can be acted upon. On the other hand what it means is that no materials can be relied upon to establish a contested fact which are not

(1) [1958] 2 L.L.J. 259, 263-264.

- A spoken to by persons who are competent to speak about them and are subjected to cross-examination by the party against whom they are sought to be used. When a document is produced in a Court or a Tribunal the questions that naturally arise is, is it a genuine document, what are its contents and are the statements contained therein true.
- B When the Appellant produced the balance-sheet and profit and loss account of the Company, it does not by its mere production amount to a proof of it or of the truth of the entries therein. If these entries are challenged the Appellant must prove each of such entries by producing the books and speaking from the entries made therein.
- C If a letter or other document is produced to establish some fact which is relevant to the enquiry the writer must be produced or his affidavit in respect thereof be filed and opportunity afforded to the opposite party who challenges this fact. This is both in accord with principles of natural justice as also according to the procedure under Order XIX Civil Procedure Code and the Evidence Act both of which incorporate these general principles. Even if all technicalities of the Evidence Act are not strictly applicable except in so far as Section 11 of the Industrial Disputes Act 1947 and the rules prescribed therein permit it, it is inconceivable that the Tribunal can act on what is not evidence such as hearsay, nor can it justify the Tribunal in basing its award on copies of documents when the originals which are in existence are not produced and proved by one of the methods either by affidavit or by witnesses who have executed them, if they are alive and can be produced.
- F Again if a party wants an inspection, it is incumbent on the Tribunal to give inspection in so far as that is relevant to the enquiry. The applicability of these principles are well recognised and admit of no doubt.]

G We now propose to examine the claim under each one of the heads, not only those in respect of the prior charges but also in respect of contingency and development reserves which have to be taken into consideration for determining the amount of bonus to be declared out of the available surplus.

H The first claim is in respect of depreciation on account of double shift. The Appellant did not claim any depreciation in respect of electric cables. The only claim

was relating to plant and machinery which comprises of A
boilers and turbines. Ghosh P. W. 1 stated that the
plant and machinery worked more than double shift. In
support of his statement he filed Exhibit E. 16 which he
stated was correct as he had verified it from the records.
Exhibit E.16 is not a document prepared by the witness B
but appears to have been prepared and signed by the Resi-
dent Engineer, according to which the total number of hours
which the four boilers and the four turbines had worked
during 1960-61. So far as boilers are concerned all of C
them are said to have worked 21,327 hours the average of
which for each boiler for the year was computed at
5,331.8 hours. Similarly the turbines worked 21,629 D
hours which works out to an average of 5412.3 hours
per turbine per year. If the year is taken as 365 days
the average for the boiler and turbine works out to 14.6
and 14.8 hours while if it is taken as 300 days it works
at 17.77 and 18.04 hours respectively. The Appellant
contends that there is no cross-examination of witness
Ghosh nor have the employees challenged this statement.
Accordingly he submits that a sum of Rs. 28,413/- should E
be allowed. It is however admitted that no claim was
made before the Incometax Officer nor has any amount
been allowed in the Company's assessment for the
relevant year (see Ex. 11). But even if the amount was
not claimed under the Incometax Act, that does not
by itself preclude us from allowing depreciation for double
or multiple shifts but in this case the difficulty is that there
is no proof as such of the plant and machinery working
double shift. We are asked to assume that in an Elec- F
tricity Undertaking the boilers and turbines must be
working throughout at any rate more than 8 hours. We
however, do not know to what extent each of these were
working for how many days and how many hours
each day. The Resident Engineer was not produced nor
was Ghosh in a position to speak to the facts, of the state- G
ment therein from his knowledge or in any a credible
manner as to make his evidence acceptable. The Tribunal
said that the veracity of the statement Ex. 16 is also doubt-
ful because the employers have not produced anything
before it to show the total running hours of the boilers or
turbines. It further went on to say "The Statement of H
M. K. Ghosh is self contradictory. He has said one
thing at one time and quite another at another place in

A respect of the same matter. The Tribunal had to put to the witness scores of questions in order to clarify or in order to ascertain which of the two statements made by the witness could be taken to be correct”.

B We think the Tribunal was justified in rejecting this claim. In view of this disallowance the amount to be allowed as prior charge towards depreciation will have to be computed after allowing for the notional depreciation.

C In calculating the amount deductible from gross profits on account of Income-tax the learned Advocate of the Appellant contends that the Tribunal's calculations were wrong. What the tribunal has done is though it deducted the notional normal depreciation of Rs. 2,02,814/- from the gross profits it had for the purposes of computation of Incometax deducted the statutory depreciation of Rs. 2,52,442/- and on the balances of that figure namely Rs. 2,32,035/- computed Income-tax @ 45% amounting to Rs. 1,04,415/-. If the contention of the learned Advocate for the Appellant was accepted and only the notional normal depreciation alone was deducted for computing the Income-tax the Income-tax deductible would come to Rs. 1,26,748/-. It was again sought to be contended that the development rebate on plant installed @ 25% on Rs. 1,28,513/- amounting to Rs. 49,628/- could not form part of the statutory reserve which together with the notional normal depreciation came to Rs. 2,52,442/-. It was submitted that development rebate is not one of the species of depreciation; that it is a rebate for development which is de hors depreciation and has nothing to do with the written down value of the asset for calculating depreciation. From the Tribunal's order it would appear that there was no dispute with respect to the provision for Income-tax or its quantum because after deducting the amount of statutory depreciation the amount as computed at 45% is Rs. 1,04,415/- which was the amount claimed by it as statutory reserve as per Ex. E. 13. That the deduction of statutory allowance for computing Income-tax is the true principle is borne out by the decisions of this Court. The contention that only notional normal depreciation and not statutory depreciation should be taken into account was raised in *Bengal Kagazkal Mazdoor Union v. Titaghur paper Mills Co. Ltd.*, where Wanchoo J. (as he then was) at page

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44 negated it but nonetheless, because the quantum of statutory depreciation was in controversy and it was not possible to calculate the correct amount of Income-tax to be calculated in the absence of evidence, the case was remanded to the Tribunal for further evidence for arriving at the correct statutory depreciation to compute the Income Tax. Reference was also made to the Meenakshi Mills case and the Associated Cement Companies case. In the latter case it was held at page 962 that in calculating the amount of tax payable for the bonus year the Tribunals should take into account the concessions given by the Income-tax Act to the employers under the two more depreciations allowed under s. 10 (2) (vi) of the Income-tax Act. In *Burn & Co. Ltd. v. Its Workmen*⁽¹⁾ also it would appear "that the Income-tax after making the allowance for statutory depreciation and development rebate was computed". Though it is said that no reasons were given, this computation is in consonance with the decisions of this Court. In this view the computation of Income-tax by the Tribunal after deducting the statutory depreciation cannot be assailed. The amount deductible on this account will be Rs. 1,04,415/-.

Two further items are sought to be deducted as prior charges namely the return on working capital and the amounts required for rehabilitation. The claim of the Appellant for return on working capital was Rs. 40,360/- which is 6% on Rs. 10,09,000/- said to have been employed in the Undertaking. The Tribunal referred to Ex. E. 17 in which details of the reserves used as the working capital have been given as also another statement Ex. E. 18 which showed details of the approximate working capital required for running the Undertaking. Ex. E. 6 is a statement showing the annual wages and salaries and E. 7 shows deficiency of surplus of funds for normal working of the Undertaking. The Tribunal attached no value to these statements as the calculations of working capital was arrived at on the basis of assets of reserve as they stood on 31-3-61 i.e. on the closing day of the year 1960-61. The learned Advocate for the Appellant had to concede that the Tribunal was right in rejecting this basis as the basis for working capital. What he says should have been done was to have taken the amount at the beginning of the year

(1) [1964] 5 S.C.R. 823.

A namely 1st April 1960 and to add to this amount the amount
of reserve actually utilised during the bonus year as working
capital. The evidence of Ghosh in this as in other matters
was of little assistance to the Appellant. While he stated
that Rs. 10,09,000/- was the working capital of the Company
B during the year, in cross-examination he admitted that the
consumers deposits have been used in the business as work-
ing capital. Later on he sought to explain it by an appli-
cation in which he said that what he meant was that the
consumers deposit had been invested in the business. The
C Tribunal has carefully gone through this evidence and was
of the view that Ghosh has given contradictory and false
statements in respect of the consumers deposits not being
used as working capital. This apart as already stated,
he has no personal knowledge. In any case the Tribunal
has on an examination of the Cash Book and profit and
D loss account Ex. W.16 and E. 1 held that the receipts of
the concern are little more than two lacs a month which
amount by itself would be sufficient to meet its day-to-day
expenses. In considering a claim for return on working
capital two questions must be kept in view; whether the
reserves were available and if they were, whether they were
used as working capital and if so, what is that amount.
E These are questions of fact and if the employer fails to
establish by satisfactory evidence the claim will have to be
rejected. In this case we may point out there is no proof,
that any of the reserves have been utilised.

F Lastly the claim for rehabilitation has also to be rejected
on the same grounds. We have already discussed the
approach that has to be made in considering this claim.
As rehabilitation reserve is a substantial item which goes
to reduce the available surplus and as a result, effects the
right of the employee to receive the bonus, the employer
will have to place all relevant materials and the Tribunal
G will have to scrutinise these carefully and be satisfied
that the claim is justified. At the same time it is equitable
also in the larger interest of the industry as well as of the
employees that proper rehabilitation reserve should be built
up taking into consideration the increase in prices in plant
and machinery which has to be replaced at a future date
H and by the determination of a multiplier and its divisor.
The case of the Appellant is that the requirement of the
Undertaking in this regard is Rs. 15,66,496/-. The assets

required to be replaced have been divided into three blocks —one upto 31-12-59, the second from January 1940 to December 1947 and the third from January 1948 to March 31, 1961. Certain statements were filed which were intended to show what the yearly replacement cost as well as the original cost was, as also the life and the yearly requirements of all the assets, the multiplier and divisor. In support of the replacement cost, quotation of prices Ex. E. 21 to E. 24 have been filed. These are from M/s. Martin Burn Ltd., as Agents of M/s. C. A. Pearson & Co. Ltd., Babcocks & Willcox of India (P) Ltd., Indian Cable Co. Ltd., representing British Insulated Calendar Cables Ltd., and the Indian Iron & Steel Co. The first objection against the admissibility of these letters is that they have not been proved by anyone of the persons who have written these letters or any of the representatives of the firms whose letters they are. As has been noticed Ghosh is the omnibus witness and he has no knowledge whatever in respect of any of the matters stated therein nor can he speak to the precise requirement for rehabilitation. It is rather surprising that the employer who is making such a big claim have not called any one as a witness who can speak with knowledge of the age, the requirements and the increase in the prices of replacements. The original cost of these blocks has been prepared by Shri Chatterji (Ex. E. 19 and Ex. 20). But he has not been produced and an attempt was made to prove them through the evidence of Ghosh. The Tribunal states that a number of questions were put to the witness to ascertain as to how he calculated the original cost and his reply was that the same has been taken from the balance-sheet. The balance-sheets for earlier years have also not been produced to show what the original cost was. The Tribunal has examined these matters and the evidence relating thereto in great detail and we agree with it that the Appellant has failed to prove the original cost of the machines, plant and machinery, its age, the probable requirements for replacement, the multiplier and the divisor. In these circumstances this claim also has been properly disallowed.

There is then the claim for contingency reserve and development reserve which it is not disputed has to be provided under the Electricity (Supply) Act amounting to Rs. 32,900/- and Rs. 22,333/- respectively in all Rs. 55,233/-.

A The Tribunal, however, has disallowed this claim on the
ground that since they have been created under the Electric-
city (Supply) Act which according to its understanding of
the legal position, could not be deducted. These two
reserves it may be stated have to be created under the pro-
visions of Clause V and Clauses V (a) of the Sixth Schedule
of the Electricity (Supply) Act, 1948. The Tribunal has
gone into the reason for the creation of these reserves,
their use etc. We have already examined the legal position
earlier and have noticed that the provision for the said
reserves has been made under the statute for a special
purpose namely to work out the charges to be recovered
from the consumers for the supply of Electricity but that
does not mean that these are not to be taken into consi-
deration in declaring bonus though they have not been
treated as prior charges. We have referred to the case of
Mathura Prashad Srivastava as supporting this view.
D In these circumstances the amount of Rs. 55,233/- has to
be provided for. Except for this amount the computation
made by the Tribunal for ascertaining the available surplus
is in our view justified. The amount found by the Tribunal
in this regard is Rs. 1,29,248/- and if Rs. 55,233/- is to be
provided there will be an available surplus of Rs. 74,015/-.
E The Tribunal as we said awarded three months bonus
amounting to Rs. 73,000/- which works out to Rs. 24,333/-
per month. We think having regard to the financial capa-
city of this Undertaking one month's bonus which will
leave a surplus for the working of the Undertaking, will
meet the ends of justice. We accordingly order the pay-
ment of one month's wages as bonus. Each party will
bear their own costs in this Appeal.

G.C.

Ordered accordingly.