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MIND TRAP(MCQs) AS-10

A challenging set of multiple choice questions designed to test your understanding of accounting standards, particularly AS 10 (Revised) – Property, Plant and Equipment. Work through each question carefully before checking the answer logic.

Q1: A chemical company installs an environmental safety system that does not directly increase output but is necessary to continue production. How should the expenditure be treated?

A. Capitalise only if it increases efficiency

B. Capitalise because it enables economic benefits from other assets

C. Treat as deferred revenue expenditure

D. Expense, as it does not generate independent benefits

Q2: Entity A exchanges Car X (BV ₹13,00,000; FV ₹13,25,000) for Cash ₹15,000 and Car Y (FV ₹13,10,000). The transaction lacks commercial substance. What is the carrying value of Car Y to be recognised in the books?

(a) ₹13,25,000 – being the fair value of asset given up

(b) ₹13,00,000 – being the book value of Car X transferred

(c) ₹13,10,000 – being the fair value of asset received

(d) ₹12,85,000 – being the balancing figure after deducting cash received from book value of Car X

Q3: A company acquires a plant and incurs staff training costs to operate it. How should training costs be treated?

A. Deferred and amortised over useful life

B. Included only if material

C. Capitalised as directly attributable cost

D. Expensed, as they relate to operating readiness of staff

Q4: A company acquires land and building together for a consolidated lump-sum price. The company depreciates the entire lump-sum amount treating it as a single asset. Which of the following correctly describes the treatment under AS 10 (Revised)?

(a) Impermissible – land and building are separable assets; land is generally not depreciated while building must be depreciated over its useful life

(b) Permissible, since land and building were acquired together and cannot be separated for cost allocation

(c) Impermissible – both land and building must be depreciated separately using different rates

(d) Permissible, as long as the combined useful life is estimated appropriately

Q5: Which of the following costs is NOT included in the cost of PPE?

A. Initial operating losses while demand builds up

B. Site preparation cost

C. Professional fees for installation

D. Installation cost

Q6: A company followed the policy of not charging depreciation in the year of acquisition but charging full year's depreciation in the year of disposal. Management argues this is an acceptable accounting policy since it balances out over the asset's life. Under AS 10 (Revised), this policy is:

(a) Acceptable only if applied uniformly across all classes of PPE

(b) Not acceptable – depreciation must begin when the asset is available for use, irrespective of when it was capitalised

(c) Acceptable, as AS 10 does not specifically mandate a commencement date within a financial year

(d) Acceptable, since the policy is consistent and disclosed in the financial statements

Q7: An enterprise exchanges machinery for another asset. Fair value of the received asset cannot be reliably measured, but that of the given asset can. How should the new asset be measured?

A. At fair value of asset given up

B. At carrying value of asset given up

C. At replacement cost

D. At nominal value

Q8: A PPE asset has a carrying amount of ₹5,00,000. Its residual value, based on current prices, is estimated at ₹5,20,000 — exceeding the carrying amount. What is the depreciation charge for the current year?

(a) A nominal depreciation of Re.1 should be charged to maintain accounting records

(b) Depreciation charge is **zero** – it ceases when residual value equals or exceeds carrying amount, unless residual value subsequently falls below carrying amount

(c) The asset should be immediately revalued to ₹5,20,000 and depreciation charged on the revised amount

(d) Depreciation should continue at the normal rate since the residual value estimate may change next year

Q9: Which statement about bearer plants is correct?

A. They are always valued at fair value

B. They are treated as biological assets under agriculture accounting

C. They are treated as inventory once mature

D. They are accounted for as PPE if they bear produce for multiple periods

Q10: A manufacturing entity follows the Revaluation Model for its Plant & Machinery. The decommissioning liability for the plant increases by ₹2,00,000 during the year. There is an existing Revaluation Surplus of ₹3,50,000 in respect of this asset. What is the CORRECT accounting treatment for the increase in liability?

(a) ₹2,00,000 to be debited to Revaluation Surplus (since a credit balance exists), NOT to P&L

(b) ₹2,00,000 to be split equally between Revaluation Surplus and Statement of Profit and Loss

(c) ₹2,00,000 to be recognised in Statement of Profit and Loss, as decommissioning costs are always P&L items

(d) ₹2,00,000 to be added to the cost of the asset under the revaluation model