ALL CASE STUDIES AND MCQs OF RTP & MTP May'24 at one Place

CASE STUDY 1 – RTP MAY'24

RTS Ltd, ("RTS" or the "Company"), is engaged in the business of manufacturing of equipment/components. The Company has a contract with the Indian Railways for a brake component which is structured such that:

- The Company's obligation is to deliver the component to the Railways' stockyard, while the delivery terms are ex-works, the Company is responsible for engaging a transporter for delivery.
- Railways sends an order for a defined quantity.
- The Company manufactures the required quantity and informs Railways for carrying out the inspection.
- Railways representatives visit the Company's factory and inspect the components and mark each component with a quality check sticker.
- Goods once inspected by Railways are marked with a hologram sticker to earmark for delivery identification by the customer when they are delivered to the customer's location.
- The Company raises an invoice once it dispatches the goods.

The management of RTS is under discussion with the auditors of the Company in respect of accounting of a critical matter as regards its accounting with respect subsequent events i.e. events after the reporting period. They have been checking as to which one of the following events after the reporting period provides evidence of conditions that existedat the end of the reporting period?

i. Nationalisation or privatization by government
ii. Out of court settlement of a legal claim
iii. Rights issue of equity shares
iv. Strike by workforce
v. Announcing a plan to discontinue an operation

The Company has received a grant of ₹ 8 crores from the Government for setting up a factory in a backward area. Out of this grant, the Company distributed ₹ 2 crores as dividend. The Company also received land, free of cost, from the State Government but it has not recorded this at all in the books as no money has been spent.

RTS has a subsidiary, A Ltd, which is evaluating its production process wherein normal waste is 5% of input. 5,000 MT of input were put inprocess resulting in wastage of 300 MT. Cost per MT of input was ₹ 1,000. The entire quantity of waste was on stock at the end of thefinancial year.

i. When should RTS Ltd recognize revenue as per the Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006? Would your answer be different if inspection is normally known to lead to no quality rejections?
   (a) Revenue should be recognized on dispatch of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
   (b) Revenue should be recognized on completion of inspection of components. The assessment would not change even in case where inspection is normally known to lead to no quality rejections.
   (c) Revenue should be recognized on dispatch of components. The assessment would change where inspection is normally known to lead to no quality rejections.

(d) Revenue should be recognized on delivery of the componentto the Railways' stockyard. The assessment would change where inspection is normally known to lead to no quality rejections.

ii. In respect of A Ltd, state with reference to Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006, what would be value of the inventory to be recorded in the booksof accounts?

(a) ₹47,00,000.

(b) ₹50,00,000.

(c) ₹49,50,000.

(d) ₹49,47,368.

iii. Please guide regarding the accounting treatment of both the grants mentioned above in line with the requirements of Accounting Standard 12.

(a) Distribution of dividend out of grant is correct. In the second case also not recording land in the books of accounts is correct.

(b) Distribution of dividend out of grant is incorrect. In the second case, not recording land in the books of accounts is correct.

(c) Distribution of dividend out of grant is correct. In the second case, land should be recorded in the books of accounts at a nominal value.

(d) Distribution of dividend out of grant is incorrect. In the second case, land should be recorded in the books of accounts at a nominal value.

(i)	(ii)	(iii)
(b)	(d)	(d)

CASE STUDY 2 – MTP MAY'24

SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

The Company is evaluating below mentioned schemes:

i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex - gratia payments to employees on retirement.

ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2006.

i. What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?
   (a) Gross basis.
   (b) Net basis.
   (c) Depends on the accounting policy of the Company.
   (d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

ii. Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.
   (a) MTM (marked to market value) of contract will be recorded on 31 March 2024.
   (b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.
   (c) No accounting will be done during the year ended 31 March 2024.
   (d) Premium on contract will be amortized over the life of the contract.

iii. You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.
   (a) 1 – Change in accounting policy. 2 – Change in accounting policy.
   (b) 1– Not a change in accounting policy. 2 – Change in accounting policy.
   (c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.

(d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

iv. Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.

(a) ADI Ltd. would using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.

(b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.

(c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.

(d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

(i)	(ii)	(iii)	(iv)
(a)	(d)	(c)	(c)

CASE STUDY 3 – MTP MAY'24

On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple choice questions:

i. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?

(a) ₹ 2,00,000 incurred as legal cost

(b) ₹ 60,000 – costs of relocating employees

(c) ₹ 80,000 costs of inauguration ceremony

(d) ₹ 24,000 – allocated general overhead cost

ii. What amount of employment cost of construction workers will be capitalized to the cost of factory building?

(a) ₹ 2,90,000

(b) ₹ 3,48,000

(c) ₹ 2,32,000

(d) ₹ 29,000

iii. What is the amount of net borrowing cost capitalized to the cost of the factory?

(a) ₹ 1,89,000

(b) ₹ 1,68,000

(c) ₹ 1,44,000

(d) ₹ 1,64,000

iv. What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023?

(a) ₹ 30,00,000

(b) ₹ 57,78,125

(c) ₹ 27,78,125

(d) ₹ 58,00,000

(i)	(ii)	(iii)	(iv)
(a)	(c)	(d)	(b)

CASE STUDY 4 – MTP MAY'24

(BUYBACK OF SHARES)

Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31 st March, 2023:

A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000

B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;

C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000

D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

i. By using the Shares Outstanding Test the number of shares that can be bought back
   - (a) 1,25,000
   - (b) 31,250
   - (c) 25,000
   - (d) 30,000

ii. By using the Resources Test determine the number of shares that can be bought back:
   - (a) 25,000
   - (b) 31,250
   - (c) 28,750
   - (d) 39,062

iii. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:
   - (a) 25,000
   - (b) 31,250
   - (c) 28,750
   - (d) 39,062

iv. On the basis of all three tests determine Maximum number of shares that can be bought back:
   - (a) 25,000
   - (b) 31,250
   - (c) 28,750
   - (d) 39,062

(i)	(ii)	(iii)	(iv)
(b)	(d)	(c)	(c)

General MCQs

1. (RTP MAY'24)

Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings, ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned₹24 lakh). At the year end, how much cost of borrowing Gyan Limited willcapitalise?

(a) Interest paid on ₹10 crore i.e. ₹1 crore

(b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹60 Lakh.

(c) Interest paid less income on temporary investment i.e. ₹76 lakh

(d) Nothing will be capitalized

2. (MTP MAY'24)

All of the following costs are excluded while computing value of inventories except?

(a) Selling and Distribution costs

(b) Allocated fixed production overheads based on normal capacity.

(c) Abnormal wastage

(d) Storage costs (which is necessary part of the production process) (2 Marks)

3. (MTP MAY'24)

According to AS-18 Related Party Disclosures, which ONE of the following is not a related party of Skyline Limited?

(a) A shareholder of Skyline Limited owning 30% of the ordinary share capital

(b) An entity providing banking facilities to Skyline Limited in the normal course of business

(c) An associate of Skyline Limited

(d) Key management personnel of Skyline Limited (2 Marks)

4. (MTP MAY'24)

A process of reconstruction, which is carried out without liquidating the company and forming a new one is called

(a) Internal reconstruction.

(b) External reconstruction.

(c) Amalgamation in the nature of merger.

(d) Amalgamation in the nature of purchase. (2 Marks)

1	2	3	4
(c)	(b)	(b)	(a)