

END SEMESTER EXAMINATION, MAY - 2026**B. Com. (Hons.) Semester – IV****Paper Code : 541120****Subject Name: Accounting Standards****Subject Code: BCM401****Time allotted: 03 Hours****Max. Marks: 100****Note: Read all the instructions carefully+**

- Q.1 Attempt all questions** (10x2=20Marks)
- a. What is the rationale for charging depreciation on PPE? CO1
 - b. Explain how the cost of Property, Plant and Equipment (PPE) is ascertained. CO1
 - c. How does AS 9 prescribe the recognition of revenue from services? CO1
 - d. Under what conditions is revenue from the sale of goods considered to be earned and recognized? CO1
 - e. Define prior period items as per AS 5. CO1
 - f. According to AS 4, what is meant by a contingency? CO2
 - g. What are the main elements included in a cash flow statement? CO2
 - h. Describe any two inventory valuation methods permitted under AS 2. CO2
 - i. How should inventories be accounted for in accordance with AS 2? CO2
 - j. What do you understand by accounting policies? CO2
- Q.2 Attempt any five questions** (5x4=20Marks)
- a. What are the criteria under AS 10 for capitalizing subsequent expenditure on Property, Plant and Equipment (PPE)? CO3
 - b. Under AS 9, at what point should interest income be recognized as revenue? CO3
 - c. How should extraordinary items be disclosed in the income statement under the guidelines of AS 5? CO3
 - d. What types of post-balance sheet events require adjustments in the financial statements in accordance with AS 4? CO3
 - e. Why are interest costs and abnormal losses excluded from the cost of inventories under AS 2? CO4
 - f. As per AS 1, how should a company handle situations where different accounting policies are applied to similar transactions across various periods? CO4
 - g. According to AS 3, how should non-cash transactions, such as the acquisition of assets by issuing shares, be disclosed in the cash flow statement? CO4
- Q.3 Attempt any three questions**
- a. Solve the following: (3x10=30Marks)
- ABC Ltd. finalized its financial statements for the year ended 31st March 2024. On 12th April 2024, prior to the approval of the accounts, the company received a court ruling confirming that it had lost a legal dispute initiated in February 2024. The dispute was related to a transaction carried out in January 2024, and the court ordered the company to pay ₹12 lakhs. In light of the provisions of AS 4, evaluate how ABC Ltd. should account for this event in its financial statements for the year ended 31st March 2024. Should the liability be recorded in the accounts or simply disclosed by way of a note? Justify your response based on the nature and timing of the event. CO4
- b. XYZ Ltd. provides the following information for the year ended 31st March 2025:
- Net profit before tax: ₹15,00,000
 - Depreciation: ₹2,50,000
 - Loss on sale of equipment: ₹50,000
 - Increase in Trade Receivables: ₹1,20,000
 - Decrease in Inventories: ₹60,000
 - Increase in Trade Payables: ₹90,000
 - Income Tax Paid: ₹2,00,000
 - Purchase of Equipment: ₹5,00,000
 - Sale of Equipment (Book Value ₹2,00,000): ₹1,50,000
 - Issue of Shares: ₹6,00,000
 - Repayment of Bank Loan: ₹3,00,000
 - Dividend Paid: ₹1,50,000
- Prepare a cash flow statement using the **indirect method** as per AS 3, showing net cash generated during the year without classifying activities under separate headings. CO4

- c. GHI Ltd. is finalizing its accounts for the year ended 31st March 2025. The following issues have been brought to the notice of the accounting team:

CO5

- i. In the year 2022–23, an amount of ₹2,40,000 paid as employee bonus was omitted from the books due to a clerical error. This was discovered during internal audit in March 2025.
- ii. During the current year, the company changed its method of depreciation for its plant and machinery from Straight Line Method (SLM) to Written Down Value Method (WDV), claiming it reflects a more appropriate allocation of cost over useful life.
- iii. The company also received an insurance claim of ₹3,00,000 towards flood damages to its warehouse, which occurred during the current year and is considered an abnormal event.

As per AS 5, explain how each of the above items should be classified and disclosed in the financial statements of GHI Ltd. for the year ending 31st March 2025. Mention the accounting treatment and rationale behind classification.

- d. JKL Ltd. is preparing its financial statements for the year ended 31st March 2025. The following information is available:

CO5

- i. Loss of ₹4,00,000 on sale of an old manufacturing machine. The loss is material and not expected to recur.
- ii. An earthquake occurred during the year causing damage to the warehouse. The company received an insurance claim of ₹3,50,000 against the estimated loss of ₹5,00,000.
- iii. The company had omitted to record electricity expenses of ₹90,000 for the year 2022–23. This was detected during current year's audit.
- iv. A voluntary retirement scheme (VRS) was introduced this year, costing ₹6,00,000.

As per AS 5, classify the above items as exceptional, extraordinary, or prior period items. Briefly explain the accounting treatment and disclosure required in the financial statements for the year ending 31st March 2025. Also, calculate the net impact of these items on the Profit & Loss Account for 2024–25.

Q.4 Attempt any two questions

(2x15=30Marks)

- a. MNO Ltd. is preparing its financial statements for the year ended 31st March 2025. The company has doubts regarding the recognition of revenue in the following cases:

CO5

- i. Goods worth ₹5,00,000 were sold to a dealer on 25th March 2025, but delivery was made on 5th April 2025.
- ii. An advance of ₹2,00,000 was received for a service contract starting in May 2025, to be executed over six months.
- iii. Interest income of ₹15,000 accrued till 31st March 2025 on a fixed deposit maturing in December 2025.
- iv. The company received a claim of ₹1,00,000 from an insurance company for stock loss, which is still under negotiation as of the balance sheet date.
- v. A customer has accepted delivery of goods, but the company has a buyback agreement to repurchase the goods after 3 months at a fixed price.

Using the principles of AS 9 – Revenue Recognition, evaluate when and whether revenue should be recognized in each of the above five cases. Provide justification for each answer based on relevant clauses of AS 9.

b. Evaluate the following cases based on AS 10:

- i. On 15th April 2024, ABC Ltd. purchased a high-capacity generator for ₹75 lakhs on three months' credit. The supplier offered a 5% cash discount if payment was made within 15 days. ABC Ltd. availed the discount. Freight and installation charges amounted to ₹4 lakhs. Initial testing cost ₹1 lakh. Insurance during transit was ₹50,000.
- ii. ABC Ltd. constructed a production shed using in-house resources. The following expenses were incurred:
 - Direct materials – ₹30 lakhs
 - Direct labour – ₹20 lakhs
 - Supervision expenses directly related to construction – ₹6 lakhs
 - General overheads – ₹4 lakhs
 - Borrowing cost on a specific loan taken for the construction – ₹5 lakhs

The construction was completed on 31st December 2024.

CO6

- iii. ABC Ltd. acquired a multi-component printing press for ₹100 lakhs. The cost is split as:

- Printing Unit – ₹60 lakhs (useful life: 10 years)
- Drying Unit – ₹25 lakhs (useful life: 5 years)
- Control Panel – ₹15 lakhs (useful life: 3 years)

The accountant has proposed to depreciate the whole press uniformly over 10 years.

- iv. During the year, ABC Ltd. retired an old lathe machine from active use due to obsolescence. The original cost of the machine was ₹40 lakhs, and accumulated depreciation was ₹36 lakhs. The machine was not scrapped and continues to be stored in the factory premises for potential future use. No entry was passed.
- v. ABC Ltd. revalued a piece of land from ₹100 lakhs to ₹150 lakhs on 1st January 2025. This was the first revaluation of the asset. The company follows the revaluation model and wants to know the accounting treatment for this change and its impact on the financial statements.

You are required to:

- a) Evaluate the accounting treatment adopted or proposed in each of the above cases.
- b) Determine the correct treatment as per Accounting Standard 10 (Revised), with appropriate calculations wherever necessary.
- c) Suggest adjusting journal entries (if required) for each case.
- d) Comment on the impact on future depreciation (if required) or on financial statements.

c. Critically examine the following in light of AS 10:

- a) Explain the conceptual basis of the revaluation model under AS 10. What is its impact on equity, depreciation, and comparability of financial statements? Should revaluations be based on fair value or replacement cost?
- b) Describe the concept of component accounting. Why is it important for ensuring a true and fair view of PPE in financial statements?
- c) State the accounting treatment of retirement, replacement, and disposal of parts of PPE. What approach should be taken when the original cost of a replaced component is not separately identifiable?

CO6