

Valuation of stock and Depreciation –7/10 Marks

Current assets: Stock

Fixed Assets: Land, Building, plant machinery, Trademark
copy right

Valuation of stock is market price and purchase price
whichever is lower.

1. Valuation of Fixed Assets

Fixed Assets: The Assets which have more than one
year life and those are appreciated or depreciated.

Depreciation: Depreciation is permanent reduction
on value of fixed assets. The provision for
depreciation is defined on Income tax 2058 section
15.

Rate of Depreciation

Group/Block	Name of Assets	Rate	Method
A	Building, Bridge, Tunnel	5%	WDV

	DAM and other permanent nature of Assets		
B	Furniture, computer, printer, equipment, fixture, Daraz, Sofa and official assets.	25%	WDV
C	Automobile, Bus, Truck, Car, Mortorbike, train, Van, lorry, automobiles.	20%	WDV
D	Construction related equipment(JCB), Machinery, plant, Unabsorbed R&D cost, Pollution control cost, Book, X-ray machine, ultra sound machine, hospital related machinery, Books related to profession.	15%	WDV
E	Trade mark, copyright, license, patent and other intangible assets, software	Cost/Life	SLM

WDV: Written down value method/Diminishing Balance Method

SLM : Straight line Method

Special Industry: The Manufacturing industry which not produce Liquor, tobacco, cegregate and other alcoholic product. Special industry are Manufacturing industry like Garment factory, cement factory, shoes factory, hardware related industry. The special industry **running by entity** enjoy additional facility of $\frac{1}{3}$ depreciation on normal rate

If special industry **running by individual person** this additional facility is not provided.

Manufacturing company or industry running by entity(company ma darta vayako)

Production industry, Hetauda cement factory

Kailali Rice Mill Pvt. Ltd., Ktm Miniral industry , agro industry--- Special industry ($\frac{1}{3}$) add garne

Special rate 6.66, 33.33,26.67,20% rakhne)

Special or industry run by individual or person vanema
normal rate (5,25,20,15%)rakhnae

Hetauda company, Kailali trading Pvt. Ltd. Bima
company, Himalayan bank Ltd.Janakpur

churot karkhna, Everest liquor industry - Normal
industry(1/3 add nagarne)

normal rate(5,25,20,15% rakhne)

For example

Hetauda cement pvt ltd-----special industry

Everest liquor Factory----- Normal industry

Nepal stationary ltd----- normal company

Normal rate A: 5% Special $5+5 \times \frac{1}{3}=6.67\%$

B 25% $25+25 \times \frac{1}{3}=33.33\%$

C 20% $20+20 \times \frac{1}{3}=26.66\%$

D 15% $15+15 \times \frac{1}{3}=20\%$

Note: Additional facility in Group E assets is not provided.

Depreciation of Group E= Cost/Life

Cost=500000

Life= 5 years 3 month= 5 years lekhne

5 years 6 to 11 month= 5.5 year lekne= $5+0.5=5.5$

5 years 11 month= 5.5 year lekhne

5 years 12 month=6 years lekhne8

8 years 7 month= 8.5

8 years 12 month=9 years

- ✓ If closing balance of assets after depreciation is less than 2000 the whole amount is included in allowable depreciation and closing value will be zero Such as cash depreciated assets like voucher printer, stapler, calculator, invoice printer, cheque writer etc.

Voucher printer 2500

Less: Depreciation 25%=625

Closing balance: 1875

Now Allowable depreciation is Rs. $1875+625=2500$

Closing balance $(2500-2500)=0$

- ✓ Calculation of Absorbed(Taken this year) and Unabsorbed Assets(Taken next year)

Purchase Date	Absorbed	Unabsorbed
Sharawan to poush end	3/3 full	0
1 st Magh to Chaitra end	2/3	1/3
1 st Baisakh to Ashad end	1/3	2/3
Note: Absorbed part lai this year ko allowable depreciation nikalda rakhne and unabsorbed lai next year opening WDV nikalda rakhne		

Bhadra $3/3+0=1=100$ full---- $600000 \times 3/3=600000$

Falgun $2/3+1/3=1$ ----- $600000 \times 2/3=400000$ (this year absorbed----- $600000 \times 1/3=200000$ (next year unabsorbed)

Jestha $1/3+2/3=1$ ----- $600000 \times 1/3=200000$ (this year absorbed and $600000 \times 2/3=400000$ (next year unabsorbed)

Calculation of Allowable Depreciation :

Particular\Block	A	B	C	D
Opening WDV	xxx	xxx	xxx	xxx
Add: Addition or Purchase or Absorbed				
..... Month	xxx	xxx	xxx	xxx
.....Month	xxx	xxx	xxx	xxx
Total assets				

Less: Disposal or sold or auctioned (BV or CV)=CSV/CV	xxx	xxx	xxx	xxx
Depreciation Base(A)	xxx	xxx	xxx	Xxx
Rate of Depreciation	5%	25%	20%	15%
Allowable Depreciation(B)	xxx	xxx	xxx	Xxx
Closing WDV(A-B)	Xxx	Xxx	xxx	xxx

Allowable Depreciation= Depreciation base x Rate of Depreciation

Book salvage value and Cash salvage value diyako xa vane cash salvage or sold price rakhne

CSV=CV= Cash salvage value or Cash value

BSV=BV= Book salvage Value or Book Value

CV= Book Value+Profit-Loss

If Loss=3000, 7000-3000=4000=CSR

7000+2000=9000=CSV

Calculation of Closing Depreciation base this year (Closing WDV)

Particular\Block	A	B	C	D
Depreciation Base	Xxx	Xxx	xxx	xxx
Less: Allowable depreciation	Xxx	Xxx	xxx	xxx
Closing WDV	Xxx	Xxx	xxx	xxx

Calculation of Opening Depreciation base(Opening WDV)

Particular\Block	5 arba/40=8	A	B	C	D
Closing WDV		Xxx	Xxx	xxx	xxx
Add: Unabsorbed Purchase previous year.... Month		Xxx	Xxx	xxx	xxx
Capitalized R&D cost previous year		Xxx	Xxx	xxx	xxx
Capitalized Pollution control cost previous year		Xxx	Xxx	xxx	xxx
Capitalized repair cost previous year		Xxx	Xxx	xxx	Xxx
Opening WDV		Xxx	Xxx	xxx	Xxx

Capitalized means unabsorbed----- R&D and Pollution control cost (Deducted 50% of profit before R&D and PCC)

If profit before R&D=100,000

Allowable R&D $100000 \times 50\% = 50000$

Actual R&D = 70000

(whichever is less)

Capitalized R&D = Actual R&D - Allowable R&D

$70000 - 50000 = 20000$ (Capitalized R&D)

If profit before PCC = 100,000

Allowable PCC $300000 \times 50\% = 150000$

Actual PCC = 320000

(whichever is less)

Capitalized PCC = Actual PCC - Allowable PCC

$320000 - 150000 = 170000$ (Capitalized PCC)

If allowable R&D and PCC is less than Actual R&D and PCC the Capitalized R&D and PCC is Zero(0)

Actual R&D and PCC allowable vanda badhi vaya matra capitalized R&D and PCC natra 0 hunxa

Capitalized Repair and Maintenance cost

Depreciation base 200000

Allowable 7% of depreciation base

$$200000 \times 7\% = 14000$$

Actual Repair = 20000

(which ever is less)

Capitalized repair = Actual – allowable

$$20000 - 14000 = 6000$$

If actual repair is less than allowable repair the capitalize repair is Zero(0)

Book QN 16

b) Opening depreciation basis of both blocks for the next year.

A special industry incorporated under the Company Act has supplied the following details of assets under different blocks.

Blocks	A	B	C	D
Beginning WDV	Rs.30,00,000	Rs.6,00,000	Rs.22,50,000	Rs.15,60,000
New addition during the year:				
On 1 st Shrawan	-	-	Rs.17,00,000	-
On Chaitra end	-	-	-	Rs.18,00,000
On Ashadh 27	Rs.75,00,000	-	-	-
Disposal during the year.....	-	Rs.1,40,000	-	-

During the year the industry purchased software for Rs.6,72,000 the estimated life of the software is 6 years and 5 months.

Required: i) Allowable depreciation, closing WDV at the year-end, and opening depreciation base for next year assuming that the industry is run by an individual
 ii) Allowable depreciation, closing WDV at the year-end, and opening depreciation base for next year assuming that the industry is run by an entity

Solution

A(i) Calculation of Allowable Depreciation if industry run by **individual**

	This year	next year
1 st shrawan to end of poush	3/3	0
1 st magh to end of chaitra	2/3	1/3
1 st baisakh to end of ashadh	1/3	2/3

Particular\Block	A	B	C	D	E
Opening WDV	3000000	600000	2250000	1560000	0
Add: Addition or Absorbed this year					
1 st shrawan 1700000x3/3			1700000		
31 st chaitra 1800000x2/3				1200000	
27 th Ashad 7500000x1/3	2500000				
Software					672000
Total Assets	5500000	600000	3950000	2760000	672000
Less: Disposal sales		140000			
Depreciation base(A)	5500000	460000	3950000	2760000	672000
Rate of Depreciation	5%	25%	20%	15%	672000/6
Allowable depreciation(B)	275000	115000	790000	414000	112000
Closing WDV(A- B)	5225000	345000	3160000	2346000	560000

A(ii) Calculation of opening WDV next year

Particular\Block	A	B	C	D	E
Closing WDV	5225000	345000	3160000	2346000	560000
Add: Unabsorbed assets	-	-	-	-	
31 st chaitra 1800000x1/3				600000	
27 th Ashad 7500000x2/3	5000000				
Opening WDV next year	1022500 0	345000	3160000	2946000	560000

6 yr 5 month =6

6 yr 6 month =6.5

6 yr 8 month =6.5

6 yr 12 month =7

b. Calculation of Allowable depreciation if special industry run by entity

Particular\Block	A	B	C	D	E
Opening WDV	3000000	600000	2250000	1560000	0
Add: Addition or Absorbed this year					
1 st shrawan 1700000x3/3			1700000		
31 st chaitra 1800000x2/3				1200000	
27 th Ashad 7500000x1/3	2500000				
Software					672000
Total Assets	5500000	600000	3950000	2760000	672000
Less: Disposal sales		140000			
Depreciation base(A)	5500000	460000	3950000	2760000	672000
Rate of Depreciation	6.67%	33.33%	26.66%	20%	672000/6
Allowable depreciation(B)	366850	153318	1053070	552000	112000
Closing WDV(A-B)	5133150	306682	2896930	2208000	560000

Calculation of opening WDV

Particular\Block	A	B	C	D	E
Closing WDV	5133150	306682	2896930	2208000	560000
Add: Unabsorbed assets	-	-	-	-	
31 st chaitra 1800000x1/3				600000	
27 th Ashad 7500000x2/3	5000000				
Opening WDV next year	10133150	306682	2896930	2880000	560000

Valuation of stock:

In case of person maintaining accounts in cash basis, Valuation of stock is by using cost price or consumption price

In case of Income from business maintaining accounts in accrual basis the valuation of stock is consumption cost.

Finally, the value of closing stock is determined market price or cost price whichever is lower.

Adjustment of overvaluation and under valuation

Overvaluation RS.=Less Garne

Under valuation RS.= Add Garne

Overvaluation in %=100+

Undervaluation in %=100-

1. If overvaluation in closing stock in % given

Actual Closing stock = Given C/s X 100/100+ Overvalue %

If under valuation in closing stock in % given

Actual Closing stock = Given C/s X 100/100-Under valuation %

If Over valuation given in Rs.

Actual closing stock= Given C/s- Overvaluation Rs

If under valuation given in Rs.

Actual closing stock= Given C/s+ Undervaluation Rs

2. If overvaluation in Opening stock in % given

Actual Opening stock = Given O/s X 100/100+ Overvalue %

If under valuation in Opening stock in % given

Actual Opening stock = Given O/s X 100/100-Under valuation %

If Over valuation given in Rs.

Actual Opening stock= Given O/s- Overvaluation Rs

If under valuation given in Rs.

Actual Opening stock= Given O/s+ Undervaluation Rs

Question

Closing stock=40000

Opening stock=90000

Closing overvalued Rs.10000 and opening stock under valued Rs.20000

Req: Actual opening and closing stock

Actual Closing stock= Given c/s-overvalued Rs

$$40000-10000=30000$$

Actual opening stock= Given o/s+ Under valued Rs.

$$90000+20000=110000$$

QN.2 Opening stock=200,000=O/s

Closing stock=500,000=C/s

Opening stock is undervalued by 10%

Closing is overvalued by 20%

Req actual opening and closing stock

$$\text{Actual O/s} = \text{Given O/s} \times 100/100-10 \quad 100-10=90\%=0.9$$

$$200000 \times 100/90 = 222222 \quad \text{or} \quad 200000/0.90 = 222222$$

Actual closing stock=222222

$$\text{Actual C/s} = \text{Given C/s} \times 100/100+20$$

$$500000 \times 100/120 \quad \text{or} \quad 500000/1.20 = 416667$$

Actual Opening stock=416667

$$100+20=120=120/100=1.20$$

