

### Theoretical Questions

1. Distinguish between investment in fixed assets and investment in revenue assets.
2. What consists of the cost of acquisition of fixed assets?
3. What is capitalisation of expenses?
4. Examine the impact of capitalisation expenses on the income statement.
5. What is capitalized interest?
6. What is depreciation?
7. Why is depreciation required to be recorded?
8. What are various methods of computing depreciation?
9. What is written down value?
10. Explain the difference between straight line method and reducing balance method of determining depreciation.
11. Distinguish between sum-of-digits method of charging depreciation and conventional reducing balance method of charging depreciation.
12. Show the impact of acquisition of assets on the accounting equation.
13. Show the impact of acquisition of assets on credit on the financial statements.
14. What is meant by impairment of assets?
15. What is impairment loss?
16. What is revaluation reserve?
17. How is revaluation reserve used?
18. Examine the impact of revaluation of assets on the financial statements.
19. Explain the impact of the change in depreciation method from straight line method to reducing balance method on the financial statements.

### Numericals

1. Networth of Altd. = Minus 50000; Accumulated Loss = 100,000; Capital employed = 150,000; Working Capital = 20,000; Current Assets = 30,000. Find Fixed Assets.
2. Networth of Altd. = Minus 50000; Accumulated Loss = 100,000; Capital employed = 150,000; Working Capital = 20,000; Current Assets = 50,000. Find Fixed Assets and capital
3. Capital employed = 50,000; Current liabilities = 50,000; Current Assets = 20,000. Find: Fixed assets and working capital.
4. Capital employed = 150,000; Accumulated Losses = 50,000; Long term loans = 100,000; Current liabilities = 50,000; Current Assets = 20,000. Required : Balance sheet
5. A ltd. has assets worth of 600,000. Assets were financed by Debt and Equity in the ratio of 2:1. Assets are depreciated on SLM. Show the accounting equation.
6. On 1<sup>st</sup> October 2005, Altd purchased plant costing 80,000 in consideration of issue of shares of Rs. 10 issued a premium of 50%. Show the accounting equation and the relevant financial statements.

7. On 1<sup>st</sup> October 2005, Altd purchased plant costing 80,000 in consideration of issue of shares of Rs. 10 issued a premium of 50%. During the year ending March 2006, the company had following transactions:
- Purchase of goods on credit from XY: 150,000
  - Sold 50% of the goods for cash: 150,000
  - Expenses due but not paid: 20,000

Required: Accounting equation and the relevant financial statements for the year ending March 2006.

8. On 1<sup>st</sup> October 2000, Altd purchased plant costing 80,000 in consideration of issue of shares of Rs. 10 issued a premium of 50%. Company charged depreciation using SLM at 10% . At the beginning of the year 2006, the company to change the method of depreciation to RBM. Other information for the year 2006 are as follows:
- Sales = 100,000
  - Cost of goods sold = 25% of gross profit
  - Other operating expenses (other than depreciation) = 20% of sales

Required

- Income statement for the year ending 2006
9. Started business with capital = 50000; 12% loan = 100000; Purchased plant for 50000; Installation expenses = 20000. Stock of finished goods =50000. Balance, if any was used for acquiring shares of AB ltd. Rate of depreciation ( for SLM: 10% and for RBM 25%).

Required

- Find Accumulated Depreciation at the end of 4<sup>th</sup> year using SLM, if entire installation expense was capitalized.
- Find Accumulated Depreciation at the end of 2<sup>nd</sup> year using RBM, if entire installation expense was capitalized.
- Find WDV of the plant at the end of the end of second year using RBM, if installation expenses were not capitalized
- Find profit in the first year: Sales = 50000; COGS = 20000; Installation expenses not capitalized and the company used SLM for determining depreciation.
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10. Started business with capital = 50000; 12% loan = 100000; Purchased plant for 50000; Installation expenses = 20000. Stock of finished goods = 50000. Balance, if any was used for acquiring shares of AB Ltd. Rate of depreciation (for SLM: 10% and for RBM 25%).
- Find Accumulated Depreciation at the end of 4<sup>th</sup> year using SLM, if entire installation expense was capitalized.
  - Find Accumulated Depreciation at the end of 2<sup>nd</sup> year using RBM, if entire installation expense was capitalized.
  - Find WDV of the plant at the end of the end of second year using RBM, if installation expenses were not capitalized
  - Find profit in the first year: Sales = 50000; COGS = 20000; Installation expenses not capitalized and the company used SLM for determining depreciation.
  - Find profit in the first year: Sales = 50000; COGS = 20000; Installation expenses capitalized and the company used SLM for determining depreciation.
  - What will be the impact on profit, if the company changes the method of depreciation from SLM to RBM at the end of the second year. Assume that the entire installation expenses have been capitalised.
11. Following are the assets and liabilities of AB Ltd: Capital (50,000); Profits (100,000); 12% Loan (50000); Plant (35,000); Stock (135,000); Cash (30,000). Company revalued the plant to 100000. Show the accounting equation
12. Purchased plant for 50000; Installation expenses = 20000 (fully capitalised). Depreciation: 10% on SLM. At the end of 2<sup>nd</sup> year the market value of the plant = 45000. What will be impact on the financial statements?
13. A Ltd acquired a plant for Rs. 35 crores. The plant had an useful life of 8 years. The company uses straight line method of charging depreciation. Find depreciation for the first 5 years.
14. Refer to the above question. The company revises its life to 15 years. Find depreciation for the 6<sup>th</sup> year. Give your comment.
15. A Ltd. has assets worth of \$ 600000. Assets were financed by Debt and Equity in the ratio of 2:1. Assets are depreciated on SLM method. Show the accounting equation.
16. A Ltd. has capital of \$ 50000 and 3% loan of \$ 50000. 25% of the funds were utilized for acquiring plant and machinery, 40% of the funds were utilized for acquiring stock of finished goods at the beginning of the year. 50% of the stock was sold at 50% profit on credit to Mr. X and balance was sold for cash at a profit of 40% . Assets were depreciated on SLM. Show the accounting equation and financial statements.

17. A ltd has capital of \$ 50000 and 3% loan of \$25000. Assets on that day were \$50000. Company decided to revalue the assets to 100000. Show the accounting equation before and after the revaluation.
18. Equipment with an useful life of five years was purchased on 1<sup>st</sup> April 2005. Cost of the equipment was 85,000 and the installation expenses were 15,000. Residual value was estimated to be 8000. Compute annual depreciation for the first three years using the following methods of depreciation:
- Straight line method
  - Double declining method
19. The balance sheet of X ltd as on 31<sup>st</sup> March 2003 shows Net Block of Assets (plant) as Rs. 500000. The asset was acquired in April 2000 and depreciation is charged on the basis of reducing balance method at 20%. The asset was acquired with own funds of Rs. Rs. 350 000 and balance on 12% loan. The plant was used to manufacture a chemical and sold as it is to a local pharma company. Sales during the first year was Rs. 5 lakhs and the cost of goods was around 25% only. The annual increase in sales was 10%. Entire profit was retained the business. Show the following:
- a. WDV of the assets and Accumulated depreciation as on 31<sup>st</sup> march 01, 02, and 03
  - b. Balance sheet as on 1<sup>st</sup> April 2000 and Ist April 2003 and
20. In the above question, the company changed the depreciation method to SLM 10%. Show: The accumulated depreciation as on 31<sup>st</sup> March 2003 and Impact on the profit for the year 2002-2003
21. A ltd. has assets worth of 600000. Assets were financed by Debt and Equity in the ratio of 2:1. Assets are depreciated on SLM method. Show the accounting equation.
22. A ltd. has capital of Rs. 50000 and 3% loan of Rs. 50000. 25% of the funds were utilized for acquiring plant and machinery, 40% of the funds were utilized for acquiring stock of finished goods at the beginning of the year. 50% of the stock was sold at 50% profit on credit to Mr. X and balance was sold for cash at a profit of 40% . Assets were depreciated on SLM. Show the accounting equation and financial statements.
23. A ltd has capital of 50000 and 3% loan of Rs.25000. Assets on that day were Rs.50000. Company decided to revalue the assets to 100000. Show the accounting equation before and after the revaluation.

24. Change in depreciation method and profit
- 1.4.99: Purchased Plant: Rs.100000
  - Incidental expenses: 10000
  - 12% Loan (for plant) : 100000
  - The plant was put to use in April 00
  - Depreciation: 10% on SLM
  - Sales (April -00 onwards): Rs. 200000
  - COGS excluding depreciation: 60%
  - During April 2004, it was decided to change the method of calculating depreciation to WDV (20%) with retrospective effect.

Required: Income statement and Balance sheet

- A has a capital of Rs. 100000 and 12% loan of Rs. 500000. Invested the entire money in shares. Sold the shares at a profit of 25% on cost in the first year. No transactions in the second and third year. Show the accounting equation for the first three years and the all possible financial statements.
  - A and B started a software development business. A contributed \$ 10000 as capital and a loan of 4% loan of \$2000. B contributed a computers costing \$ 2000 and furniture costing \$500.
  - A ltd has a capital of Rs.500000 and 12% loan of Rs.1000000. Acquired assets worth of Rs.350000. Show the accounting equation for the first three years if the depreciation is determined on the basis of SLM (10%) and RBM (25%).
  - A ltd. has assets worth of \$. 600000. Assets were financed by Debt and Equity in the ratio of 2:1. Assets are depreciated on SLM method. Show the accounting equation.
  - A ltd. has capital of \$ 50000 and 3% loan of \$ 50000. 25% of the funds were utilized for acquiring plant and machinery, 40% of the funds were utilized for acquiring stock of finished goods at the beginning of the year. 50% of the stock was sold at 50% profit on credit to Mr. X and balance was sold for cash at a profit of 40% . Assets were depreciated on SLM. Show the accounting equation and financial statements.
25. A ltd has capital of \$ 50000 and 3% loan of \$25000. Assets on that day were \$50000. Company decided to revalue the assets to 100000. Show the accounting equation before and after the revaluation.

26. Following are the assets and liabilities of A ltd. as on 1<sup>st</sup> April 2004.

Capital : Rs.50000, Loan: Rs.80000, Plant: Rs 25000, Stock100000, Cash 5000

The company plans to revalue the assets to Rs. 45000. Show the equation

## Accounting in Real Life

1. Following are the relevant financial items of TVS for the year ending 2003-04:

- Net-worth : 575 crores
- Working Capital= Negative 151 crores
- Current Assets = 446
- Investments = 129 crores
- Long Term debt = 17% of capital employed

Find Fixed Assets

2. Following are the relevant financial information of ITC ltd. one of the well known companies of India:

- Profit before tax (PBT) for the year ending 31<sup>st</sup> March 2005 = Rs. 2673 crores , which was 34% of the total income.
- Raw material and other operating expenses for the year = 4890.

Find : Depreciation

3. Refer to the above question. Other incomes accounted for 3 % of the total income; raw material accounted for 35% of the total income. Prepare the condensed Income Statement.

4. Following table shows the summary of the depreciation related information given in the Annual Report of Nalco (Rs. In crores).

Period	Gross Block				Accumulated Depreciation				Net Block	
	Opening	Additions	Sales	closing	Opening	for the year	On Sales	closing	closing	Opening
2006	8,785	188	?	8,961	4,646	382	10	5,017	?	4,139
2005	8,093	?	3	?	4,189	459	3	4,646	4,139	3,903

## Required:

- Cost of the asset sold during the current year.
  - Find the sale value of the asset sold, assuming that the company has made a profit of Rs. 5 crore on sale of the above asset.
  - Find the additions made to the fixed asset during the previous year.
  - Find the closing gross block for the 2005
  - Find the closing value of the net block as on 31<sup>st</sup> March 2006
5. Visit the web site of Infosys Technology limited([www.infosys.com](http://www.infosys.com)) and the MindTree Consulting Ltd. ([www.mindtree.com](http://www.mindtree.com)). Observe the treatment of the intangible assets.
6. Depreciation charged in the income statement of HLL and Marico was 1% of the total income. However, profit before depreciation (PBT) of HLL 18 times of that of Marico. PBT of Marico was 90 crores. Total income of HLL and Marico was 11,472 and 967 crores respectively.

## Required

- Depreciation of both companies
- Income Statement