

Chapter 6

Financial Statements of Electricity Companies

Question 1

An electricity company decided to replace some parts of its plant by an improved plant. The plant to be replaced was built in 1995 for Rs.35,00,000. It is estimated that it would cost Rs.65,00,000 to build a new plant of the same size and capacity. The cost of the new plant as per the improved design was Rs.1,05,00,000 and in addition, material belonging to the old plant valued at Rs.3,80,000 was used in the construction of the new plant. The balance of the plant was sold for Rs.3,00,000.

Compute the amount to be written off to revenue and the amount to be capitalized. Also prepare Plant account and Replacement account.
(8 Marks)(June,2009)

Answer

(a)	(i) Calculation of amount chargeable to revenue	Rs.	Rs.
	Estimated current cost of replacing old plant		65,00,000
	Less: Value of replacing old plant	3,00,000	
	Value of materials belonging to the old Plant used in the construction of new plant	<u>3,80,000</u>	<u>6,80,000</u>
	Total		<u>58,20,000</u>

	(ii) Calculation of amount to be capitalized		
	Cost of building new plant (cash)	1,05,00,000	
	Add: Value of materials belonging to the old plant used in the construction of the new plant	<u>3,80,000</u>	1,08,80,000
	Less: Estimated current cost of replacing old plant		<u>65,00,000</u>
	Total		<u>43,80,000</u>

(iii)		Plant Account			
		Rs.		Rs.	
To	Balance b/d	35,00,000	By	Balanced c/d	78,80,000
To	Cost of construction:				
	Cash	40,00,000			
	(1,05,00,000-65,00,000)				
	Cost of old material used	<u>3,80,000</u>			
		<u>78,80,000</u>			<u>78,80,000</u>

(iv)		Replacement Account			
		Rs.		Rs.	
To	Bank account (portion to be written off out of the replacement cost)		By	Bank account	3,00,000
			By	Plant account	3,80,000
		<u>65,00,000</u>	By	Revenue account	<u>58,20,000</u>
		65,00,000			65,00,000

