7 Depreciation

Contents

Competency Statements

- *Students understand the concepts, methods and importance of Depreciation.*
- *Students understand the difference between Fixed Assets and Current Assets.*
- *Students are able to calculate the amount of depreciation of different fixed assets.*
- *Students are able to differentiate the amount of depreciation by Straight Line Method and Written Down Value Method*

In daily life, we use many assets which could be Tangible or Intangible. Such assets have their own life e.g. Building, Furniture, Machinery, etc. It is necessary to spread the cost over a number of years during the useful life of the assets. This process of spreading the cost of fixed assets is termed as 'Depreciation'.

7.1 Meaning and Definition of Depreciation:-

The word depreciation is derived from the **Latin word 'Depretium'** which means reduction. Every business concern acquires some fixed assets which are used in the business for its trading activity. These assets are purchased for business with an intention of permanent use and not for resale.

Working life of all fixed assets, except Land, decreases with the passage of time. The value of these assets decrease every year. So, reduction in the value of fixed assets due to its Wear and Tear or actual use is called as **'Depreciation'.**

"Depreciation is defined as shrinkage in the value of an asset due to wear and tear, passage of time or obsolescence."

Unless depreciation is charged to the revenues, the true income of the business cannot be ascertained properly, and we cannot make provision for their replacement. Purchase of an asset is a capital expenditure and not a recurring expenditure.

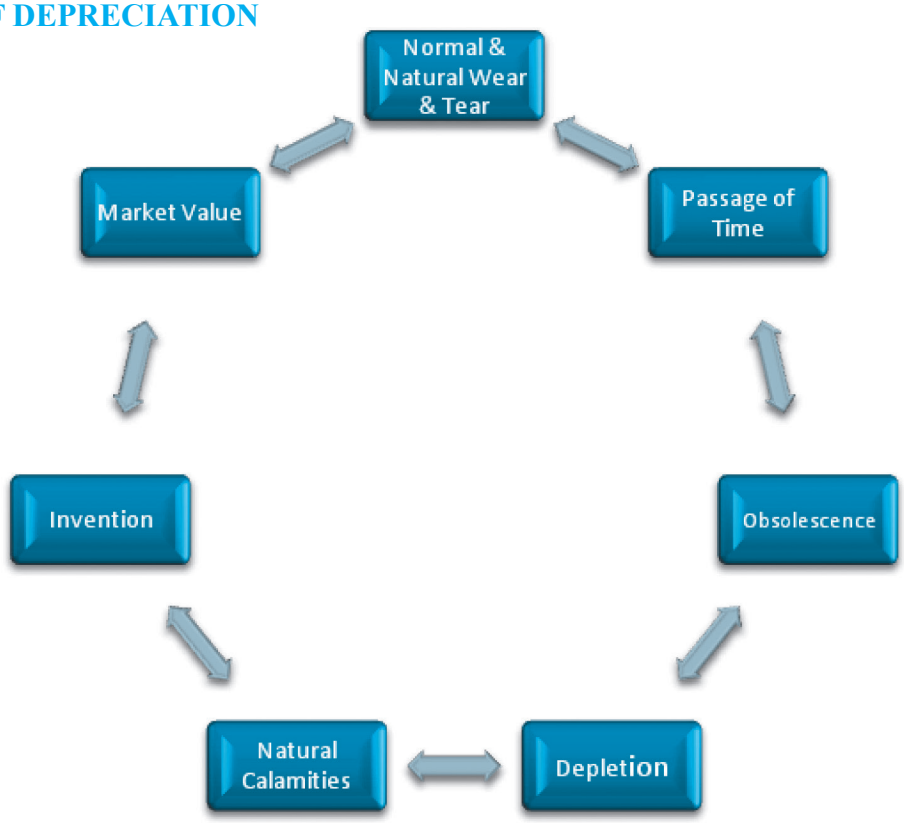
NOTE:.

1. Land is never depreciated,many a times it is appreciated. Moreover, the area of the Land neither increases nor decreases.
2. Depreciation is charged every year whether the business concern is earning profit or suffering a loss.

Definition:-

1. "Depreciation is the gradual decrease in the value of an asset from any cause."
   -R.N.Carter.
2. "Depreciation may be defined as a gradual deterioration in the value due to use."
   -R.G.Williams.
3. "Depreciation may be defined as permanent and continuing diminution in the quality,quantity or the value of an asset."
   -William Pickles.
4. "A measure of the wearing out,consumption or other loss of a value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes."
   -The Institute of Chartered Accountants of India.**(ICAI)**
5. "Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life. Depreciation for the accounting period is charged to income either directly of indirectly."
   -The International Accounting Standard Committee.**(ICAC)**
6. "Continuous, gradual and permanent reduction in the value of assets is called depreciation."

CAUSES OF DEPRECIATION



1. **Normal and Natural Wear and Tear-**

Value of fixed asset is reduced due to its normal and natural wear and tear or actual use. More the use of an asset, more the wear and tear.

2. **Passage of Time-**

Fixed assets get depreciated due to affluxion of time,so it is necessary to depreciate them even if they are not in use. e.g. Patents, Trademarks, Copyrights, Leases, Software, Designs, etc.

3. **Obsolescence–**

On account of technological development or changes in techniques of production, the old assets become obsolete or out-dated and all these cause reduction in their values. It is called obsolescence, e.g Computer ,Television etc.

4. **Depletion –**

To deplete means to empty. Depletion is also one of the causes of decrease in the value of wasting assets such as Forests, Oil-wells, Mines, Quarries, etc.

5. **Natural Calamities/Impairment of an Asset –**

The price of fixed assets decreases due to natural calamities such as earthquakes, storms, cyclones, fire, floods, or accidents,etc. and damages of the assets is accounted for in the Books of Accounts.

6. **Invention –**

When the new machines or assets are invented, the earlier assets or machines being used may lose their utility and hence their value is reduced. e.g. When in the market, i-phone8 was introduced the value of i-phone7 reduced.

7. **Market Value –**

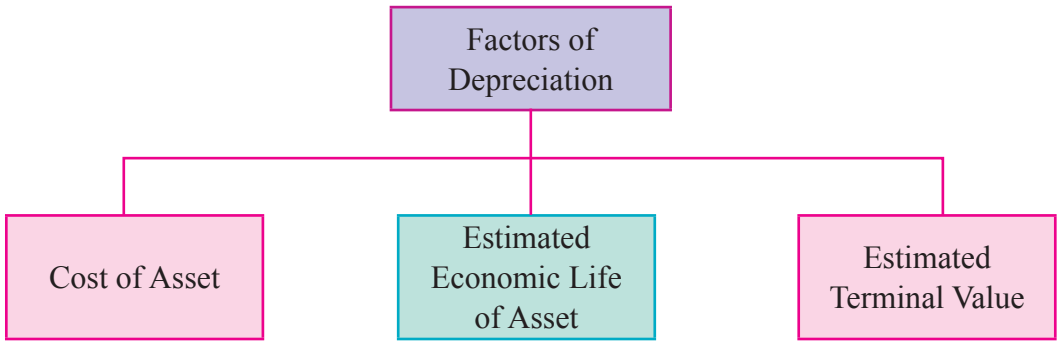
Market Value of an asset goes on changing according to the prevailing conditions. Hence depreciation also changes. When market value of an asset decreases as compared to its cost, it causes the depreciation on it.

NEED AND IMPORTANCE OF DEPRECIATION–

1. Depreciation is charged to Profit and Loss A/c as it is an element of Cost. It is also essential to arrive at true value of the asset and also net Profit or Loss during a particular accounting period. Even if an asset is not in use, its value is reduced due to passage of time. Depreciation is Cost/Loss to the business. It is a non – cash expenditure. It is a Nominal Account.
2. If depreciation is not provided and deducted from the value of assets, the assets will be overvalued and we cannot find out true and fair financial position of the business.
3. Depreciation is necessary to make provision for replacement of old assets. If provision for depreciation is not made, the business may not have sufficient funds to replace them.
4. It enables the business to compute and pay correct amount of tax to the Government.
5. Depreciation must be calculated and equivalent funds should be provided for every year, so that at the end of its life, the assets may be easily replaced.

7.2. FACTORS TO BE CONSIDERED WHILE CHARGING DEPRECIATION

While deciding the amount of depreciation to be charged every year, the following basic factors should be taken into consideration.



1. Cost of Asset:-

The cost of asset is an important factor while computation of depreciation. Historical cost of the assets represents the money spent in connection with its acquisition, installation or improvement thereof.

In short Original Cost of the Assets = Purchasing Price of Assets + its Installation or Incidental charges i.e. cost of transportation, transit insurance, custom duty, unloading charges, brokerage, wages for fixation , amount spent for repairs on second hand assets or reconditioning, etc.

2. Useful or Estimated Economic Life of Assets :-

The useful life of an asset is generally taken to be in terms of years or working life of the assets expected utility to the business concern.

In other words it means the business should use the assets till the business gets useful services from the asset and earns Profit from its use.

3. Estimated Terminal or Scrap or Residual Value :-

Scrap Value is the Realisable (net) value of the asset at the end of its economic life. This value should be calculated after deducting the disposal and removal costs from the sale value of the asset.

7.3. METHODS OF DEPRECIATION

There are different methods of charging depreciation according to the nature of asset, use of asset and necessity. Following are the various methods for providing depreciation.

1. Fixed Instalment or Straight Line or Original Cost Method.
2. Diminishing or Reducing Balance or Written Down Value Method.
3. Annuity Method.
4. Depreciation Fund Method.
5. Revaluation Method.
6. Insurance Policy Method.
7. Machine Hour Rate Method, etc.

Note: Out of the above methods, only first two methods have been prescribed in the syllabus for class XI Commerce and hence only these methods are explained below.

7.3.1. Fixed Instalment or Straight Line or Original Cost Method:-

Under this method depreciation is charged at a specific percentage on the Original Cost of the asset every year, so as to reduce the asset account to nil or to its Scrap value at the end of the estimated life of the asset.

To ascertain the annual charge under this method, all that is necessary is to divide the original value of the asset (minus its residual value, if any) by the number of years of its estimated life.

Depreciation is calculated by following formula-

$$\text{Depreciation (p.a.)} = \frac{\text{Original cost} - \text{Scrap Value}}{\text{Estimated life of the asset (in years)}}$$

- Original cost of Asset = Purchasing price of an Asset + Incidential Charges etc.

For example

A machine costing ₹15,000 is purchased and installation charges of ₹ 3000 is paid. Estimated life of the asset is 10 years and the Scrap Value is estimated to be ₹ 2,000 at the end of its life. The amount of depreciation would be,

$$\text{Depreciation(p.a.)} = \frac{(15{,}000 + 3{,}000) - 2000}{10}$$

$$= \frac{16{,}000}{10}$$

$$= ₹\ 1{,}600 \text{ p.a.}$$

Depreciation is also charged when the rate of depreciation is given. It is calculated by using following formula

$$\text{Depreciation (p.a.)} = \frac{\text{Cost of the Asset} \times \text{Rate of depreciation}}{100}$$

NOTE : At the time of calculation of depreciation amount, the period for which the asset is used in the business during the current Accounting year should be considered.

For example –

The Original cost of an asset is ₹ 80,000,and the depreciation is charged @ 10% p.a. at Fixed Instalment Method, then the amount of depreciation will be computed as follows.

1. Depreciation p.a.(1st year) = 80,000 x 10/100 = **₹ 8,000 p.a.**

   WDV= 80,000 – 8,000 = 72,000 (at the end of the 1st year)

2. Depreciation p.a.(2nd year) = 80,000 x 10/100 = **₹ 8,000 p.a.**

   WDV= 72,000 – 8,000 = 64,000 (at the end of the 2nd year)

3. Depreciation p.a.(3rd year) = 80,000 x 10/100 = **₹ 8,000 p.a.**

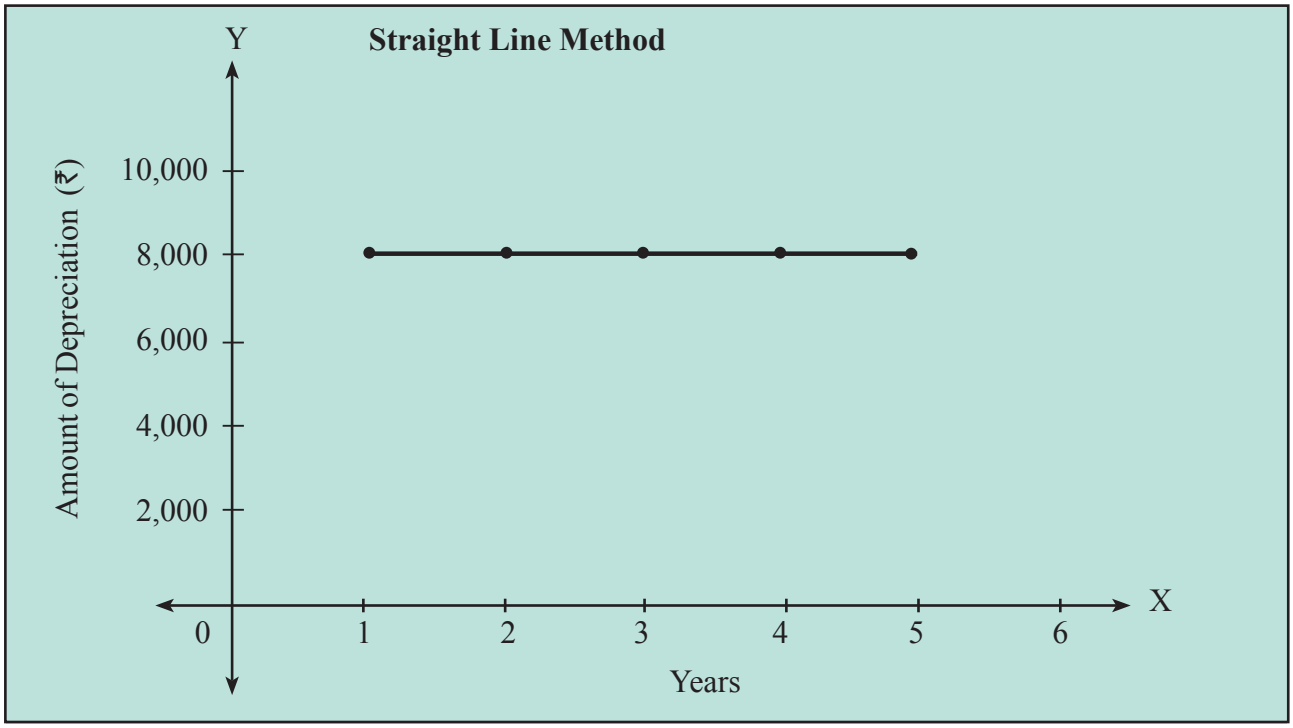
   WDV= 64000 – 8,000 = 56,000 (at the end of the 3rd year)

4. Depreciation p.a.(4th year) = 80,000 x 10/100 = **₹ 8,000 p.a.**

   WDV= 56,000 – 8,000 = 48000 (at the end of the 4th year)

Note : In this method depreciation is charged every year on Original Cost of the asset.

The amount of depreciation to be charged per year on the asset is constant. If the amount of depreciation is plotted annually on a graph paper and the points are joined together, then the graph will reveal a Parallel Line to X axis, that is why this method is also called as Straight Line Method.



7.3.2. Diminishing or Reducing Balance or Written Down Value Method:-

Under this method, depreciation is calculated at a certain percentage each year on the balance of the asset which is brought forward from the previous year. In other words, under this method depreciation is calculated at a specific percentage on the value of that asset which stands in the books of accounts on the opening date of each year.

The amount of depreciation charged per year is not fixed but it goes on decreasing gradually as the opening balance of the asset will decrease in each year. The charges depreciation in initial periods are higher than those in the later periods.

For example –

The Original Cost of an asset is ₹80,000,and the depreciation is charged @ 10% p.a. under Written Down Value Method, then the amount of depreciation will be computed as follows

1. Depreciation p.a.(1st year) =80,000 X 10/100 = **₹ 8,000 p.a.**

   WDV= 80,000 – 8,000 = 72,000 (at the end of the 1st year)

2. Depreciation p.a.(2nd year) =72,000 X 10/100 = **₹ 7,200 p.a.**

   WDV= 72,000 – 7,200 = 64,800 (at the end of the 2nd year)

3. Depreciation p.a.(3rd year) =64,800 X 10/100 = **₹ 6,480 p.a.**

   WDV= 64,800 – 6,480 = 58,320 (at the end of the 3rd year)

4. Depreciation p.a.(4th year) =58,320 X 10/100 = **₹ 5,832 p.a.**

   WDV= 58,320 – 5,832 = 52,488 (at the end of the 4th year)

Note : In this method depreciation is charged on original cost in first year and from the next year it is charged on Written Down Value(WDV)of an asset. It is charged on opening balance of every year.

The amount of depreciation charged during each year of asset life goes on decreasing every year. If the charge of depreciation is plotted annually on a graph paper and the points joined together, then the graph will reveal as follows :

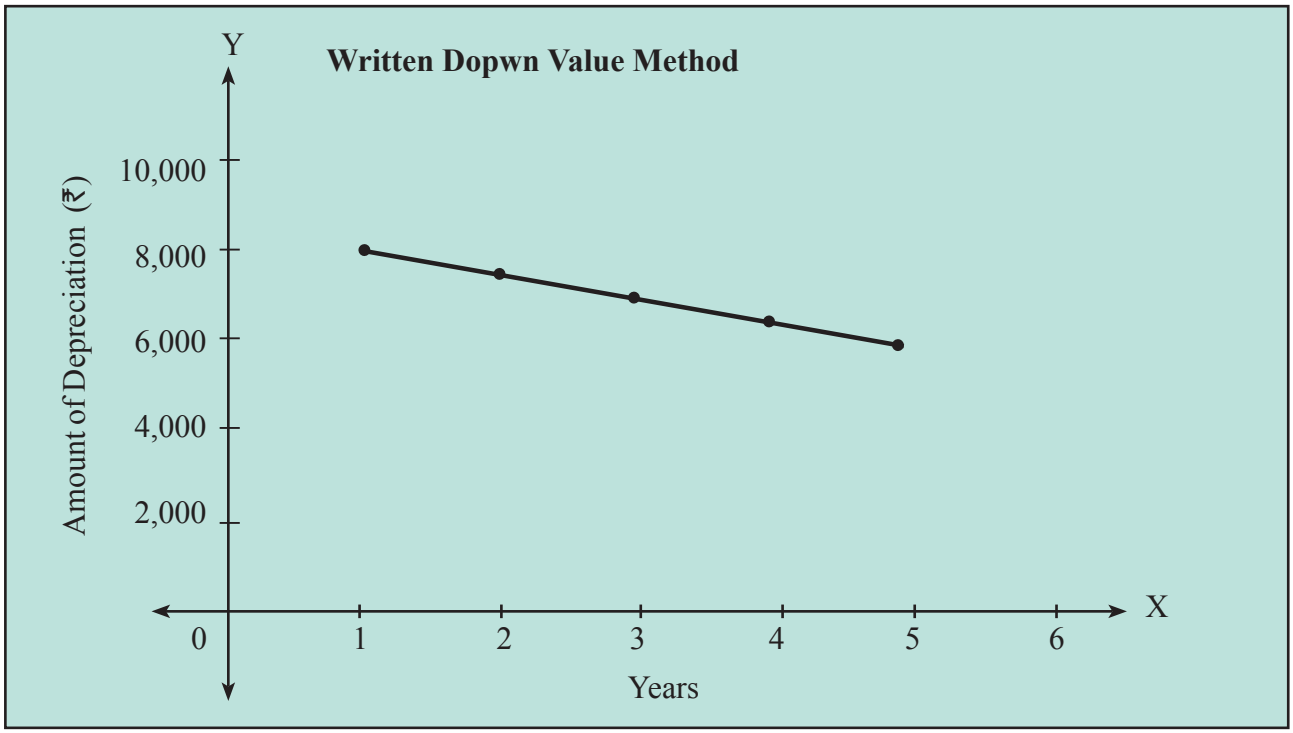


Fig. 7.2 Depreciation amount using Written Down Value Method

7.3.3 Difference between Fixed Instalment Method and Written Down Value Method.

Points	Fixed Instalment Method	Written Down Value Method
Meaning	Under this method depreciation per year on the asset remains fixed	Under this method depreciation per year on the asset goes on reducing
Charged on	On original cost of the asset.	On reduced balance of the asset.
Amount	Amount of depreciation remains the same each year.	Amount of depreciation goes on decreasing each year.
Value of fixed asset	Value of fixed asset can be reduced to Zero.	Value of fixed asset cannot be reduced to Zero.
Profits	Profits are more during the earlier years of the life of the asset than later years	Profits are less during the earlier years than the later years
Recognition by Tax/Law	It is not recognized by any Tax/Law	It is Recognised by Tax/Law
Suitability	This method is suitable where repair charges are less and obsolescence is not frequent.	This method is suitable where repair charges are more in later years and obsolescence is more.
Depreciation Curve	Under Straight line method the curve is parallel to X axis.	Under Written Down value method the curve slopes downward from left to right.

7.4 Accounting treatment

Journal entries under both the methods are same and they are as under;

A. In the year of Purchase

1. For Purchase of Asset for Cash

Asset A/c ----------Dr.
To Cash / Bank A/c
(Being asset purchased for cash.)

2. For Purchase of Asset on Credit

Asset A/c ------- Dr.
To, Supplier's/Party's A/c
(Being purchased asset on credit from.....)

3. For other incidental expenses incurred to put the asset into operation

Asset A/c----------Dr.
To Cash / Bank A/c
(Being the payment of incidental charges.)

4. For charging depreciation.

Depreciation A/c----------Dr.

To Asset A/c

(Being depreciation charged)

5. Balance of depreciation A/c is transferred to Profit and Loss A/c

Profit and Loss A/c ----------Dr.

To Depreciation A/c.

(Being balance of depreciation A/c is transferred to Profit & Loss A/c.)

B. Second year onwards

1. For charging depreciation.

Depreciation A/c----------Dr.

To Asset A/c

(Being Depreciation charged)

2. At the end of the year balance of depreciation A/c is transferred to Profit and Loss A/c

Profit and Loss A/c ----------Dr.

To Depreciation A/c.

(Being balance of Depreciation A/c transferred to Profit & Loss A/c.)

C. During the year of sale

1. For depreciation charged upto the date of sale of the asset.

Depreciation A/c----------Dr.

To Asset A/c

(Being Depreciation charged)

2. For Sale of Asset(at its Book value)

Bank A/c----------Dr.

To Asset A/c

(Being sale proceed on sale of asset at book value.)

3. For Sale of Asset at profit.

Bank A/c ----------Dr.

To Asset A/c. (W.D.V)

To Profit on sale of Asset A/c.

(Being the asset has been/is sold at profit.)

4. Transferring Profit to Profit and Loss A/c.

Profit on Sale of Asset A/C ----------Dr.

To Profit and Loss A/c

(Being the profit on sale of the asset transferred Profit & Loss A/c.)

5. For Sale of Asset at Loss.

Bank A/c .....Dr.

Loss on Sale of Asset A/c .....Dr.

To Asset A/c(W.D.V)

(Being the asset sold at loss.)

6. Transferring Loss to Profit and Loss A/c.

Profit and Loss A/c .....Dr.

To Loss on sale of Asset A/c.

(Being the loss on sale of the asset transferred to Profit & Loss A/c.)

7. Depreciation on remaining asset if any.

Depreciation A/c .....Dr.

To Asset A/c.

(Being depreciation charged)

8. At the end of the year balance of Depreciation A/c is transferred to Profit and Loss A/c

Profit and Loss A/c.....Dr.

To Depreciation A/c.

(Being balance of depreciation A/c is transferred to Profit & Loss A/c.)

ILLUSTRATION ON STRAIGHT LINE METHOD

Illustration 1.

'SIDDHI' Ltd Ratnagiri purchased a Machinery costing ₹ 2,00,000 on 1st April, 2015. Depreciation is charged @10% on Original Cost each year on 31st March.

Give Journal entries, Machinery A/c and Depreciation A/c for the years 2015-16, 2016-17, 2017-18.

Solution : In the Books of 'SIDDHI' Ltd Ratnagiri.

Journal Entries.....

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2015 April 1	Machinery A/c Dr. To Bank A/c (Being Machinery purchased)		2,00,000	2,00,000
2016 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged @ 10% p.a.)		20,000	20,000

2016 Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c is transferred to Profit & Loss Account)		20,000	 20,000
2017 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged @10% on Original Cost)		20,000	 20,000
2017 Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c is transferred to Profit & Loss Account)		20,000	 20,000
2018 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged @ 10% on Original Cost)		20,000	 20,000
2018 Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c is transferred to Profit & Loss Account)		20,000	 20,000

Working Note:-

1. Calculation of depreciation

		(₹)
	Cost as on 1st April 2015	2,00,000
Less -	10% depreciation for 2015-16	20,000
	WDV as on 1st April 2016	1,80,000
Less -	10% depreciation for 2016-17	20,000
	WDV as on 1st April 2017	1,60,000
Less -	10% depreciation for 2017-18	20,000
	WDV as on 1st April 2018	1,40,000

2. Alternate Method

	Cost as on 1st April 2015	2,00,000
Less -	10% depreciation for 3 years (20,000+20,000+20,000)	60,000
	WDV as on 1st April 2018	1,40,000

In the Books of SIDDHI Ltd., Ratnagiri

Dr. **Machinery Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
April 1	To Bank A/c		2,00,000	Mar. 31	By Depreciation A/c		20,000
				Mar. 31	By Balance c/d		1,80,000
			2,00,000				2,00,000
2016				2017			
April 1	To Balance b/d		1,80,000	Mar. 31	By Depreciation A/c		20,000
				Mar. 31	By Balance c/d		1,60,000
			1,80,000				1,80,000
2017				2018			
April 1	To Balance b/d		1,60,000	Mar. 31	By Depreciation A/c		20,000
				Mar. 31	By Balance c/d		1,40,000
			1,60,000				1,60,000
2018							
April 1	To Balance b/d		1,40,000				

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2016			
Mar. 31	To Machinery A/c		20,000	Mar. 31	By Profit & Loss A/c		20,000
			20,000				20,000
2017				2017			
Mar. 31	To Machinery A/c		20,000	Mar. 31	By Profit & Loss A/c		20,000
			20,000				20,000
2018				2018			
Mar. 31	To Machinery A/c		20,000	Mar. 31	By Profit & Loss A/c		20,000
			20,000				20,000

Illustration 2.

On 1st April 2016 M/s Punawala & Co. Latur. Purchased Equipments of ₹ 50,000 against cheque. They decided to follow Fixed Instalment Method of depreciation. The life of the Equipments is estimated as 8 years and scrap-value of the Equipments at the end of its life is estimated as ₹ 2,000. On 1st Jan 2019 entire Equipment is sold for ₹ 35,000. The firm closes its Books of Accounts on 31st March, each year

Prepare Equipments A/c, Pass Journal entries for third year and also calculate depreciation.

Solution : **In the Books of M/s Punawala & Co. Latur**

Dr. **Equipments Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2017			
April 1	To Bank A/c		50,000	Mar. 31	By Depreciation A/c		6,000
				Mar. 31	By Balance c/d		44,000
			50,000				50,000
2017				2018			
April 1	To Balance b/d		44,000	Mar. 31	By Depreciation A/c		6,000
				Mar. 31	By Balance c/d		38,000
			44,000				44,000
2018				2019			
April 1	To Balance b/d		38,000	Jan. 1	By Depreciation A/c		4,500
2019	To Profit on sale of			Jan. 1	By Bank A/c		35,000
Jan. 1	Equipment A/c		1,500				
			39,500				39,500

Working Notes : 1. Calculation of Depreciation

$$\text{Depreciation (p.a.)} = \frac{\text{Cost of an asset - Scrap Value}}{\text{Estimated life an Asset}}$$

$$\text{Depreciation (p.a.)} = \frac{50{,}000 - 2{,}000}{8}$$

$$\text{Depreciation (p.a.)} = \frac{48{,}000}{8}$$

Depreciation = ₹ 6,000 p.a.

2. Calculation of Proft or Los on sale of equipments

	₹
Cost of Equipments	50,000
Less : Depreciation for 2 years and 9 months	16,500
Cost as on 1-1-2019	33,500
Selling price	35,000
Less : Cost price	33,500
Profit on sale	1,500

In the books of M/s Punawala & Co. Latur

Journal Entries for the year 2018-19

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
2019					
Jan. 1	Depreciation A/c	Dr.		4,500	
	To Equipments A/c				4,500
	(Being depreciation charged)				
Jan. 1	Bank A/c	Dr.		35,000	
	To Equipments A/c				33,500
	To Profit on sale of equipments A/c				1,500
	(Being Equipments sold at Profit)				

Mar. 31	Profit on sale of Equipments A/c Dr. To Profit & Loss A/c (Being Profit on sale of Equipments transferred to Profit & Loss A/c)		1,500	 1,500
Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being depreciation transferred to P & L A/c)		4,500	 4,500

Illustration 3.

Prabhune and Sons Kolhapur, made Furniture for their own office on 1st October 2015. For this they had spent ₹ 72,000 on Materials and ₹ 32,000 on Wages.

The estimated life of the Furniture is to be for 10 years and its expected scrap value at the end of it would be ₹ 24,000.

They sold the entire Furniture for ₹ 80,000 on 1st October 2018. They close the books of accounts on 31st March every year.

Show the Furniture A/c and Depreciation A/c for first four years.

Solution : **In the Books of Prabhune & Sons, Kolhapur**

Dr. **Furniture Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
Oct. 1	To Bank A/c		1,04,000	Mar. 31	By Depreciation A/c		4,000
	(72,000 + 32000)			Mar. 31	By Balance c/d		1,00,000
			1,04,000				1,04,000
2016				2017			
April 1	To Balance b/d		1,00,000	Mar. 31	By Depreciation A/c		8,000
				Mar. 31	By Balance c/d		92,000
			1,00,000				1,00,000
2017				2018			
April 1	To Balance b/d		92,000	Mar. 31	By Depreciation A/c		8,000
				Mar. 31	By Balance c/d		84,000
			92,000				92,000
2018				2018			
April 1	To Balance b/d		84,000	Oct. 31	By Depreciation A/c		4,000
				Oct. 31	By Bank A/c		80,000
			84,000				84,000

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2016			
Mar. 31	To Furniture A/c		4,000	Mar. 31	By Profit & Loss A/c		4,000
			4,000				4,000
2017				2017			
Mar. 31	To Furniture A/c		8,000	Mar. 31	By Profit & Loss A/c		8,000
			8,000				8,000
2018				2018			
Mar. 31	To Furniture A/c		8,000	Mar. 31	By Profit & Loss A/c		8,000
			8,000				8,000
2018 Oct. 1	To Furniture A/c		4,000	2019 Mar. 31	By Profit & Loss A/c		4,000
			4,000				4,000

Working Note-

1. Calculation of total cost

Original Cost of asset = (Material + Wages)
= ₹ (72,000 + 32,000)
= ₹ 1,04,000,

2. Calculation of Depreciation

$$\text{Depreciation} = \frac{\text{Original cost of an asset - Scrap Value}}{\text{Estimated Life of Asset (years)}}$$

$$\text{Depreciation} = \frac{1,04,000 - 24,000}{10}$$

$$\text{Depreciation} = \frac{80,000}{10}$$

Depreciation = ₹ 8,000 p.a. (for 6 months - ₹ 4,000)

Illustration 4.

On 1st Jan 2015 'SCON' Transports', Pune, purchased four Trucks for ₹ 25,000 each. Depreciation has been provided @10%p.a. using Straight Line Method.

On 1st Jan 2016 one Truck was sold for ₹ 20,000. On 1st July 2016 another Truck (purchased for ₹ 25,000 in 1st Jan 2015) was sold for ₹ 22,000.A new Truck costing ₹ 40,000 was purchased on 1st Jan 2017.

You are required to prepare Trucks A/c and Depreciation A/c for First three years assuming that books of accounts are closed on 31st March each year.

In the Books of 'SCON'Transports', Pune

Dr. **Trucks Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2015			
Jan. 1	To Bank A/c (I)		1,00,000	Mar. 31	By Depreciation A/c (A+B+C+D) (WN)		2,500
				Mar. 31	By Balance c/d		97,500
			1,00,000				1,00,000
2015				2016			
April 1	To Balance b/d		97,500	Jan. 1	By Depreciation A/c (I - A)		1,875
				Jan. 1	By Bank A/c		20,000
				Jan. 1	By Loss on sale of Truck A/c		2,500
				Mar. 31	By Depreciation A/c (I - B+C+D)		7,500
				Mar. 31	By Balance c/d		65,625
			97,500				97,500
2016				2016			
April 1	To Balance b/d		65,625	July 1	By Depreciation A/c (I-B)		625
July 1	To Profit on sale of Truck A/c		750	July 1	By Bank A/c		22,000
2017				2017			
Jan. 1	To Bank A/c (II)		40,000	Mar. 31	By Depreciation A/c (I-C+D+II)		6,000
				Mar. 31	By Balance c/d		77,750
			1,06,375				1,06,375
2017							
April 1	To Balance b/d		77,750				

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2015			
Mar. 31	To Trucks A/c		2.500	Mar. 31	By Profit & Loss A/c		2,500
			2,500				2,500
2016				2016			
Jan. 1	To Trucks A/c		1,875	Mar. 31	By Profit & Loss A/c		9,375
Mar. 31	To Trucks A/c		7,500				
			9,375				9,375

2016				2017			
July 1	To Trucks A/c		625	Mar. 31	By Profit & Loss A/c		6,625
2017							
Mar. 31	To Trucks A/c		6,000				
			6,625				6,625

Working Note:-

1. Calculation of Profit / Loss on sale of Truck on 1st Jan 2016

Truck purchased on 1-1-2015	₹ 25,000	
Less-10% depreciation upto sale	₹ 2,500	(625+1,875)
WDV as on 1-1-2016	₹ 22,500	
Less-Selling Price	₹ 20,000	
Loss on sale of Truck	₹ 2,500	

2. Calculation of Profit / Loss on sale of Truck on 1st July 2016.

Truck purchased on 1-1-2015	₹ 25,000	
Less-10% depreciation up to sale	₹ 3,750	(625+2,500+625)
WDV as on 1-7-2016	₹ 21,250	
Selling Price	₹ 22,000	
Profit on sale of Truck	₹ 750	

Alternative Working Note :

Truck	I-A ₹	Truck	I-B ₹	Truck	I-C ₹	Truck	I-D ₹	Truck	II ₹	Total Depre-ciation ₹
1-1-15	25,000	1-1-15	25,000	1-1-15	25,000	1-1-15	25,000	1-1-17	40,000	
31-3-15	625	31-3-15	625	31-3-15	625	31-3-15	625			2,500
1-4-15	24,375	1-4-15	24,375	1-4-15	24,375	1-4-15	24,375			
1-1-16	1,875	31-3-16	2,500	31-3-16	2,500	31-3-16	2,500			9,375
W.D.V	22,500	1-4-16	21,875	1-4-16	21,875	1-4-16	21,875			
Sales price	20,000	1-7-16	625	31-3-17	2,500	31-3-17	2,500	31-3-17	1,000	6,625
Loss on sale	2,500	W.D.V	21,250	1-4-17	19,375	1-4-17	19,375	1-4-17	39,000	
		Sales price	22,000							
		Profit on sale	750							

Illustration 5.

M/s Rubina Traders, Sindhudurg, bought Furniture worth ₹ 30,000 on 1st April 2016 and additional Furniture on 1st October 2016 worth ₹ 20,000. They charged depreciation at 15% p.a. on Fixed Instalment Basis.

On 1st October 2018 they sold one Cupboard for ₹ 5,000 Original cost of which on 1st April 2016 was ₹ 10,000. On the same date , a new Cupboard was purchased for ₹ 15,000.

Show the Furniture A/c and Depreciation A/c for the years 2016-17, 2017-18 and 2018-19 assuming that the financial year closes on 31st March every year.

Solution :

In the Books of 'Rubina Traders', Sindhudurg

Dr. Furniture Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2017			
April 1	To Bank A/c		30,000	Mar. 31	By Depreciation A/c		6,000
Oct. 1	To Bank A/c		20,000	Mar. 31	By Balance c/d		44,000
			50,000				50,000
2017				2018			
April 1	To Balance b/d		44,000	Mar. 31	By Depreciation A/c		7,500
				Mar. 31	By Balance c/d		36,500
			44,000				44,000
2018				2018			
April 1	To Balance b/d		36,500	Oct. 1	By Depreciation A/c		750
Oct. 1	To Bank A/c		15,000		(I-A)		
				Oct. 1	By Bank A/c		5,000
				Oct. 1	By Loss on sale of		
				2019	furniture A/c		1,250
				Mar. 31	By Depreciation A/c		
					(I-B+II+III)		7,125
				Mar. 31	By Balance c/d		37,375
			51,500				51,500
2019							
April 1	To Balance b/d		37,375				

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2017				2017			
Mar. 31	To Furniture A/c		6,000	Mar. 31	By Profit & Loss A/c		6,000
			6,000				6,000
2018				2018			
Mar. 31	To Furniture A/c		7,500	Mar. 31	By Profit & Loss A/c		7,500
			7,500				7,500
2018				2019			
Oct. 1	To Furniture A/c		750	Mar. 31	By Profit & Loss A/c		7,875
2019							
Mar. 31	To Furniture A/c		7,125				
			7,875				7,875

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Furniture

	Furniture	Sold IA ₹	Furniture	Unsold IB ₹	Furniture	II ₹	Furniture	III ₹	Total Depreciation on ₹
Cost	1-4-16	10,000	1-4-16	20,000	1-10-16	20,000	1-10-18	15,000	
Depr.	31-3-17	1,500	31-3-17	3,000	31-3-17	1,500			6,000
Depr.	31-3-18	1,500	31-3-18	3,000	31-3-18	3,000	(6 M)		7,500
Depr.	1-10-18	750	31-3-19	3,000	31-3-19	3,000	31-3-19	1,125	7,825
	W.D.V	6,250	1-4-19	11,000	1-4-19	12,000	1-4-19	13,875	
	Sales price	5,000							
	Loss on sale	1,250							

Illustration 6.

M/s Amir Agency Solapur showed a debit balance of ₹.56,000 to Machinery A/c on 1st Oct. 2015. The Original Cost of the Machinery was ₹.80,000.

On 1st April 2016 M/s Amir Agency bought an additional Machinery of ₹.45,000 and spent ₹.5,000 for its installation. On 1st Oct 2017 a part of the Machinery purchased on 1st April 2016 was sold for ₹.15,000 the Original Cost of which was ₹.20,000.

M/s Amir Agency charged 10% depreciation on Fixed Instalment Basis and its financial year closes on 31st March every year.

Show Machinery A/c for the years 2015-16, 2016-2017 and 2017-18 and pass Journal Entries for Third year only.

Solution :

In the Books of M/s Amir Agency, Solapur

Dr. **Machinery Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
Oct. 1	To Balance b/d		56,000	Mar. 31	By Depreciation A/c-I		4,000
				Mar. 31	By Balance c/d		52,000
			50,000				56,000
2016				2017			
April 1	To Balance b/d		52,000	Mar. 31	By Depreciation A/c-I & II		13,000
April 1	To Bank A/c		50,000	Mar. 31	By Balance c/d		89,000
			1,02,000				1,02,000
2017				2017			
April 1	To Balance b/d		89,000	Oct. 1	By Depreciation A/c (II-A)		1,000
				Oct. 1	By Bank A/c		15,000
				Oct. 1	By Loss on sale of Machinery A/c		2,000
				2018 Mar. 31	By Depreciation A/c (I+IIB)		11,000
				Mar. 31	By Balance c/d		60,000
			89,000				89,000
2018							
April 1	To Balance b/d		60,000				

In the books of Amir Agency, Solapur

Journal Entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2017				
Oct. 1	Depreciation A/c Dr.		1,000	
	To Machinery A/c			1,000
	(Being depreciation charged @ 10% on original cost)			
Oct. 1	Bank A/c Dr.		15,000	
	Loss on sale of Machinery A/c Dr.		2,000	
	To Machinery A/c			17,000
	(Being Machinery has been sold at a loss)			

2018 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged @ 10% p.a. on original cost)		11,000	 11,000
Mar. 31	Profit & Loss A/c Dr. To Loss on sale of Machinery A/c (Being loss on sale of Machinery transferred to P & L A/c)		2,000	 2,000
Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c transferred to P & L A/c)		12,000	 12,000
	Total		**43,000**	**43,000**

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Machinery

Machinery-I	Unsold (₹)	Machinery II A	Sold (₹)	Machinery II B	Unsold (₹)	Total Depreciation (₹)
1-10-15	56,000					
31-3-16	4,000					4,000
1-4-16	52,000	1-4-16	20,000	1-4-16	30,000	
31-3-17	8,000	31-3-17	2,000	31-3-17	3,000	13,000
1-4-17	44,000	1-4-17	18,000	1-4-17	27,000	
31-3-18	8,000	1-10-17	1,000	31-3-18	3,000	12,000
1-4-18	36,000	W.D.V	17,000	1-4-18	24,000	
		Sales price	15,000			
		Loss on sale	2,000			

ILLUSTRATIONS ON WRITTEN DOWN VALUE METHOD.

Illustration 1

Saurabh bought a Machine costing ₹ 1,15,000 on 1st April 2016 and paid₹ 5,000 towards its installation. He writes off depreciation @10% p.a. on Written Down Value Method every year. His books are closed on 31st March every year.

On 1st Oct 2018 he disposed off the Machine for ₹ 80,000.

Give Journal Entries in the books of Saurabh till 31st March,2019.

Solution: **In the books of Saurabh**

Journal Entries

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2016 April 1	Machinery A/c Dr. To Bank A/c (Being Machinery purchased)		1,15,000	1,15,000
April 1	Machinery A/c Dr. To Bank A/c (Being Installation charges paid)		5,000	5,000
2017 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged)		12,000	12,000
Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of deprecation A/c transferred to Profit & Loss Account)		12,000	12,000
2018 Mar. 31	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged)		10,800	10,800
Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c transferred to Profit & Loss Account)		10,800	10,800
2018 Oct. 1	Depreciation A/c Dr. To Machinery A/c (Being depreciation charged)		4,860	4,860
Oct. 1	Bank A/c Dr. Loss on sale of Machinery A/c Dr. To Machinery A/c (Being Machinery has been sold at Loss)		80,000 12,340	92,340
2019 Mar. 31	Profit & Loss A/c Dr. To Loss on sale of Machinery A/c (Being Loss on sale of Machinery has been transferred to Profit & Loss Account)		12,340	12,340
Mar. 31	Profit & Loss A/c Dr. To Depreciation A/c (Being balance of depreciation A/c transferred to Profit & Loss Account)		4,860	4,860

Working Note:

Calculation of Profit/Loss on sale of Machinery

Original Cost on 1-4-2016	₹	1,20,000
Less : Depreciation for 2017(12m)	₹	12,000
WDV on 1-4-2017	₹	1,08,000
Less : Depreciation for 2018(12m)	₹	10,800
WDV on 1-4-2018	₹	97,200
Less : Depreciation for 2017(6m)	₹	4,860
WDV on 1-10-2018	₹	92,340
Less : Selling Price	₹	80,000
Loss on sale of Machinery	₹	12,340

Illustration.2

Sangam Trading Co. Buldhana purchased Vehicle on 1st April 2016 costing ₹ 85,000 and spent ₹ 5,000 on its registration. On 30th Sept 2016 additional Vehicle is purchased for ₹ 10,000.

On 31st March 2018,a Vehicle was sold for ₹ 12,000 the Original Cost of which was ₹ 20,000.on 1st April 2016

Prepare Vehicle A/c for the years 2016-17, 2017-18 and 2018-19 and pass the Journal Entries for the year 2017-18 assuming that Vehicle is depreciated at 10% p.a. on Diminishing Balance Method on 31st March each year.

Solution : **In the Books of 'Sangam Trading Co.', Buldhana**

Dr. **Vehicle Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2017			
April 1	To Bank A/c		90,000	Mar. 31	By Depreciation A/c		9,000
Sep. 30	To Bank A/c		10,000	Mar. 31	By Depreciation A/c		500
				Mar. 31	By Balance c/d		90,500
			1,00,000				1,00,000
2017				2018			
April 1	To Balance b/d		90,500	Mar. 31	By Depreciation A/c-I		1,800
				Mar. 31	By Bank A/c		12,000
				Mar. 31	By Loss on sale of Vehicle A/c		4,200
				Mar. 31	By Depreciation A/c-II		6,300
				Mar. 31	By Depreciation A/c-III		950
				Mar. 31	By Balance c/d		65,250
			90,500				90,500

2018				2019			
April 1	To Balance b/d		65250	Mar. 31	By Depreciation A/c-II		5,670
				Mar. 31	By Depreciation A/c-III		855
				Mar. 31	By Balance c/d		58,725
			65,250				65,250
2019							
April 1	To Balance b/d		58,725				

In the books of Sargam Trading Company
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2016				
Mar. 31	Depreciation A/c Dr.		1,800	
	To Vehicle A/c			1,800
	(Being depreciation charged)			
Mar. 31	Cash/Bank A/c Dr.		12,000	
	Loss on sale of Vehicle A/c Dr.		4,200	
	To Vehicle A/c			16,200
	(Being Vehicle sold at Loss)			
Mar. 31	Profit & Loss A/c Dr.		4,200	
	To Loss on Sale of Vehicle A/c			4,200
	(Being Loss on sale of vehicle transferred to Profit & Loss Account)			
Mar. 31	Depreciation A/c Dr.		7,250	
	To Vehicle A/c			7,250
	(Being depreciation charged on II & III Vehicle)			
Mar. 31	Profit & Loss A/c Dr.		9,050	
	To Depreciation A/c			9,050
	(Being balance of depreciation A/c transferred to Profit & Loss Account)			
	Total		**38,500**	**38,500**

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Vehicle

Vehicle	Sold I (₹)	Vehicle	II (₹)	Vehicle	III (₹)	Total Depreciation (₹)
1-4-16	20,000	1-4-16	70,000	30-9-16	10,000	
31-3-17	2,000	31-3-17	7,000	31-3-17	500	9,500
1-4-17	18,000	1-4-17	63,000	1-4-17	9,500	
31-3-18	1,800	31-3-18	6,300	31-3-18	950	9,050
W.D.V	16,200	1-4-18	56,700	1-4-18	8,550	
Sales price	12,000	31-3-19	5,670	31-3-19	855	6,525
Loss on sale	4,200	1-4-19	51,030	1-4-19	7,695	

Illustration 3

Sharmila Automobiles Ltd Thane. Purchased a Machine for ₹ 80,000 on1stJuly,2015. On 1st Oct, 2016.Company purchased an additional Machine costing ₹ 30,000.On 31st March 2018 the Machine purchased on 1st July 2015 became obsolete and was sold for ₹ 65,000. Depreciation was provided annually on 31st March the rate of 10% per annum on the Reducing Balance Method

Prepare Machinery A/c and Depreciation A/c for the period from 2015-16,2016-17and 2017-18.

Solution : In the Books of 'Sharmila Automobiles, Ltd.', Thane

Dr. Machinery Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
July 1	To Bank A/c		80,000	Mar. 31	By Depreciation A/c		6,000
				Mar. 31	By Balance c/d		74,000
			80,000				80,000
2016				2017			
April 1	To Balance b/d		74,000	Mar. 31	By Depreciation A/c		8,900
Oct. 1	To Bank A/c		30,000	Mar. 31	By Balance c/d		95,100
			1,04,000				1,04,000
2017				2018			
April 1	To Balance b/d		95,100	Mar.31	By Depreciation A/c-I		6,660
2018							
Mar. 31	To Profit on sale of Machinery A/c		5,060	Mar.31	By Bank A/c		65,000
				Mar.31	By Depreciation A/c-II		2,850
				Mar.31	By Balance c/d		25,650
			1,00,160				1,00,160
2018							
April 1	To Balance b/d		25,650				

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2016			
Mar. 31	To Machinery A/c		6,000	Mar. 31	By Profit & Loss A/c		6,000
			6,000				6,000
2017				2017			
Mar. 31	To Machinery A/c		8,900	Mar. 31	By Profit & Loss A/c		8,900
			8,900				8,900
2018				2018			
Mar. 31	To Machinery A/c I		6,660	Mar. 31	By Profit & Loss A/c		9,510
Mar. 31	To Machinery A/c II		2,850				
			9,510				9,510

Working Note:-

Calculation of Profit/Loss on sale of Machinery

	Original Cost on 1-7-2015	₹ 80,000.
Less :	Depreciation for 2016(9m)	₹ 6,000.
	WDV on 1-4-2016	₹ 74,000.
Less :	Depreciation for 2017(12m)	₹ 7,400.
	WDV on 1-4-2017	₹ 66,600.
Less :	Depreciation for 2018(12m)	₹ 6,660.
	WDV on 31-3-2018	₹ 59,940.
	Selling Price	₹ 65,000.
	Profit on sale of Machinery	₹ 5,060.

Calculation of Additional Machine Depreciation.

	Original Cost on 1st Oct. 16		₹ 30,000
Less :	Depreciation for 2016-17	₹ 1,500	
Less:	Depreciation for 2017-18	₹ 2,850	₹ 4,350.
	Written Down Value of Machinery on 31st March, 2018		₹ 25,650.

Illustration 4.

Kanchan Trading Centre. Dadar, purchased a Computer on 1st April 2015 for ₹ 50,000.In the same year on 1st Oct additional Computer was purchased for ₹ 20,000. On 1st Oct 2016 the Computer purchased on 1st April 2015 was sold for ₹ 40,000 and on the same date new Computer was purchased for ₹ 24,000.

Their charge depreciation at 8% p.a. on Reducing Balance Method.

Prepare Computers A/c and Depreciation A/c for the first three (3) years Assuming that the accounting year closes on 31st March every year.

Solution :

In the Books of 'Kanchan Trading Center', Dadar

Dr. Computers Account Cr.

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
April 1	To Bank A/c		50,000	Mar. 31	By Depreciation A/c		4,800
Oct. 1	To Bank A/c		20,000	Mar. 31	By Balance c/d		65,200
			70,000				70,000
2016				2016			
April 1	To Balance b/d		65,200	Oct. 1	By Depreciation A/c		1,840
Oct. 1	To Bank A/c		24,000	Oct. 1	By Cash /Bank A/c		40,000
				Oct. 1	By Loss on sale of Computer A/c		4,160
				2017			
				Mar. 31	By Depreciation A/c (II+III)		2.496
				Mar. 31	By Balance c/d		40,704
			89,200				89,200
2017				2018			
April 1	To Balance b/d		40,704	Mar.31	By Depreciation A/c (II+III)		3,256
				Mar.31	By Balance c/d		37,448
			40,704				40,704
2018							
April 1	To Balance b/d		37,448				

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2016			
Mar. 31	To Computer's A/c		4,800	Mar. 31	By Profit & Loss A/c		4,800
			4,800				4,800
2016				2017			
Oct. 1	To Computer's A/c		1,840	Mar. 31	By Profit & Loss A/c		4,336
2017			2,496				
Mar. 31	To Computer's A/c (II & III)						
			4,336				4,336
2018				2018			
Mar. 31	To Computer A/c (II & III)		3,256	Mar. 31	By Profit & Loss A/c		3,256
			3,256				3,256

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Computer

Computer	Sold (₹)	Computer	II (₹)	Computer	III (₹)	Total Depreciation (₹)
1-4-15	50,000	1-10-15	20,000	1-10-16	24,000	
31-3-16	4,000	31-3-16	800			4,800
1-4-16	46,000	1-4-16	19200	(6 M)		
1-10-16	1,840	31-3-17	1,536	31-3-17	960	4,336
W.D.V	44,160	1-4-17	17,664	1-4-17	23,040	
Sales price	40,000	31-3-18	1413	31-3-18	1,843	3,256
Loss on sale	4,160	1-4-18	16251	1-4-18	21,197	

Illustration 5.

M/s Janki Traders, Ratnagiri acquired a Building on 1stApril 2015 for ₹ 12,00,000.On 1st April 2016 an extension was made to the above Building by spending ₹ 8,00,000.

On 1st October,2016 they sold half part of the Building through broker for₹9,50,000.Brokerage was paid at 3% on selling price.

On 31st March every year, they charged depreciation @10% under Diminishing Balance Method

Prepare Building A/c and Depreciation A/c for three (3)years i.e2015-16,2016-17 and 2017-18.

Solution : **In the Books of 'M/s Janki Traders', Ratnagiri**

Dr. **Buildings Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2015				2016			
April 1	To Bank A/c		12,00,000	Mar. 31	By Depreciation A/c		1,20,000
				Mar. 31	By Balance c/d		10,80,000
			12,00,000				12,00,000
2016				2016			
April 1	To Balance b/d		10,80,000	Oct.1	By Depreciation A/c		
April	To Bank A/c		8,00,000		I(A)		47,000
Oct. 1	To Profit on sale of			Oct.1	By Cash /Bank A/c		9,21,500
	Building A/c		28,500	2017			
				Mar. 31	By Depreciation A/c		
					I(B)		94,000
				Mar. 31	By Balance c/d		8,46,000
			19,08,500				19,08,500
2017				2018			
April 1	To Balance b/d		8,46,000	Mar.31	By Depreciation A/c		84,600
					I(B)		
				Mar.31	By Balance c/d		7,61,400
			8,46,000				8,46,000
2018							
April 1	To Balance b/d		7,61,400				

Dr. **Depreciation Account** **Cr.**

Date	Particulars	J.F.	Amt (₹)	Date	Particulars	J.F.	Amt (₹)
2016				2016			
Mar. 31	To Building A/c		1,20,000	Mar. 31	By Profit & Loss A/c		1,20,000
			1,20,000				1.20,000
2016				2017			
Oct. 1	To Building A/c I(A)		47,000	Mar. 31	By Profit & Loss A/c		1,41,000
2017	To Building A/c						
Mar. 31	I(B)		94,000				
			1,41,000				1,41,000
2018				2018			
Mar. 31	To Building A/c		84,600	Mar. 31	By Profit & Loss A/c		84,600
	I(B)						
			84,600				84,600

Working Note:-

Calculation of Depreciation and Profit / Loss on sale of Building

	Building Purchased on 1st April 2015	- 1 2,00,000.
Less :	Depreciation for 2015-16	- 1,20,000.
	Written Down Value	- 10,80,000.
Add:	Extension of Building on 1st April 2016	- 8,00,000.
	Total Value of Building	- 18,80,000.

Sold ₹ 9,40,000 Unsold ₹ 9,40,000

A)	Building (Half-Sold)	₹	B)	Building (Half-Unsold)	₹
	1st April 2016	9,40,000		1st April 2016	9,40,000.
	Less: Depreciation as on 1st Oct 2016	47,000		Less: Depreciation For 2016-17	94,000.
	Written Down Value	8,93,000		W.D.V.	8,46,000.
	Less: Selling Price	9,21,500	Less :	Depreciation17-18	84,600.
	Profit on sale of Building	28,500		W.D.V.	7,61,400.

EXERCISE

Q.1 Answer in One Sentence only.

1. What is depreciation ?
2. Why depreciation is charged ?
3. What is a 'Scrap Value' of an asset?
4. Why depreciation is charged even in the year of loss?
5. Which account is credited when depreciation is charged ?
6. Where is the profit or loss on sale of asset is transferred ?
7. To which account balance on Depreciation A/c is transferred ?
8. What is the formula to calculate depreciation by Straight Line Method ?
9. What is Fixed Instalment Method ?
10. Which account is debited when expenses are paid on installation of Machinery ?

Q.2 Write the word/term/phrase which can substitute each of the following statement:

1. A continuous, gradual and permanent reduction in the value of a fixed asset.
2. The expenditure incurred for purchase, installation charges etc. of an asset.
3. The amount that a fixed asset is expected to realise on its disposal.
4. The period for which the asset remains in working condition.
5. The method of depreciation in which the total depreciation is equally spread over the life of the asset.

6. The method of depreciation in which the rate of depreciation is fixed but the amount of depreciation reduces every year.
7. The type of asset on which depreciation is charged.
8. Expenses incurred for fixation of the new asset to bring it in working condition.
9. Excess of Selling price of fixed asset over its Written Down Value.
10. Method of depreciation that cannot reach to zero value.

Q.3 Select the most appropriate answers from the alternatives given below and rewrite the sentence.

1. Decrease in the value of fixed assets is known as .....
   a) Depreciation b)Appreciation c) Combination d) None of these
2. Depreciation is charged only on .....assets.
   a) Fixed b) Current c) Non-performing. d) Fictitious.
3. The amount spent on installation of new machinery is a .....expenditure.
   a) Revenue b) Capital c) Deferred Revenue d) Income.
4. The amount that a fixed asset is expected to realise on its disposal is known as.....
   a) Book value b) Scrap value c) Market value d) Original value.
5. The amount of depreciation reduces year after year under.....
   a) Fixed Instalment Method b) Written Down Value Method
   c) Depreciation Fund Method. d) Revaluation Method.
6. The amount of depreciation remains constant every year under.....
   a) Straight Line Method b) Diminishing Balance Method
   c) Revaluation Method. d) Insurance Policy Method
7. The balance of depreciation account is transferred to .....
   a) Manufacturing A/c b) Trading A/c c) Profit & Loss A/c d) Balance sheet

Q.4 State whether the following Statements are True or False with reasons.

1. Depreciation is charged on fixed assets.
2. Depreciation increases the value of the asset.
3. Balance of depreciation account is transferred to Profit & Loss A/c.
4. The Profit or Loss on sale of fixed asset is ascertained only after charging depreciation.

5. Wages paid for installation of Machinery are debited to Wages A/c.
6. It is not necessary to depreciate an asset if it is not in use.
7. Depreciation is charged on Current Assets only.
8. Depreciation need not be charged when business is making losses.

Q.5 Complete the following sentence.

1. Depreciation is charged on .....asset.
2. Wages paid for Installation / fixation of Machinery is debited to .....account.
3. Under .....system, the amount of depreciation changes every year.
4. Depreciation = $\frac{\text{Cost of asset Less .....}}{\text{Estimated Working Life of the Asset.}}$
5. Gradual and permanent decrease in the value of asset is known as .....
6. In Fixed Instalment System the amount of depreciation is .....every year.
7. The amount spent on installation of Machinery is a .....expenditure.
8. ..... is the value which an asset realises at the end of its useful life.
9. Depreciation Account is a .....account.
10. Depreciation is derived from a Latin word .....

Q.6 Do you agree or disagree with the following statements.

1. Depreciation is non-cash expense.
2. Under written down value method the Depreciation curve slopes parallel to 'X' axis.
3. The rate of depreciation depends upon the life of fixed asset.
4. The terminal value of asset never affects the annual amount of depreciation.
5. By charging depreciation on fixed assets ascertainment of true and fair financial position is possible.

Q.7 Correct the following statement and rewrite the statement.

1. Residual value of an asset increases the amount of annual depreciation.
2. Depreciation is calculated on all assets.
3. Under written down value method depreciation is calculated on original cost of an asset.
4 Depreciation provided on asset is debited to asset account.
5. Profit on sale of asset is credited to asset account.

Q.8 Calculate the following.

1. A machine costing ₹ 23,000 is estimated to have a life of 7 years and the scrap value is estimated ₹ 2,000 at the end of its useful life.

   Find out the amount of depreciaiton p.a.

2. If the cost of the Computer is ₹ 40,000 and depreciaiton is to be charged at 8% p.a. calculate the amount of depreciaiton.

3. Mr. 'X' purchased Furniture on 1st Oct., 2015 at ₹ 2,80,000 and spent ₹ 20,000 on its installation. He provides depreciation at 6% under straight line method on 31st March, 2016. Calculate the amount of depreciation.

4. M/s Sitaram and Co. purchased a Machinery on 1st Jan, 2016 for ₹ 2,00,000. Compnay provides depreciation @ 10% p.a. on Reducing Balance Merthod on 31st March every year.

   Calculate written down value of Machinery as on 31st March, 2017.

5. On 1st July, 2016 M/s Ramai & Co. sold Machinery for ₹ 7,000, the original cost ₹ 10,000/- which was pruchased on 1st April, 2015. Find out the profit or loss on sale of Machinery by charging depreciation at 10% p.a. on original cost on 31st March every year.

Practical Problems on Straight Line Method

1. On 1st April 2015 Farid of Nasik purchased a Motor Car for ₹ 55,000. The scrap value of the Motor Car was estimated at ₹ 10,000 and its estimated life is 10 years The Registration charges of the Motor Car was ₹ 5,000.

Show Motor Car Account for first four years, assuming that the books of accounts are closed on 31st March every year

2. On 1st Jan 2017 'Sai Industries Nagpur, purchased a Machine costing ₹ 1,65,000 and spent ₹ 15,000 for its installation charges. The estimated life of the Machine is to be 10 years and the scrap value at the end of its life would be ₹ 30,000. On 1st Oct 2018 the entire Machine was sold for ₹ 1,50,000.

Show Machinery Account, Depreciation Account for the years 2016-17, 2017-18 and 2018-19, assuming that the accounts are closed on 31st March every year.

3. Shubhangi Trading Company of Dombivli purchased Machinery for ₹ 86,000 on 1st Jan 2016 and immediately spent ₹ 4,000 on its fixation and erection. On1st Oct,2016 additional Machinery costing ₹ 40,000 was purchased.

On 1st Oct 2017 the Machinery purchased on 1st Jan 2016 became obsolete and was sold for ₹ 70,000. On 1st July 2017 a new Machine was also purchased for ₹ 45,000

Depreciation was provided annually on 31st March at the rate of 12% per annum on fixed instalment method.

Prepare Machinery Account for three years and pass Journal Entries for Third year i.e. 2017-2018.

4. On 1st Jan 2015, Triveni Traders Raigad purchased a Plant for ₹ 12,000, and installation charges being ₹ 3,000. On 1st July 2016 another Plant was purchased for ₹ 25,000, on 1st April 2017 another Plant was purchased for ₹ 27,000, wages paid for installation amounted to ₹ 2,000. Carriage paid for the Plant amounted to ₹ 1,000.

Show Plant Account up to 31st March 2018 assuming that the rate of depreciation is @10%p.a. on Straight Line Method

5. Sameer & Company, Mumbai purchased a Machine worth ₹ 2,00,000 on 1st April 2016. On 1st July 2017, the company purchased an additional Machine for ₹ 40,000.

On 31st March 2019, the company sold the Machine purchased on 1st July 2017 for ₹ 35,000. Company writes off depreciation at the rate of 10% on the original cost and the books of accounts are closed every year on 31st March.

Show the Machinery Account and Depreciation Account for the first three years ending 31st March 2016-17, 2017-18 and 2018-19

6. Samarth Manufacturing Co. Ltd, Aurangabad, purchased a New Machinery for ₹ 45,000 on 1st Jan 2015 and immediately spent ₹ 5,000 on its fixation and erection . In the same year 1st July additional Machinery costing ₹ 25,000was purchased. On 1st July 2016 the Machinery purchased on 1st Jan 2015 became obsolete and was sold for ₹ 40,000

Depreciation was provided for annually on 31st March at the rate of 10% per annum on Fixed Instalment Method.

You are required to prepare Machinery Account for the year 2014 - 15, 2015 - 16, 2016-17.

Practical Problems on Written Down Value Method

1. M/s Omkar Enterprise Jalgaon acquired a Printing Machine for ₹75,000 on 1 Oct 2015 and spent ₹5,000 on its transport and installation. Another Machine for ₹45,000 was purchased on 1st Jan 2017. Depreciation is charged at the rate of 20% on Written Down Value Method, on 31st march every year.

Prepare Printing Machine Account for the first four years.

2. Vishal Company, Dhule, purchased Machinery costing ₹ 60,000 on 1st April 2016. They purchased further Machinery on 1st October 2017, costing ₹ 30,000 and on 1st July 2018, costing ₹ 20,000. On 1st Jan2019 ,one-third of the Machinery , which was purchased on 1st April 2016, became obsolete and it was sold for ₹ 18,000.

Assume that, company account closes on 31st March every year.

Show Machinery Account for the first three(3)years and pass journal entries for Third year, after charging depreciation at 10% p.a. on Written Down Value Method.

3. Mahesh Traders Solapur purchased Furniture on 1st April 2014 for ₹ 20,000. In the same year on 1st Oct additional Furniture was purchased for ₹ 10,000

On 1st Oct 2015, the Furniture purchased on 1st April 2014 was sold for ₹ 15,000 and on the same day a new Furniture was purchased for ₹ 20,000.

The firm charged depreciation at 10 % p.a. on Reducing Balance Method.

Prepare Furniture Account and Depreciation Account for the year ending 31st March 2015, 2016 and 2017.

4. Radhika-Masale' Amravati purchased a Plant on 1st Jan 2015 for ₹80,000. A new Plant was also purchased for ₹60,000,installation expenses being ₹10,000 on 1st April 2016. On 1st Jan 2017, a new Plant was purchased for ₹20,000, by disposing-off the 1st Plant at ₹60,000.

Prepare Plant Account and Depreciation Account for 31st March2015, 31st March 2016 and 31st March 2017, assuming that the rate of depreciation was @10%on Diminishing Balance Method.

5. On 1st April 2015 Suman Traders purchased Machinery for ₹ 30,000. On 1st Oct,2015,they purchased further Machinery costing ₹20,000.

On 1st Oct 2016 they sold the Machine purchased on 1st April 2015 for ₹18,000 and brought another Machine for ₹15,000 on the same date.

Depreciation is provided on Machinery @20% p.a. on the Diminishing Balance Method and financial year closes on 31st March every year.

Prepare the Machinery Account and Depreciation Account for the year 2015-16, 2016-17 and 2017-18.

Activity: Do it.

1. Visit any Business organisation and collect the information of the assets which are depreciated in that organisation.
2. Visit any Business Organisation, office of Chartered Accountant and collect the information about the methods and percentage of depreciation actually followed by them.
3. Vaidhi & Co Bhandup purchased five Computers on various dates which were as follows.

   On 1st April 2015 - ₹ 1,00,000 On 1st July 2015 - ₹ 30,000.
   On 30th September 2015 - ₹ 80,000. On 1st January 2016 - ₹ 50,000.
   On 31st March 2016 - ₹ 40,000

   Calculate the amount of depreciation for the above five Computers for the year ended 31st March 2016. @10% p.a.
4. Rajeev Industries Chiplun Purchased a Machinery on 1st July 2016 at cost ₹40,000.The rate of depreciation is 12% p.a.

   Calculate the amount of depreciation for First (3)three years under Straight Line Method and Written Down Value Method.
5. Home Appliances : Electric Products - Mobile and Washing Machine on Which assets have depreciation is higher / more compared to others