



**KHATRI CLASSES**

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# Mind-Twisting MCQs on Accounting Standards (AS)

**Q1.** ABC Ltd. purchased a machinery for ₹10,00,000 on 1st April 2022. The machinery has a useful life of 10 years with a residual value of ₹1,00,000. On 1st April 2024, due to technological changes, the management revised the useful life to 6 years from the date of purchase and revised residual value to ₹50,000. What is the depreciation charge for FY 2024-25 as per AS 10?

- (a) ₹90,000
- (b) ₹1,92,500
- (c) ₹1,70,000
- (d) ₹1,87,500

**Q2.** XYZ Ltd. has a long-term investment in shares of PQR Ltd. carried at cost of ₹5,00,000. The market value of these shares at year end is ₹3,20,000. The decline in value is assessed as **temporary**. As per AS 13, which treatment is correct?

- (a) Reduce the carrying value to ₹3,20,000 and charge ₹1,80,000 to P&L
- (b) No adjustment required; continue at cost of ₹5,00,000
- (c) Create a provision for diminution of ₹1,80,000
- (d) Disclose ₹3,20,000 as market value in notes; no charge to P&L

**Q3.** A company sells goods worth ₹12,00,000 with a right of return within 6 months. Past experience shows that 8% of goods are returned. As per AS 9, what revenue should be recognised?

- (a) ₹12,00,000
- (b) ₹11,04,000
- (c) Revenue recognition should be deferred until the return period expires
- (d) ₹96,000 only (the returned portion)

**Q4.** Mango Ltd. has a contingent liability arising from a lawsuit. The legal advisor opines that the probability of losing the case is 65% and the estimated outflow is ₹8,00,000. As per AS 29, what should Mango Ltd. do?

- (a) Disclose ₹8,00,000 as contingent liability in notes only
- (b) Recognise a provision of ₹8,00,000 in the books
- (c) Ignore as the outcome is not certain
- (d) Recognise ₹5,20,000 ( $65\% \times 8,00,000$ ) as provision

**Q5.** A lease agreement has the following terms: Lease term: 4 years; Asset life: 5 years; Present value of MLP: ₹9,50,000; Fair value of asset: ₹10,00,000; Ownership transfers at end of lease: No; Bargain purchase option: No. As per AS 19, how should the lessee classify this lease?

- (a) Operating lease, as ownership does not transfer
- (b) Finance lease, as the lease term is major part of asset's economic life
- (c) Finance lease, as PV of MLP is substantially equal to fair value
- (d) Both (b) and (c) indicate finance lease; classify as finance lease

**Q6.** Rose Ltd. obtained a government grant of ₹15,00,000 for purchase of a machine costing ₹50,00,000 with a useful life of 10 years. The company uses the **Deferred Income Approach** as per AS 12. What is the net charge to P&L in Year 1?

- (a) ₹5,00,000 (only depreciation)
- (b) ₹3,50,000 (net depreciation after grant amortisation)
- (c) ₹1,50,000 (only grant income)
- (d) ₹5,00,000 depreciation less ₹1,50,000 grant income = ₹3,50,000

**Q7.** As per AS 2, which of the following costs CANNOT be included in the cost of inventories?

- (a) Excise duty paid on purchase of raw materials
- (b) Freight inward on purchase of goods
- (c) Abnormal wastage of materials during production
- (d) Variable production overhead allocated on actual use of facility

**Q8.** Sunrise Ltd. has deferred tax liability of ₹2,00,000 and deferred tax asset of ₹75,000 at year end. The deferred tax asset arises from unabsorbed depreciation. As per AS 22, what is the correct treatment?

- (a) Net off: Show net DTL of ₹1,25,000
- (b) Show gross: DTL ₹2,00,000 and DTA ₹75,000 separately
- (c) Recognise DTA of ₹75,000 only if there is virtual certainty of future profits; DTL always recognised
- (d) Both (a) and (c) are correct depending on circumstances

**Q9.** Delta Ltd. has the following segment data: Segment A revenue: ₹40 lakhs (external: ₹25L, inter-segment: ₹15L); Total enterprise revenue (external): ₹180 lakhs. Is Segment A a reportable segment as per AS 17?

- (a) Yes, as its external revenue exceeds 10% of total external revenue
- (b) No, as its external revenue ₹25L is less than 10% of ₹180L (₹18L threshold)
- (c) Yes, as its total revenue ₹40L exceeds 10% of total enterprise revenue
- (d) Cannot be determined without profit and asset data

**Q10.** A construction contract has a contract price of ₹80,00,000. Costs incurred till date: ₹42,00,000. Estimated cost to complete: ₹28,00,000. A foreseeable loss of ₹2,00,000 is estimated. As per AS 7, what revenue should be recognised using percentage completion method?

- (a) ₹56,00,000
- (b) ₹42,00,000
- (c) ₹60,00,000
- (d) ₹80,00,000

**Q11.** Which of the following is NOT a related party of DEF Ltd. as per AS 18?

- (a) A director of DEF Ltd.
- (b) A company in which a director of DEF Ltd. holds 15% shareholding
- (c) The holding company of DEF Ltd.
- (d) A company that has a common independent director with DEF Ltd. but no other relationship

**Q12.** Under AS 11, a company has a foreign currency loan of USD 1,00,000. Exchange rate at transaction date: ₹75. Rate at balance sheet date: ₹82. The loan is for purchase of a fixed asset. As per the revised AS 11 (post-2011 amendment), what is the correct treatment of the exchange difference?

- (a) Add ₹7,00,000 to the cost of the fixed asset
- (b) Charge ₹7,00,000 to P&L as a loss
- (c) Defer ₹7,00,000 in Foreign Currency Monetary Item Translation Difference Account (FCMITDA)
- (d) Either (b) or (c) depending on company's accounting policy

**Q13.** Pearl Ltd. declares a dividend of ₹5 per share on 5th April (after the balance sheet date of 31st March). As per AS 4 (Revised), the dividend should be:

- (a) Recognised as a liability on 31st March as it relates to FY profits
- (b) Not recognised as a liability; only disclosed as a contingent liability
- (c) Not recognised as a liability; disclosed as a non-adjusting event after balance sheet date
- (d) Recognised proportionately on 31st March

**Q14.** A company changes its method of depreciation from WDV to SLM. The accumulated depreciation under WDV was ₹14,00,000; under SLM it would have been ₹9,00,000. As per AS 6 (now AS 10), this change is treated as:

- (a) Prior period item; ₹5,00,000 credited to prior period income
- (b) Change in accounting estimate; adjust prospectively
- (c) Change in accounting policy; ₹5,00,000 credited to current year P&L with disclosure
- (d) Change in accounting policy; adjust opening retained earnings

**Q15.** Under AS 16, which of the following is a **qualifying asset**?

- (a) A financial asset (investment in bonds)
- (b) Inventories manufactured over a short period
- (c) A power plant under construction expected to be ready in 18 months
- (d) An asset that is ready for its intended use at the time of acquisition

**Q16.** Sun Ltd. has the following EPS data: Net profit after tax: ₹30,00,000; Weighted average equity shares: 5,00,000; 1,00,000 convertible preference shares convertible into 80,000 equity shares; preference dividend: ₹4,00,000. What is the Diluted EPS as per AS 20?

- (a) ₹6.00
- (b) ₹5.71
- (c) ₹5.29
- (d) ₹5.86

**Q17.** Star Ltd. holds an investment property. As per AS 13, investment property is measured at:

- (a) Fair value at each balance sheet date
- (b) Cost less accumulated depreciation and impairment
- (c) Lower of cost and net realisable value
- (d) Revalued amount if the revaluation model is chosen

**Q18.** As per AS 26, research costs should be:

- (a) Capitalised if the project is technically feasible
- (b) Expensed as incurred
- (c) Deferred and amortised over the benefit period
- (d) Recognised as an intangible asset if future benefits are probable

**Q19.** Arrow Ltd. tests its machinery (carrying amount ₹25,00,000) for impairment. The fair value less costs to sell is ₹18,00,000 and value in use is ₹21,00,000. As per AS 28, what is the impairment loss?

- (a) ₹7,00,000
- (b) ₹4,00,000
- (c) ₹3,00,000
- (d) No impairment loss

**Q20.** Under AS 15 (Revised), a company has a defined benefit obligation of ₹50,00,000 and plan assets of ₹35,00,000. Unrecognised past service cost (vested) is ₹3,00,000. What is the net liability to be recognised?

- (a) ₹15,00,000
- (b) ₹12,00,000
- (c) ₹18,00,000
- (d) ₹50,00,000