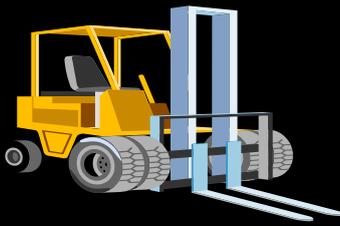


SHRI J. H. BHALODIA WOMEN'S COLLEGE



B.Com.Sem. - II Accounting & Finance – II Replacement Accounts



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SOME IMPORTANT POINTS TO REMEMBER

1	Revenue Expenditure	Assets' original value + increase in cost
2	Capital Expenditure	Total Cost of new asset – Revenue exp. (Including Old material used)
3	Revenue income	Old material used + Amt. of sale of Scrap. [It is to be subtract from the Revenue expenditure and find out the NRE]
4	Cash Expenditure	Replacement Expenditure + Capital expenditure (less amount of old goods used).

- ✓ New and supporting assets' total expenditure will be considered as capital and also cash expenditure.
- ✓ If any changes takes place regarding technology or other things, than the expenses made for the change will be considered as capital expenditure.

Proforma Statement showing calculation of capital and revenue expenditure

Particulars	Capital	Revenue
(1) Book value of old assets -----		
+ Increase in cost -----		
✓ Replacement expense of old assets ----->		-----
(2) Total Cost (including old material used) -----		
- Replacement expenses -----		
✓ Capital Expenditure ----->	-----	
(3) Deduction from Revenue expenditures:		
(a) Use of old material in new construction -----		-----
(b) Sale of scrap material -----		-----
(4) Expenses of new assets ----->	-----	
Net Capital and Revenue expenditures	○	○

Necessary Journal Entries:

1. When cash expenses occurred.

Replacement A/c (revenue exp.)	Dr.	xxx	
New Assets A/c (capital exp.)	Dr.	xxx	
(Less amount of old material used)			
To Cash/Bank A/c			Cr. xxx

2. When use of old materials in new construction.

New assets A/c	Dr.	xxx	
To Replacement A/c			Cr. xxx

3. Entry for sale of scrap material.

Cash A/c	Dr.	xxx	
To Replacement A/c			Cr. xxx

4. When new or extra assets are to be obtained

New assets A/c	Dr.	xxx	
To Cash A/c			Cr. xxx

5. To close the Replacement A/c.

Revenue expenses A/c	Dr.	xxx	
To Replacement A/c			Cr. xxx

(Net Revenue expenditure will be taken from the Statement)



EXERCISE

1. The **Bhopal gas company** has decided to reconstruct one part of factory by spending Rs. 5,00,000. The real amount of that part was Rs 3,00,000. At that time ratio of its goods and labour was 3:2. At present amount of goods and labour has increased 10% and 12% respectively. In the sale old goods Rs 20,000 is obtained and Rs. 10,000 are used in new construction, which is included in Rs. 5,00,000.

Showing the calculation of capital and revenue expenditure. Write necessary journal entries.

2. The **Ahmedabad Gas Company Ltd.** has decided to reconstruct some parts of factory by spending Rs. 7,70,000. The real amount of old part was Rs. 5,00,000, if this part is constructed now its amount is more than 20%.

The ratio of goods and labour in old and new construction is equal. Rs. 60,000 obtained in the sale of old goods and goods of Rs. 30,000 are used in new construction, which was not included in above 7,70,000.

Write necessary journal entries in the books of company. Show the amount of capital and revenue expenditure to be debited.

3. Due to the complain of not enough supply of water, **Vadodra Water Works** have decided to remove $\frac{1}{2}$ (half) old pipelines and construct new pipelines, When the main pipelines was constructed, its actual value was Rs. 10,00,000. There is 100 % increase in the expense of goods and wages. It is believed that the expense of constructing new pipelines is Rs. 17,50,000. The Wastage of old pipelines is sold out and Rs. 1,25,000 is obtained from it. Show the capital and Revenue Expenditure and write necessary journal entries.
4. There is an old house valued at Rs. 5,00,00. The ratio of goods and wages is 3:2 in this house. Presently goods and wages expenses are increased by 20 % and 25 % respectively. The new house is constructed in place of old house valued at Rs. 7,00,000. The wastage of old house is sold out and Rs. 50,000 are obtained and goods of Rs. 30,000 of old house are used in construction of new house, which is included in above shown Rs. 7,00,000.

The another guest house prepared by the side of the new house valued at Rs. 2,00,000. Write necessary journal entries and show the calculation of capital and revenue expenditure.

5. In the calendar year of 1925, **Ahmedabad Textile Mills** had set 1200 power looms at the cost of Rs. 30,00,000 in March 1988. Company had decided to change 600 power looms from above power looms by 100 % more value then the old patent and types. And remaining half power looms set automatic at the cost of Rs. 50,00,000. Including this according to the demand, the company has set 300 another automatic power looms in factory. Old changed power looms have been sold; Rs. 10,00,000 has obtained from it.

To note the above transaction, write the necessary journal entries and show the calculation of capital and revenue expenditure.

6. In the year 1980, **Bhavnagar Printing Press** has set 10 machines at the cost of Rs. 20,00,000. In April 1988, company has decided to change 6 machines from above machine by 50 % more value than the old pattern types. And remaining 4 machines has changed and new automatic machines have set at the cost of Rs. 16,00,000.

Including this, to meet out extra demand press has set 2 extra automatic machines in the press, Rs. 2,00,000 obtained from the old machines. By calculating the above transaction, write necessary journal entries.

7. The **Mahasagar electricity Supply** company Limited is replacement power house and electricity lines in 1988. A company use goods of Rs. 10,85,000 and stock of Rs. 4,90,000 from stores. Wages expense of Rs. 5,22,000 occurred. It is to be predicted that Rs. 13,000 will be used as supervision expense for this scheme. This power house constructed at the cost of Rs. 5,00,000 in 1975. By taking 1975 as a base year, the price Rs. 385 can be taken as Price Index value. The wastage of old goods of power house sold out and Rs. 12,000 obtained. Write necessary journal entries.
8. The **General Stock Company** is preparing one Mains at the cost of Rs. 4,60,000 for which, its real value was Rs. 3,20,000. The ratio of goods, wages and overhead expenses for new and old is 5:4:1. The price of goods and wages has increased by 20% and 30% respectively. Overhead expenses will maintain the ratio with wages.
Rs. 20,000 obtained by the sales of old goods. Goods of Rs. 10,000 used in the new construction, which is included above.
Show necessary calculation and pass journal entries.
9. **Lamba Bandar Gram Panchayat** has reconstructed water pipeline at Rs. 1,00,000 for which real value was Rs. 70,000. The ratio of goods and wages is 4:3. There is 40% increase in price of wages and there is 9% decrease in price of goods.
Show the calculation of capital and revenue expenditure using weighted average method.
10. The **Jaldhara Electric Company** shows the below mentioned figures as on 31/03/2007:

Particulars	Amount	Particulars	Amount
Equity Share Capital	4,00,000	Machinery	80,000
10% Debentures	1,00,000	Revenue A/c (Cr. Balance)	1,15,000
Creditors	29,000	Stock (31/03/2007)	19,000
Land	75,000	Investment	25,000
Replacement A/c (Dr. Balance)	1,02,000	Depreciation fund	24,000
Mains	3,25,000	Debtors	38,000
		Cash Balance	4,000

✚ The Accountant gives the understanding that replacement A/c (Dr. Balance) is

due to the replacement done in the assets like Mains and other during the year. The real value of re-constructed part was Rs. 75,000. The current amount is increased by 20%. Rs. 6,000 of old assets is credited to this account and then this net debit balance of Rs. 1,02,000 has obtained.

✚ Write necessary journal entries.

11. **Abhimaan Gas Co.** had established a Main at the expense of Rs. 1,00,000. After some years, company has changed the 1/4th part of Mains and established a helpful Main at Rs. 30,000 and re-constructs the remaining Mains at Rs. 1,20,000. There is an increase in 5% on expenses during this time. Rs. 13,000 obtained on the sales of old assets, and old assets of Rs. 5000 used in new construction, which was included in Rs. 1,20,000. Write necessary journal entries.

SHORT NOTES / DIFFERENCES

- In the accounts of replacement, transactions of capital expenditure and revenue expenditure of assets are shown below:

Revenue Expenditure	Capital expenditure
<ul style="list-style-type: none"> • When the revenue expenditures are to be obtained on the place of old assets, the amount of current market value is taken into consideration. Here, current market value means old assets' original value + increase in price. Thus, total amount is obtained. In this way increase in amount can be considered as replacement expenses or revenue expenses. • When new assets replace old assets, at that time all the types and kinds of assets should maintained. The expenses occurs in this maintenance will be considered as revenue expenditure. 	<ul style="list-style-type: none"> • During the purchasing of new assets the expenditure occurs after deducting revenue expenditure will be considered as capital expenditure. • Including this, if there is no old asset at all and totally new assets are obtained then it will be considered as capital expenditure. • If any changes takes place regarding technology or other things, than the expenses made for the change will be considered as capital expenditure.