

**ALL CASE STUDIES AND MCQs OF RTP & MTP May'24 at one Place****CASE SCENARIO 1 – MTP MAY'24**

U Ltd. is engaged in mining and many other industries and prepares its financial statements following Indian Accounting Standards and follows April-March as their financial year. During the year 20X2 -20X3, the company has faced some issues and for their solution seeks your professional advice.

- (i) U Ltd. and F Ltd. are partners of a joint operation engaged in the business of mining precious metals. The entity uses a jointly owned drilling plant in its operations. During the year ended 31 st March 20X3, an inspection was conducted by the government authorities in the mining fields. The inspection authorities concluded that adequate safety measures were not followed by the entity. As a consequence, a case was filed and a penalty of ₹ 50 crores has been demanded from U Ltd.

The legal counsel of the company has assessed the demand and opined that appeals may not be useful, and the appeal orders will be unfavourable to the joint arrangement. Out of ₹ 50 crores (to be paid by U Ltd.), ₹ 30 crore will be reimbursed by F Ltd. later, as per the terms of the Joint Operation Agreement. At the year end, actual reimbursement was not received from F Ltd.

- (ii) On 1st April 20X2, U Ltd. leased a machine from D Ltd. on a three-year lease. The expected future economic life of the machine on 1st April 20X2 was eight years. If the machine breaks down, then under the terms of the lease, D Ltd. would be required to repair the machine or provide a replacement.

D Ltd. agreed to allow U Ltd. to use the machine for the first six months of the lease without the payment of any rental as an incentive to U Ltd. to sign the lease agreement. After this initial period, lease rentals of ₹ 2,10,000 were payable six-monthly in arrears, the first payment falling due on 31st March 20X3.

- (iii) U Ltd. has issued 10,00,000, 9% cumulative preference shares. The Company has arrears of ₹ 15 crores of preference dividend as on 31st March 20X3, it includes current year arrears of ₹ 1.75 crores. The Company did not declare any dividend for equity shareholders as well as for preference shareholders.

Further U Ltd. has also issued certain optionally convertible debentures, which are outstanding as at the year end.

- (iv) On 1st January 20X3, U Ltd. acquired 30% of the shares of T Ltd. The investment was accounted for as an associate in U Ltd.'s consolidated financial statements. Both U Ltd. and T Ltd. have an accounting year end of 31st March 20X3. U Ltd. has no other investments in associates.

Net profit for the year in T Ltd.'s income statement for the year ended 31 st March 20X3 was ₹ 0.23 crores. It declared and paid dividend of ₹ 0.1 crore on 1st March 20X3. No other dividends were paid in the year.

- (v) On 1st January, 20X3, U Ltd. also acquired a 60% stake in S Ltd. The cash consideration payable was ₹ 1 crore to be paid immediately, and ₹ 1.21 crores after two years. The fair value of net assets of S Ltd. at acquisition date was ₹ 3 crores. U Ltd. has calculated that its cost of capital is 10%. Non-controlling interest is measured at the proportionate share of identifiable net assets.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 1 to 5 in line with relevant Ind AS:

1. **With respect to a joint operation engaged in the business of mining precious metals, how will the liability be disclosed in the books of U Ltd.?**
  - (a) Provision for ₹ 20 crores and a contingent liability for ₹ 30 crores
  - (b) Contingent liability for ₹ 50 crores
  - (c) Provision for ₹ 30 crores and a contingent liability for ₹ 20 crores
  - (d) Provision for ₹ 50 crores.
  
2. **Calculate the current liability of leased machine from D Ltd. to be shown in the balance sheet as at 31st March 20X3.**
  - (a) ₹ 70,000
  - (b) ₹ 1,40,000
  - (c) ₹ 3,50,000
  - (d) ₹ 4,20,000
  
3. **What is the amount of preference dividend to be reduced from profit or loss for the year for calculating Basic Earnings Per Share?**
  - (a) ₹ 15 crores
  - (b) ₹ 1.75 crores
  - (c) ₹ 13.25 crores
  - (d) Nothing, as no dividend has been declared by the entity.
  
4. **What amount will be shown as an inflow in respect of earnings from the associate in the statement of cash flows of U Ltd. for the year ended 31st March 20X3?**

- (a) ₹ 0.020 crores
- (b) ₹ 0.026 crores
- (c) ₹ 0.030 crores
- (d) ₹ 0.046 crores

5. Calculate the amount of goodwill / gain on bargain purchase arising upon acquisition of S Ltd.

- (a) ₹ 1 crore gain on bargain purchase
- (b) ₹ 80 lakhs gain on bargain purchase
- (c) ₹ 20 lakhs goodwill
- (d) ₹ 41 lakhs goodwill

1	2	3	4	5
d	a	b	c	c

**CASE SCENARIO 2 – MTP MAY'24**

G Ltd. is a multi-national company and prepares and presents its financial statements following Indian Accounting Standards as its securities are listed on National Stock Exchange. G Ltd. has a number of business segments.

- (i) H Ltd. is one of the recently acquired Indian subsidiary of G Ltd. It has to adopt Ind AS for the first time as at 31st March, 20X4, with 1st April, 20X2 as the date of transition. As at 31st March, 20X2, the value of raw material inventories was incorrectly reported due to an error. The amounts are significant.
- (ii) G Ltd. is also engaged in software development. It enters into a contract with a customer to transfer a software license, perform an installation service and provide unspecified software updates and technical support (online and telephone) for a two-year period. G Ltd. sells the license, installation service and technical support separately. The installation service includes changing the web screen for each type of user (for example, marketing, inventory management and information technology). The installation service is routinely performed by other entities and does not significantly modify the software. The software remains functional without the updates and the technical support.
- (iii) G Ltd. sells a 20% interest in a wholly owned subsidiary K Ltd. to outside investors for ₹ 100 lakh in cash. The carrying value of K Ltd.'s net assets is ₹ 300 lakh, including goodwill of ₹ 65 lakh from the subsidiary's initial acquisition.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 6 to 8 in line with relevant Ind AS:

**1. With respect to H Ltd. state whether the error should be reported in the Ind AS financial statements and how to rectify it.**

- (a) H Ltd. shall report the impact of the error as a correction to Statement of Profit and Loss for the comparative period i.e., the year ended 31st March, 20X3.
- (b) The correction shall be reflected in a reconciliation as at the end of the first Ind AS reporting period i.e., as at 31st March, 20X3.
- (c) The impact of the correction is significant and it shall be amortized on a rational and systematic basis in the first two periods of Ind AS reporting i.e., years ended 31 st March, 20X3 and 31st March, 20X4.
- (d) The first Ind AS financial statements shall distinguish the correction of errors from changes in accounting policies and reported as part of the reconciliations as at 1 st April, 20X2.

**2. How many performance obligations G Ltd. has, with respect to the contract with the customer to transfer software license?**

- (a) 4 performance obligations

- (b) 3 performance obligations
- (c) 2 performance obligations
- (d) 1 performance obligation

**3. What is the amount of gain on sale of interest in subsidiary K Ltd.?**

- (a) ₹ 100 lakhs
- (b) ₹ 60 lakhs
- (c) ₹ 53 lakhs
- (d) ₹ 40 lakhs

1	2	3
d	a	d

**CASE SCENARIO 3 – MTP MAY'24**

A Ltd. is a diversified business group operating in multiple business segments across different parts of the world. It maintains its books of accounts and publishes its annual consolidated financial statements under Indian Accounting Standards.

The central finance team has been working on closing the books of accounts and generating consolidated financial statements for the year ended 31st March 20X3. You are the Finance Controller and your assistants want your views on following transactions for finalization of financial statements:

- (i) B Ltd., one of the subsidiaries of A Ltd., reported net income of ₹ 25 lakhs, which equals the company's comprehensive income. The company has no outstanding debt. Following is the information from the comprehensive balance sheet (₹ in lakhs) related to cash flows:

Extract of Balance Sheet	31.03.20X2	31.03.20X3
Equity share capital	100	100
Further issue of equity shares	100	140
Retained earnings	100	115
Total shareholders' equity	300	357

- (ii) A Limited also operates in the travel industry and incurs costs unevenly through the financial year. Advertising costs of ₹ 40 lakhs were incurred on 1st July 20X2, and staff bonuses are paid at year-end based on sales. Staff bonuses are expected to be around ₹ 400 lakhs for the year; of that a sum of ₹ 60 lakhs would relate to the period ending 30th September 20X2.
- (iii) An item of equipment X was acquired by A Ltd. on 1st April 20X1 for ₹ 1,00,000 having an estimated useful life of 10 years, with a residual value of zero. The asset is depreciated on a straight-line basis. The asset was revalued to ₹ 1,04,000 on 31st March 20X3.
- (iv) A Ltd. has spent ₹ 15,00,000 in developing a new product during the year ended 31st March, 20X3. The development costs incurred were recognised as an intangible asset as per Ind AS 38. For the purposes of computing the taxable income, these expenses are allowable in full in the year of incurring the expenses. At the year end, the Company recognised an impairment loss of ₹ 75,000 against the intangible asset.
- (v) The company has issued preference shares that are redeemable at the option of the holder. Three months before the end of the year, it was probable that the holders would require redemption.

Analyze the transactions mentioned above and choose the most appropriate option in the below questions 9 to 13 in line with relevant Ind AS:

- What cash flow should B Ltd. report, as financing activity in the statement of cash flows?
  - Issuance of equity shares ₹ 240 million; dividends paid ₹ 10 million
  - Issuance of equity shares ₹ 100 million; dividends paid ₹ 10 million
  - Issuance of equity shares ₹ 140 million; dividends paid ₹ 10 million
  - Issuance of equity shares ₹ 40 million; dividends paid ₹ 10 million

2. With respect to point (ii), what costs should be included in the entity's financial report for the quarter ended 30th September 20X3?
- Advertising costs ₹ 40 lacs; staff bonuses ₹ 100 lacs
  - Advertising costs ₹ 10 lacs; staff bonuses ₹ 100 lacs
  - Advertising costs ₹ 10 lacs; staff bonuses ₹ 60 lacs
  - Advertising costs ₹ 40 lacs; staff bonuses ₹ 60 lacs
3. What will be the annual depreciation charge on equipment X for years 3 to 10 and the amount of the revaluation surplus that can be transferred to retained earnings annually?
- Annual depreciation charge will be ₹ 10,000 and an annual transfer of ₹ 3,000 can be made from revaluation surplus to retained earnings.
  - Annual depreciation charge will be ₹ 10,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.
  - Annual depreciation charge will be ₹ 13,000 and an annual transfer of ₹ 3,000 may be made from revaluation surplus to retained earnings.
  - Annual depreciation charge will be ₹ 13,000, however, annual transfer from revaluation surplus to retained earnings is not permitted.
4. With respect to point (iii), What is the tax base of the intangible asset?
- ₹ 15,00,000
  - ₹ 75,000
  - ₹ 14,25,000
  - ₹ 0
5. Which one of the following is the appropriate classification for the annual payment of ₹ 12,000 to preference shareholders at year-end?
- Dividend ₹ 12,000
  - Interest expense ₹ 12,000
  - Dividend ₹ 3,000, interest expense ₹ 9,000
  - Dividend ₹ 9,000, interest expense ₹ 3,000

1	2	3	4	5
d	d	c	d	b

**CASE SCENARIO 4 – RTP MAY'24**

FA Ltd. is a company which manufactures aircraft parts and engines and sells them to large multinational companies like Boeing and Airbus Industries. Following are the details of some of the transactions entered into by the company:

- i. On 1st April 20X2, the company began the construction of a new production line in its aircraft parts manufacturing shed.

**Costs relating to the production line are as follows:**

Details	Amount ₹ in lakhs
Costs of the basic materials (list price ₹ 12.5 lakhs less 20% trade discount)	10.00
Recoverable goods and services tax incurred but not included in the purchase cost	1.00
Employment costs of the construction staff for three months till 30th June 20X2	1.20
Other overheads directly related to the construction	0.90
Payments to external advisors relating to the construction	0.50
Expected dismantling and restoration costs	2.00

The production line took two months to make ready for use and was brought into use on 31st May 20X2. The other overheads were incurred during the two-month period ended on 31st May 20X2. They included an abnormal cost of ₹ 0.3 lakhs caused by a major electrical fault.

The production line is expected to have a useful economic life of eight years. After 8 years, FA Ltd. is legally required to dismantle the plant in a specified manner and restore its location to an acceptable standard. The amount of ₹ 2 lakhs included in the cost estimates is the amount that is expected to be incurred at the end of the useful life of the production line. The appropriate discount rate is 5%. The present value of ₹ 1 payable in 8 years at a discount rate of 5% is approximately ₹ 0.68.

Four years after being brought into use, the production line will require a major overhaul to ensure that it generates economic benefits for the second half of its useful life. The estimated cost of the overhaul, at current prices, is ₹ 3 lakhs.

No impairment of the plant had occurred by 31st March 20X3.

- ii. During the year ended 31st March 20X3, FA Ltd. provided consultancy services to a customer regarding the installation of a new production system related to aircraft parts. The system has caused the customer considerable problems, so the customer has taken legal action against the Company for the loss of profits that has arisen as a result of the problems with the system. The customer has claimed damages to the tune of ₹ 1.6 lakhs.

The legal department of FA Ltd. considers that there is a 25% chance the claim can be successfully defended. The legal department further stated that they are reasonably confident the Company is covered by insurance against these types of loss. The accountant feels nothing needs to be provided for this claim as the Company is suitably covered against any possible losses.

- iii. FA Ltd. has an associate company, Flynet Limited. Following are the information of Flynet Limited for the

year ended 31st March 20X3:

Particulars	₹ in lakhs
Net Income after taxes	120
Decrease in accounts receivables	20
Depreciation	25
Increase in inventory	10
Increase in accounts payable	7
Decrease in wages payable	5
Tax charge for the year (deferred tax liabilities)	15
Profit from sale of land	2

On the basis of the facts given above, chose the most appropriate answer to Questions 1 to 5 below based on the relevant Indian Accounting Standards (Ind AS).

- Which of the following items need to be capitalized in determining the cost of Production Line?**

  - Abnormal cost of ₹ 0.3 lakhs
  - Recoverable GST of ₹ 1 lakhs
  - Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 2 lakhs
  - Initial estimate of the costs of dismantling and removing the item and restoration of site of ₹ 1.36 lakhs
- Calculate the company's associate Flynet Ltd.'s cash flow from operations.**

  - ₹ 158 lakhs
  - ₹ 170 lakhs
  - ₹ 174 lakhs
  - None of the above
- What accounting treatment should be done in FA Ltd.'s books for the year ending 31st March 20X3, as the customer has taken legal action against the Company on the loss of profits that has arisen as a result of the problems with the system?**

  - Nothing needs to be provided for claim instituted by the customer as the Company is suitably covered against any possible losses.
  - Provision of ₹ 1.6 lakhs should be recognised with a corresponding charge to profit or loss.
  - Provision of ₹ 0.4 lakhs as per best possible outcome should be recognised with a corresponding charge to profit or loss.
  - Contingent Liability would be disclosed in the 31st March 20X3 financial statements. Charge to profit or loss if any would be recognised in the period when the claim is settled.
- Compute the total amount to be charged to the Statement of Profit and Loss with respect to Production Line for the year ending 31st March 20X3 and the balance of Provision for**

**Dismantling Cost carried to Balance Sheet.**

- (a) ₹ 1.70 lakhs; ₹ 1.36 lakhs
- (b) ₹ 1.42 lakhs; ₹ 1.70 lakhs
- (c) ₹ 1.76 lakhs; ₹ 1.42 lakhs
- (d) ₹ 1.42 lakhs; ₹ 1.76 lakhs

**5. Compute the cost of the production Line to be capitalized initially on 31st May, 20X2.**

- (a) ₹ 13.26 lakhs
- (b) ₹ 14.60 lakhs
- (c) ₹ 13.96 lakhs
- (d) ₹ 15.76 lakhs

1	2	3	4	5
d	b	b	c	a

**CASE SCENARIO 5 – RTP MAY'24**

HS Limited (HSL) is a car manufacturing company. During the year, HSL has entered into many transactions, details of which are given below.

- i. With the intention to expand, HSL has entered into a Share Purchase Agreement ("SPA") with the shareholders of FM Limited to purchase 30% stake in FM Limited as at 1st June 20X2 at a price of ₹ 30 per share. As per the terms of SPA, HSL has an option to purchase an additional 25% stake in FM Limited on or before 15th June 20X2 at a price of ₹ 30 per share. Similarly, the selling shareholder has an option to sell additional 25% stake in FM Limited on or before 15th June, 20X2 to HSL at a price of ₹ 30 per share. The decisions on relevant activities of FM Limited are made in Annual General Meeting / Extraordinary General Meeting (AGM / EGM). A resolution in AGM / EGM is passed when more than 50% votes are cast in favour of the resolution. An AGM / EGM can be called by giving atleast 21 days advance notice to all shareholders.
- ii. During the year, HSL issued Compulsory Convertible Debentures ("CCDs") on a private placement basis for ₹ 100 lakh. Each CCD is convertible into 5 shares at the end of 4 years from the date of issue and an annual interest is payable at the rate of 6% p.a. At initial recognition, HSL recognized a liability component of compound instrument at ₹ 20,79,063. HSL also incurred expenses of ₹ 2,00,000 in connection with the issue of the instrument. Nature of expenses includes fees paid to legal advisors, registration and regulatory fees.
- iii. HSL acquired a 40% stake in NM Limited as at 1st January, 20X2 for ₹ 8,00,000 and classified the investment in NM Limited as an associate. As at 1st January, 20X2, the carrying amount and fair value of plant & equipment of NM Limited is ₹ 3,00,000 and ₹ 5,00,000 respectively with remaining useful life of 5 years (i.e. 20 quarters). From 1st January, 20X2 to 31st March, 20X2, NM Limited generated a profit of ₹ 50,000.
- iv. While selling a car, HSL provides a trade discount of 1% on sale price which is mentioned on the invoice. HSL provides a credit period of 7 days to its customers, however if paid upfront then HSL gives an additional cash discount of 2%. HSL also provides a voucher worth ₹ 500 with a validity of 1 year which can be used at an apparel store.

On the basis of the facts given above, chose the most appropriate answer to Questions 6 to 10 below based on the relevant Indian Accounting Standards (Ind AS).

**1. At what amount HSL shall carry its investments in NM Limited in its consolidated financial statements as at 31st March, 20X2?**

- (a) ₹ 8,00,000
- (b) ₹ 8,20,000
- (c) ₹ 8,16,000
- (d) ₹ 8,10,000

- 2. How should HSL account for the trade discount, cash discount and voucher given to customers on sale of a car?**
- (a) Trade discount shall be reduced from the revenue however cash discount and value of voucher shall be charged as expenses.
  - (b) Trade discount and cash discount both shall be reduced from the revenue however value of voucher shall be charged as expenses.
  - (c) Trade discount, cash discount and value of voucher shall be charged as expenses.
  - (d) Trade discount, cash discount and value of voucher shall be reduced from revenue.
- 3. What shall be the accounting treatment of directly attributable expenses of ₹ 2 lakh incurred in connection with the issue of Compulsory Convertible Debentures?**
- (a) Entire ₹ 2,00,000 shall be recognized as expenses in the statement of profit and loss in the current year.
  - (b) Entire ₹ 2,00,000 shall be reduced from equity in the current year.
  - (c) A proportion of ₹ 1,58,419 shall be reduced from equity and Balance of ₹ 41,581 shall be recognized as interest cost over the period of 4 years using an effective interest method.
  - (d) Entire ₹ 2,00,000 shall be recognized as interest cost over the period of 4 years using effective interest method
- 4. With more acquisitions, at the end of the year, HSL has investments in 2 subsidiaries, 3 associates and 1 joint venture. Which of the following statements is correct in relation to accounting of these investments in separate financial statements?**
- (a) HSL is required to measure all such investments at cost.
  - (b) HSL has an option to account for the investments in associates and joint ventures using equity method of accounting and carry the investments in subsidiaries at cost.
  - (c) HSL has an option for each investment to measure either at cost or in accordance with Ind AS 109.
  - (d) HSL has an option to measure all such investments either at cost or in accordance with Ind AS 109. The option is available for each category of investments separately (i.e. subsidiaries, associates and joint venture).
- 5. With respect to the SPA entered by HSL, determine the date when HSL gained control over FM Limited**
- (a) 1st June, 20X2.
  - (b) 15th June, 20X2.

- (c) On the date of AGM/EGM
- (d) On the date when the resolution for AGM/EGM is issued.

1	2	3	4	5
c	d	c	d	a

## MTP General MCQ

1. On 1st April 20X1, J Ltd. subscribed for 40 million ₹ 1 loan notes in C Ltd. The loan notes were issued at 90 paise and were redeemable at ₹ 1.20 on 31st March 20X6. Interest is payable on 31st March in arrears at 4% of par value. This represents an effective annual rate of return for J Ltd. of 9.9%.

J Ltd.'s intention is to hold the loan notes until redemption. Until 31st October, 20X2 C Ltd. was a successful company with a good reputation for settling all its liabilities on their due dates. However, due to an event which occurred on 31st October 20X2, three of C Ltd.'s major customers became insolvent and this caused liquidity problems for C Ltd. During November 20X2, C Ltd. entered into negotiations with all its creditors, including J Ltd.

J Ltd. agreed to forego the interest payments due on 31st March 20X2 and 20X3, with the payments from 31st March 20X4 onwards resuming as normal.

What would be the initial measurement of financial instruments as subscription of loan notes in C Ltd.?

- (a) ₹ 40 million
  - (b) ₹ 37.782 million
  - (c) ₹ 38.4 million
  - (d) ₹ 36 million
2. ABC Ltd., a manufacturing entity, wants to forecast its financial performance based on various scenarios to comply with Ind AS guidelines. It took aid of Artificial Intelligence (AI), which can assist the company in generating accurate financial forecasts by analysing historical data, market trends, and relevant external factors. By leveraging machine learning algorithms, the company can simulate different scenarios, such as changes in market demand, input costs, or regulatory requirements.

How will AI help the management of the company?

- (a) With the help of AI, the company can make informed decisions,
- (b) With the help of AI, the company can assess potential risks
- (c) With the help of AI, the company can develop robust financial strategies in accordance with Ind AS principles.
- (d) All of the above

1	d
2	d