Learning from Illustrations[1]

Illustration 08-01: Revisiting Depreciation

In AJATSHATRU STEELS Limited, a second-hand machine was purchased on 01-01-2011 for Rs. 4 Lakhs. Overhauling and installation expense for the same machine amounted to Rs. 1 Lakhs. Another machine was purchased for Rs. 2 Lakhs on 01-07-2011.

On 30-06-2013, the machine installed on 01-01-2011 was sold for Rs. 2.50 Lakhs. Dismantling charges for the machine sold on 30-06-2013 were Rs. 10,000. On the same date, another machine was purchased for Rs. 8 Lakhs and was commissioned on 30-07-2013. The company has adopted the calendar year as its financial year. Under the existing practice, the company provides depreciation as per straight line method at 10% p.a. on the original cost. In 2014, it has been decided that depreciation will be charged on the written down value method at 15% p.a. The change is to be made with retrospective effect.

Show Plant T Account from 2011 to 2015. Also show Plant Disposal T Account.

Illustration 08-02: Revisiting Inventory Valuation

The following are the details of a space part of M/s ROCKSTAR TRADING Co.

Date	**Particulars**
01.01.2015	Opening Stock: Nil
01.01.2015	Purchases 40 units @ Rs. 30/- per unit
10.01.2015	Purchases 60 units @ Rs. 35/- per unit
15.01.2015	Issued for consumption 50 units
01.02.2015	Purchases 200 units @ RS. 40/- per unit
15.02.2015	Issued for consumption 100 units
20.02.2015	Issued for consumption 100 units
01.03.2015	Purchases 150units @ Rs. 50 per unit
15.03.2015	Issued for consumption 100 units

The company was following FIFO method of valuation from 01st January 2015. The management of M/s ROCKSTAR TRADING Co. decided to follow LIFO Method of valuation of stock from 01st February 2015 with retrospective effect. The company in March 2015 decided to follow weighted average method retrospectively with effect from 01st February 2015. What will be the value of closing stock on 31-01-2015, 28-02-2015 and 31-03-2015. Also pass the required Journal entries.

Illustration 08-03: Manufacturing Account, Trading Account, and P&L Account

The following is the trial balance of Draksharamam & Co. as on 31st March 2015.

Sl. #	Particulars	Dr. Amount (in Rs.)	Cr. Amount (in Rs.)
1	Draksharamam Owners capital a/c		10,00,000
2	Draksharamam Owners drawing a/c	20,000	
3	Purchases of raw materials less return	6,00,000	
4	Purchases of finished goods less return	14,00,000	
5	Freight inward for finished goods	20,000	
6	Wages	1,20,000	
7	Salaries	1,50,000	
8	Rates and taxes	30,000	
9	Electric power	60,000	
10	Electricity charges for lights and fans	25,000	

[1] Collated from popular Accounting books + References in the course outline

11	Office rent	30,000	
12	Reserve account		50,000
13	Travelling expenses	1,00,000	
14	Insurance premium	1,80,000	
15	Advertisement expenses	40,000	
16	Sales less return		30,00,000
17	Bad debts written off	10,000	
18	Discounts (debit balance)	5,000	
19	General expenses	36,000	
20	Postage and telegram	15,000	
21	Opening stock as on 1st April 2014 Raw materials Work-in-progress Finished goods	 50,000 80,000 2,00,000	
22	Factory land	80,000	
23	Factory building	60,000	
24	Plant and machinery	5,00,000	
25	Furniture and fixtures	1,05,000	
26	Sundry creditors		2,00,000
27	Sundry debtors	6,00,000	
28	Cash in hand	20,000	
29	Cash in bank	14,000	
30	Provision for depreciation of factory building		20,000
31	Provision for depreciation of plant and machinery		2,50,000
32	Provision for depreciation of furniture and fixtures		30,000
	Total	45,50,000	45,50,000

Additional information:

1. Closing stock as on 31st March 2015:
   Raw materials Rs. 60,000
   Work-in-progress Rs. 85,000
   Finished goods Rs. 2,20,000
2. Provide depreciation at 15% on plant and machinery, 10% on furniture and fixtures and 5% on factory buildings. The enterprise uses the straight-line method of depreciation.
3. Provide 2% discount on debtors and create provision of 5% for doubtful debts.
4. Sundry creditors include Rs. 2,000 realised from Pasalpudi & Co., a customer, whose account had been written off two years back.
5. Insurance premium was paid for the year ending on 30th June 2015.
6. One machine whose cost in the books as on 1st April 2014 stood at Rs. 86,000 was disposed of on 30th September 2014 for Rs. 16,000 in part exchange for a machine costing Rs. 30,000. The transaction was recorded at the net amount of Rs. 14,000. The provision for depreciation on the machine as on 1st April 2014 was Rs. 66,000. No depreciation need be provided on machinery disposed of during the year.
7. During the year a fire broke out in the godown of finished goods causing a loss of Rs. 20,000. The insurance company has admitted a claim of Rs. 18,000 only. This event has not been recorded in the books.
8. The following expenditure was outstanding for which no provision has been made in the books: Audit fees: Rs. 10,000, Advertisement: Rs. 2,000

Required:

(a) Prepare the manufacturing, trading and profit and loss accounts of Draksharamam & Co. for the year ended on 31st March, 2015.

(b) Prepare the balance sheet of Draksharamam & Co. as on 31st March 2015 (ignore fractions of rupees in calculations).