

**Case Study – 4**

“Tea is not a mere commodity. It is a heritage based on values and culture full of sentiments and commitments.”

Legend has it that tea was discovered by the great Chinese Emperor Shen Nung, more than four and a half thousand years ago. The story says that a leaf from a wild tea bush accidentally fell into a pot of boiling water, while the Emperor rested under a tree, the leaf then infused its goodness; and the rest, as we know, is history!

TOTAL TEA Limited is engaged in the business of tea plantation for over 40 years. It is engaged in the cultivation, processing and sale of bulk teas. The company produces high quality tea from estates in Assam and West Bengal. Its quality benchmarks and industry practices are among the best in the world; and it will continue to strengthen its operations to live up to its legacy and brand reputation.

TOTAL TEA Limited follows the tenets of a good corporate citizen, providing equal opportunity to all employees, in a safe and healthy working environment, ensuring social and economic development to sustain and improve quality of life. It is committed to safeguarding the environment by adopting an eco-friendly, transparent and participatory approach in all activities, whilst ensuring that the best quality of tea is produced.

**CREDIBLE CERTIFICATIONS**

Food Safety Management System (ISO 22000)

Fairtrade Certified

Rainforest Alliance Certified

Hazard Analysis Critical Control Point (HACCP)

Ethical Tea Partnership (ETP)

Company’s widespread plantations, meticulous processes, honed art and science of blending, sustainable environmental practices and community initiatives have enabled it to reinforce its industry leadership across the country.

Company has tea estates, blending units and marketing offices across strategic locations. Company’s discerning customers are spread across the country. It continues to leverage its robust marketing and delivery mechanisms to grow its global prominence and brand reputation.

**BRAND**

The Company markets its teas under the name of various tea estates, known as ‘**Tea Only**’. Hence, these ‘Tea Only’ have evolved into individual bulk tea brands, with a strong customer following in each of their preferred markets.

**Budget**

Total Tea Ltd. manufactures two brands of tea namely Tea Only- Super and Tea Only Normal by blending of four grades of tea leaves as raw material in the following proportion:

Raw Material	Product Super	Product Normal
Grade A	70%	-
Grade B	30%	-

Grade C	-	40%
Grade D	-	60%

During the month of May 2017. It is expected that 200 tons of brand Super and 80 tons of brand Normal will be sold. Actual and budgeted inventories for the month of May 2017 are as follows:

	Actual inventories on 1 <sup>st</sup> May, quantity in Tons	Budgeted inventories on 31 <sup>st</sup> May, quantity in Tons
<b>Grade A</b>	40	50
<b>Grade B</b>	25	56
<b>Grade C</b>	150	250.90
<b>Grade D</b>	60	40.50
<b>Product Super</b>	40	20
<b>Product Normal</b>	20	15

Purchased tea leaves are seasoned and then held in stock or issued for production. During seasoning, they lost 15% of their initial weight.

#### **TECHNOLOGY**

The Company has invested in cutting-edge technologies to manufacture quality products and achieve high manufacturing efficiency through energy conservation and environmentally safe processes.

#### **VALUE-ADDITION**

The Company has in-house blending capacities, which control leaf mixture, liquor and aroma in a consistent manner in the final product to address wide-ranging customer needs.

#### **QUALITY**

The Company meticulously ensures that its teas comply with globally benchmarked quality standards, so that only the best products leave its factories.

#### **PROCESSES**

The Company has instituted operational discipline across gardens through the creation of a documented manual (standard operating procedures) to reduce arbitrary interventions, ensure process consistency and enhance knowledge sharing.

#### **MARKETING**

We have increased the proportion of tea marketed directly through strategic and private contracts in national and international markets. The result is higher realisations and better safeguards against cyclical market trends.

#### **Finance and Accounts**

The company's Profit & Loss Account for the year ended 31<sup>st</sup> March, 2018 shows a net profit of Rs. 550 lacs after debiting or crediting the following amounts:

- (a) Depreciation Rs. 40 lacs.
- (b) Interest amounting to Rs. 2 lacs on term loan from a bank for purchase of machinery for one of its tea factories.
- (c) Repairs to factory building amounting to Rs. 15 lacs for which a sum of Rs. 10 lacs was withdrawn from

Tea Deposit Account maintained with National Bank for Agricultural and Rural Development (NABARD) as per relevant section of the Income-tax Act.

- (d) Profit from sale of green tea leaves plucked in own gardens Rs. 20 lacs.
- (e) Rs. 5 lacs on account of stamp duty and registration fees for the issue of bonus shares.
- (f) Rs. 10 lacs, being sales tax dues of earlier years determined during the year on disposal of appeals by the appellate authority, for which the company has furnished a bank guarantee to the Commercial Tax Authority.
- (g) Rs. 5 lacs written off as bad in respect of a trade debt transferred from Saraswati Tea Limited in previous year 2008-09 pursuant to a scheme of amalgamation approved by the jurisdictional High Court.
- (h) Rs. 2 lacs contributed to Employees Welfare Trust.
- (i) Interest on inter-corporate deposit Rs. 1 lac and Rs. 1.50 lacs for February, 2018 and March, 2018 respectively, for which tax deducted at source was paid to the Central Government in June, 2018.

**Following additional information is furnished by the management:**

- (i) Depreciation as per Tax Audit Report under Section 44AB Rs. 55 lacs.
- (ii) One financial institution converted arrears of interest of Rs. 10 lacs into a new loan in financial year 2015-16, which is repayable in five annual installments. The company has paid Rs. 2 lacs towards the installment due for the financial year 2017-18 in February, 2018.
- (iii) A sum of Rs. 250 lacs deposited in NABARD on 15<sup>th</sup> June, 2018 as per the relevant section of the Income Tax Act.

The Company has provided the following particulars relating to tea sold by it to More Tea Pvt. Ltd.

Particulars	Rs.
List price of the Tea (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such tea	5,000
CGST and SGST chargeable on the tea	10,440
Packing charges (not included in price above)	1,000

The Company received Rs. 2,000 as a subsidy from a NGO on sale of such Tea. The Price of Rs. 50,000 of the tea is after considering such subsidy.

Total Tea Ltd. offers 2% discount on the list price of the tea which is recorded in the invoice for the goods.

1. Ayushman Medical Centre, a clinical establishment, offers the following services:

S. No.	Particulars	Rs. (excluding GST if applicable)
(i)	Consultancy charges paid to doctors	10,00,000
(ii)	Food supplied to in-patients as advised by the dietician of the Ayushman Medical Centre	5,00,000
(iii)	Food supplied to attendants of the in-patients	2,50,000
(iv)	Alternative medical treatments by way of Naturopathy. Such therapy is a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010	3,50,000

(v)	Reiki healing treatments. Such therapy is not a recognized system of medicine in terms of section 2(h) of Clinical Establishments Act, 2010	5,00,000
(vi)	Preservation of stem cells by Ayushman Medical Centre's cord blood bank	90,000

You are required to compute the value of supply of Ayushman Medical Centre, if any, in the light of relevant GST provisions

- (a) Nil
- (b) 2690000
- (c) 750000
- (d) 1250000
2. Kesar Maharaj, a registered supplier, gave a classical dance performance in an auditorium. The consideration charged for the said performance is Rs. 1,60,000. Such performance is not for promotion of any product/services. Rate of CGST and SGST on such services is 9% each. Assuming the services supplied by him to be intra-State supplies, which of the following statements are true?
- (a) GST liability of Kesar Maharaj is Nil as services provided by him are exempt.
- (b) Kesar Maharaj is liable to pay CGST and SGST of Rs. 14,400 and Rs.14,400 respectively
- (c) Kesar Maharaj is liable to pay CGST and SGST of Rs. 900 and Rs.900 respectively
- (d) None of the above
3. Which of the statement(s) is/are not correct?
- (1) A person having aggregate turnover of Rs. 18,00,000 in a financial year can take voluntary registration. The person has business operations in Uttar Pradesh and Jammu and Kashmir.
- (2) A person having aggregate turnover of Rs. 18,00,000 in a financial year can take voluntary registration. The person has business operations in Uttar Pradesh and Assam.
- (3) A person having aggregate turnover of Rs. 18,00,000 can take voluntary registration. The person is an agriculturist having operations in Uttar Pradesh and Jammu and Kashmir.
- (4) A person having aggregate turnover of Rs. 18,00,000 can take voluntary registration. The person is an agriculturist having operations in Uttar Pradesh and Assam.
- (a) (1)
- (b) (2), (4).
- (c) (2), (3), and (4)
- (d) (3) and (4)
4. Which of the option is correct?
- (a) Supplies to EOU's can be made without payment of tax under bond/LUT
- (b) Supplies to EOU's are zero rated.
- (c) Both (a) and (b) are correct
- (d) None of the above

5. Mr. X of Agra, Uttar Pradesh purchased goods from Mr. Y of Mumbai, Maharashtra. While the goods were being packed in Mumbai godown of Mr. Y, Mr. X got an order from Mr. K of Bangalore, Karnataka for the said goods. Mr. X agreed to supply the said goods to Mr. K and asked Mr. Y to deliver the goods to Mr. K at Bangalore.

What is/are the place of supply(ies) in this case?

- (a) Agra  
 (b) Agra, Bangalore  
 (c) Bangalore  
 (d) Mumbai
6. Division S sells one of its products to division T in the same group. The product cost consists of Rs.40 for materials, Rs.15 for direct labour, Rs.2.50 for variable overhead and Rs.27.50 for fixed overhead. S division sets its profit margin equal to 20% of the variable cost. What is the ideal transfer price if S is operating at full capacity?
- (a) 96.5  
 (b) 57.5  
 (c) 85.0  
 (d) 69.0
7. Company has an obsolete machine that are carried in factory at a total cost of 26,200. If this machine are upgraded at a total cost of Rs.12,600, it can be sold for Rs.22,800. As an alternative, the machine can be sold in its present condition for Rs.11,200. The sunk cost in this situation is:
- (a) 26,200  
 (b) 12,600  
 (c) 22,800  
 (d) 11,200
8. Company has two divisions, K and L. Each division is currently considering the following separate projects:

Particulars	Division K	Division L
Capital Required for the project	Rs. 16.3 million	Rs.11.1 million
Sales Generated by project	Rs. 7.2 million	Rs.4.4 million
Operating Profit Margin	15%	12%
Cost of Capital	5%	5%
Current ROI	7.5%	4.5%

If RI is used as the basis for the investment decision, which Division(s) would choose to invest in the project?

- (a) Division K only  
 (b) Division L only  
 (c) Both Division K and Division L  
 (d) Neither Division K nor Division L

9. Company has fixed its targets for the next year as follows:
- (1) Gaining a score of 5.3 or above on customer satisfaction surveys
  - (2) Increasing the number of chargeable hours handled by consultants to 7.1 per day
  - (3) Reducing departmental expenditure by 10%

**Which of the above targets assesses economy, efficiency and effectiveness?**

Economy Efficiency Effectiveness

- (a) 1 3 2
  - (b) 2 1 3
  - (c) 3 2 1
10. Which ONE of the following factors could explain a favourable direct material usage variance?
- (a) Poorer Management of Materials
  - (b) Lower Quality Material
  - (c) The company had reduced training of production workers as part of a cost reduction exercise.
  - (d) Better Management of Materials **(10 x 2 = 20 Marks)**
11. Compute total income of the company for the Assessment Year 2018-19 stating the reasons for each item. Ignore provisions relating to Minimum Alternate Tax. **(12 Marks)**
12. Determine the value of taxable supply made by Total Tea Ltd to More Tea Ltd. **(6 Marks)**
13. Calculate the following in respect of Budget :
- (i) The Production Budget for the month of May 2017 (in quantity) **(5 Marks)**
  - (ii) the Raw Material Purchase Budget for May 2017 (in quantity) **(7 Marks)**