Case Study - 1

The company has purchase a furnace on 1st April 2014. The manufacturer has supplied the in furnace in the two consignments.

- First consignment was consist four parts of furnace and cost of each part with applicable taxes was Rs. 2,50,000.
- Second consignment was consist two parts of furnace and cost of each part with applicable taxes was Rs. 1,00,000.
- The company has booked Rs. 15,00,000 as Gross Block.
- Useful Life of 10 years & Residual Value is 5%

1 What is a historical purchased cost of the furnace?

a. 10,00,000 b. 12,00,000

c. 12,50,000 d. 15,00,000

2 How much amount company has loaded as other cost on historical purchased cost to arrive at Gross Block?

a. 3,00,000 b. 1,00,000

c. 1,50,000 d. 2,00,000

3 How much % company has loaded as other cost on historical purchased cost to arrive at Gross Block?

a. 30% b. 35%

c. 25% d. 20%

4 What will be the residual amount of the furnace?

a. 75,000 b. 65,000

c. 70,000 d. 60,000

5 What will be a depreciable amount using the SLM of depreciation?

a. 1,44,000 b. 1,14,000

c. 1,40,000 d. 1,50,000

6 What will be an accumulated depreciation at end of March 2018 using the SLM of depreciation?

a. 4,56,000 b. 5,56,000

c. 5,76,000 d. 4,76,000

7 What will be Net Block in books of account at end of March 2018 using the SLM of depreciation?

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Case Study - 2

The company has purchased a boiler on 1st April 2015 at Rs. 10,00,000 with applicable taxes. A gross book value and net book value is recorded in the books of account of company as Rs. 12,00,000 & 9,00,000 on 31st March 2018 (date of valuation).

As on date of Valuation:

- New boiler is available at Rs. 12,00,000 with applicable taxes at manufacturer site.
- Other costs will be incurred to put the boiler in functional condition are as follow:
  1. Cost of loading & unloading: Rs. 10,000
  2. Cost of transportation & insurance: Rs. 20,000
  3. Cost of Erection & Commissioning: Rs. 70,000
- Economic Life of boiler is 10 years
- Salvage value of boiler is Rs. 1,00,000

1 How much deprecation company has charged in books of account?

a. 2,00,000 b. 2,50,000

c. 3,00,000 d. 3,50,000

2 If company is using SLM of depreciation, than how much amount company has adopted as depreciable amount for each year?

a. 2,00,000 b. 1,00,000

c. 50,000 d. 3,00,000

3 What is the replacement cost new of the boiler as on date of valuation?

a. 9,00,000 b. 12,00,000

c. 1,00,000 d. 13,00,000

4 What is an age & balance economic life of the boiler?

a. 3 & 7 b. 8 & 2

c. 7 & 3 d. 2 & 8

5 What will be a depreciable amount for each year using the SLM of depreciation for valuation purpose?

a. 1,00,000 b. 1,25,000

c. 1,20,000 d. 1,30,000

6 What will be an accumulated depreciation as on date of valuation using the SLM of depreciation for valuation purpose?

a. 2,60,000 b. 1,20,000

c. 3,00,000 d. 3,60,000

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Case Study - 3

The company has purchased as industrial tank with capacity of 1,000 liter in April 2011 at Rs. 1,00,000 as Ex-price without applicable taxes. Applicable taxes were 10% in the April 2011 and company made other expenses like cost of transportation, insurance, erection and commissioning, etc. of Rs. 90,000 to put the tank into serviceable condition. Due to any reason, the company started commercial production in the year of 2015.

As on date of Valuation (1st April 2018)

- Index no. of industrial tank for 2011, 2015 & 2018 are 100, 150 & 200 respectively
- Ex-price of industrial tank with capacity of 1,200 liter is Rs. 1,66,670 as on date of valuation
- Cost of other expenses with applicable taxes is Rs. 1,50,000 to put the tank into serviceable condition
- Effective age is 5 years
- Economic life is 10 years and salvage value is 10%

1 At which amount the company has to records a gross value in its books of account?

a. 1,00,000 b. 2,00,000

c. 1,90,000 d. 1,10,000

2 From which year the company has to starts to provide depreciation in its books of account?

a. 2018 b. 2011

c. 2015 d. 2013

3 What is a chronological age of the tank?

a. 3 b. 2

c. 5 d. 7

4 What will be a replacement cost new as on date of valuation of the tank using indexation method?

a. 3,50,000 b. 1,33,333

c. 2,66,667 d. 2,00,000

5 What will be a replacement cost new as on date of valuation of the tank using cost to capacity method? (rounded and exponent is 1)

a. 3,50,000 b. 1,50,000

c. 2,88,890 d. 1,66,670

6 What will be a depreciated replacement cost using the replacement cost new by indexation method?

a. 1,57,500 b. 3,50,000

c. 1,66,670 d. 1,92,500

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Case Study - 4

The company has purchased new lathe machine in the year of 2015 at Rs. 2,00,000 with negligible other expenses. The lathe machine is in good condition and proving required accuracy at satisfactory level.

Lathe machine has active secondhand market and numbers of comparable sale instances are available for identical or similar type lathe machine. Few comparable sale instances are as below;

1. Identical lathe has been sold before a week at Rs. 80,000
2. Similar lathe has been sold before a three day at Rs. 90,000
3. Identical lathe has been sold before a five years at Rs. 75,000
4. Identical lathe is available for sale at Rs. 82,000

As on date of Valuation (1st April 2018)

- Economic life is 10 year & Salvage value is 5%
- Index no. of year 2015 & 2018 are 100 & 200 respectively
- New lathe machine at Rs. 3,00,000 with negligible other expenses.

1 In given scenario, which approach of valuation is most suitable?

a. Cost b. Income

c. Market d. All

2 Which is the most suitable sale instance for valuation?

a. Identical sold in most nearer to Date of Valuation

b. Identical available for sale

c. Similar sold in most nearer to Date of Valuation

d. Similar available for sale

3 Which is the least suitable sale instance for valuation?

a. 1 b. 2

c. 3 d. 4

4 Which is the most suitable sale instance for valuation?

a. 1 b. 2

c. 3 d. 4

5 Give the preference of suitability for adopting valuation?

a. 1, 2, 3, 4 b. 1, 3, 4, 2

c. 4, 3, 2, 1 d. 1, 4, 2, 3

6 Which method of depreciation is most suitable for market approach?

a. Straight Line Method (SLM)

b. Written Down Value (WDV)

c. Unit of Production (UoP)

d. None of above

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Case Study - 5

The company has purchased a heavy lathe machine at Rs. 3,00,000 with applicable taxes on 1st April 2015. Other cost made by the company to put the lathe machine in operation stage are as below:

- Cost of erection and Commissioning: Rs. 80,000
- Cost of transportation & insurance: Rs. 20,000
- Cost of foundation: Rs. 10,000

The company has adopted Standard Fire & Special Perils Policy for the purpose of insurance.

As on date of damage or valuation (1st April 2018):

- New identical lathe is available at Rs. 4,50,000 with applicable taxes
- Cost of erection and Commissioning: Rs. 30,000
- Cost of pre-operative expenses: Rs. 5,000
- Cost of transportation & insurance: Rs. 20,000
- Cost of foundation: Rs. 10,000
- Economic Life: 10 year & Salvage Value: 10%

1 What should be an ideal 'Sum Insured' at Reinstatement Value on 1st April 2015?

a. 4,10,000 b. 4,00,000

c. 4,20,000 d. 3,90,000

2 What should be an ideal 'Sum Insured' at Depreciated Value or Market Value on 1st April 2015?

a. 4,10,000 b. 4,00,000

c. 4,20,000 d. 3,90,000

3 What should be an ideal 'Sum Insured' at Reinstatement Value on 1st April 2018?

a. 5,15,000 b. 5,10,000

c. 5,00,000 d. 4,90,000

4 What should be an ideal 'Sum Insured' at Depreciated Value or Market Value on 1st April 2018?

a. 3,65,000 b. 5,15,000

c. 5,00,000 d. 1,35,000

5 What will be payable amount, if loss of Rs. 1,00,000 and sum insured at Rs. 4,00,000 with adoption of Reinstatement Value policy?

a. 1,20,000 b. 80,000

c. 90,000 d. 1,00,000

Case Study - 6

A company has the following machines for extruding line on March 2010.

A) Extruder Machine: 1 No. B) Table: 2 Nos.

C) Conveyor: 2 Nos. & D) Auxiliary Machine: 2 Nos.

The current replacement cost of identical machine is…

A) Extruder Machine: 3.50 Crore

B) Table: 0.70 Crore of each

C) Conveyor: 0.30 Crore of each &

D) Auxiliary Machine: 0.25 Crore of each

An identical Extruder Line is available in second hand market at Rs. 1.00 Crore.

In books of account, Gross Book Value is Rs. 4.00 Crore & Net Book Value is Rs. 2.00 Crore in the year of 2018.

The Economic Life of Extruder Line is 15 Years and Salvage Value is 5%

1 What is the accumulated depreciation in Crore at end of March 2018 in the books of account?

a. 4 b. 1

c. 2 d. 6

2 What is the remaining economic life of line?

a. 7 b. 5

c. 8 d. 6

3 What is a value of Extruder Line in the market in crore?

a. 1 b. 6

c. 3.5 d. 2

4 Calculate the replacement cost new of the extruder line Crore?

a. 3.5 b. 2

c. 4 d. 6

5 Calculate the accumulated depreciation of the line using replacement cost new in Crore?

a. 2 b. 3

c. 3.04 d. 2.94

6 Calculate the depreciated replacement cost of the line at March 2018?

a. 2.96 b. 4

c. 3.04 d. 6