

State of Kerala and Others v. Bhavani Tea Produce Co. Ltd.

Civil Appeals Nos. 650 and 651 of 1964

[1966] 2 SCR 92 | 1965-10-07

Agricultural Income-tax: coffee delivered to the statutory pool accrued as a sale under mercantile accounting before later payment.

Madras Plantations Agricultural Income-tax Act, 1955 (as extended to Kerala): sections 2, 3, 4 and 54 | Coffee Act, 1942 (originally Coffee Market Expansion Act): sections 5, 17, 22, 25, 33 and 34 | Constitution of India: Article 226

Five-judge bench; judgment delivered by M. Hidayatullah, J. | P. B. Gajendragadkar, C.J. | K. N. Wanchoo, J. | M. Hidayatullah, J. | J. C. Shah, J. | S. M. Sikri, J.

Mercantile accounting and statutory pooling are material

The company recorded Coffee Board valuations when coffee was delivered. The Court expressly distinguished cash accounting, under which actual receipt would matter.

Earlier crop alone was not enough

The relevant sales and mercantile entries predated 1 April 1954. The reasoning did not exempt later sales merely because the crop was grown earlier.

01 FACTS OF THE CASE

For assessment years 1955-56 and 1956-57, the company contested inclusion of Rs.97,090 and Rs.10,095 received from the Coffee Board during the relevant accounting years. The payments related to coffee delivered in 1952-53 and 1953-54, before 1 April 1954, whose value had already been entered under the mercantile system. The authorities treated actual receipt as decisive. The High Court cancelled the impugned assessments and directed reassessment excluding those sums; the State appealed. The dispute before the Supreme Court was confined to the timing of these two receipts.

Source: [SCR93E-95B / PDFpp.2-4](#)

02 DISCUSSION BY THE HON'BLE COURT

The charging Act taxed the previous year's agricultural income. Under the Coffee Act's surplus-pool scheme, the Board valued delivered coffee, pooled and marketed it, and could pledge it. Upon delivery the grower retained no ownership rights in that coffee, only a right to payments under section 34; the Board was neither the grower's trustee nor agent. Payment was proportionate to the coffee's pool value, subject to the statutory immediate-settlement option. These features made delivery a sale by operation of law, despite the absence of an ordinary voluntary sale and despite delayed payment.

Source: [SCR95C-100B / PDFpp.4-9](#)

03 JUDICIAL DECISION

The company's mercantile accounts recorded the Coffee Board valuation on delivery. For this company income belonged to the year of the relevant sale entry, not the later cash payment; the Court contrasted cash-system accounting. Since the sales preceded 1 April 1954, they fell in earlier years over which the charging Act did not operate. The two receipts were therefore not taxable in the disputed assessment years. The Court agreed with reasoning distinguishing the time of sale from the mere year when the crop was grown.

Source: [SCR99E-101A / PDFpp.8-10](#)

04 OUTCOME / IN WHOSE FAVOUR

Both State appeals were dismissed with costs and one set of hearing fees. The High Court's directions for reassessment excluding Rs.97,090 and Rs.10,095 stood. This was a final ruling on those receipts' timing, not cancellation of every tax liability or a new Supreme Court remand. An earlier Tribunal remand on unrelated matters was part of the procedural history, not the question decided here.

Source: [SCR94C-G and SCR101A-B / PDFpp.3,10](#)

05 AKHB REVIEW POINT

AKHB analysis: match the delivery record, statutory transfer of ownership, Board valuation, accounting entry and eventual pool payment before deciding the tax year. Distinguish a statutory purchaser from an agent or trustee, and an earlier crop from an earlier completed sale. Keep the actual accounting method and historical charging cutoff explicit. For a present dispute, independently verify the applicable pooling legislation, accounting and accrual rules, state enactment and later treatment; this decision does not confer a blanket agricultural-income exemption.

Source: [AKHB analysis based on SCR99C-101A / PDFpp.8-10](#)

SOURCE & VERIFICATION

Supreme Court Reports scan - public eSCR mirror

Complete 10-page SCR report read. Reporter headnote occupies PDFp.1 and the beginning of p.2; judicial text begins at SCR93E / PDFp.2 and ends at SCR101B / PDFp.10. There are no numbered paragraphs; SCR page and column pinpoints are used.

Open cited source rendition

All 10 source pages were read; PDFpp.1,2,3,9,10 were visually checked. Caption, judgment date, two appeal numbers, five-judge bench and exact source hash were verified.

The report sometimes calls the respondent company the appellant in the narrative. Its caption, opening and disposition identify the State as appellant and the company as respondent.

SCR94B's loose commencement wording is read with the reproduced charge at SCR95F: the first charged financial year commenced on 1 April 1955, covering its previous year. The material cutoff for the earlier income was 1 April 1954. No silent alteration of source bytes is made.

STATUTORY SCOPE

This historical state agricultural Income-tax ruling concerns timing under mercantile accounting and statutory Coffee Board pooling. It is not a general exemption for coffee receipts or a current central Income-tax rule.

LATER TREATMENT

Source checked 2026-10-14. Historical agricultural Income-tax decision. No comprehensive subsequent-treatment, review, stay or present-law verification was performed.

IDENTIFIED SOURCE LINKS

[reported judgment - PDF pages: 10](#)

SHA-256: 4b8e71d97242dbd623fd0fda9fd5c397f38ab0ac88bbdffa677c427ef7eec643

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