Depreciation, Provisions and Reserves

Short Answer Type Questions

Q1. What is 'Depreciation'?

Solution:

Depreciation means fall in book value of depreciable fixed asset because of

1. wear and tear of the asset
2. passage/efflux of time
3. obsolescence
4. accident

A machinery costing ₹ 1,00,000 and its useful life is 10 years; so, depreciation is calculated as:
Annual Depreciation per annum
= Cost of Asset-Estimated Scrap Value/Expected or Estimated life of Asset
= 100000/10 = ₹ 10,000

Q2. State briefly the need for providing depreciation.

Solution:

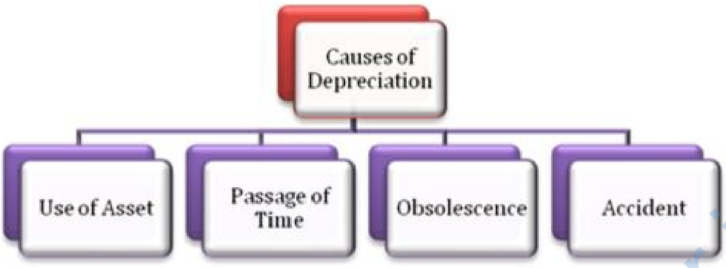
The needs for providing depreciation are given below.

1. To ascertain the correct profit or loss: Correct profit or loss can be ascertained when all the expenses and losses incurred for earning revenues are charged to Profit and Loss Account. Assets are used for earning revenues and its cost is charged in form of depreciation from Profit and Loss Account.
2. To show true and fair view of financial statements: If depreciation is not charged, assets will be shown at higher value than their actual value in the balance sheet. Consequently,

the balance sheet will not reflect true and fair view of financial statements.

3. For ascertaining the accurate cost of production: Depreciation on the assets, which are engaged in production, is included in the cost of production. If depreciation is not charged, the cost of production is underestimated, which will lead to low selling price and thus leads to low profit.
4. To provide funds for replacement of assets: Unlike other expenses, depreciation is non cash expense. So, the amount of depreciation debited to the profit and loss account will be retained in the business. These funds will be available for replacement of fixed assets when its useful life ends.
5. To meet the legal requirement: To comply with the provisions of the Companies Act and Income Tax Act, it is necessary to charge depreciation.

Q3. What are the causes of depreciation?
Solution:



1. Use of asset: Because of constant use of the fixed assets there exists a normal wear and tear which leads to fall in the value of the assets.
2. Passage of time: Whether assets are used or not, with the passage of time, its effective life will decrease.
3. Obsolescence: Because of new technologies, innovations and inventions, assets purchased currently may become outdated later which leads to the obsolescence of fixed assets.
4. Accident: An asset may lose its value due to mishaps such as a fire accident, theft or by natural calamities and they are permanent in nature.

Q4. Explain basic factors affecting the amount of depreciation.
Solution:

1. **Original cost of asset:** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The total cost of an asset include all expenses incurred up to the point the asset is ready for use like freight expenses and installation charges.
   Total Cost= Purchase Price+ Freight Expenses+ Installation Charges.
2. **Estimated useful life:** Every asset has its useful life other than its physical life in terms of number of years and units used by a business. The asset may exist physically but may not be able to produce the goods at a reasonable cost. For example, an asset is likely to lose its useful value within 15years, its useful life, i.e., life for purpose of accounting should be considered as only 15 years
3. **Estimated scrap value:** It is estimated as the net realisable value of an asset at the end of its useful life. It is deducted from the total cost of an asset and the difference is written off over the useful life of the asset. For example, Furniture acquired at ₹ 1,30,000, its useful life is estimated to be 10 years and it is estimated scrap value ₹ 10,000.
   Depreciation per annum= 1,30,000-10,000/10 years= 12,000

Q5. Distinguish between straight line method and written down value method of calculating

depreciation.
Solution:

Straight Line Method	Written Down Value Method
Depreciation is calculated on the original cost of an asset.	Depreciation is calculated on the reducing balance, i.e., the book value of an asset.
Equal amount of depreciation is charged each year over the useful life of the asset.	Diminishing amount of depreciation is charged each year over the useful life of the asset.
Book value of the asset becomes zero at the end of its effective life.	Book value of the asset can never be zero.
It is suitable for the assets such as patents, copyright, land and buildings which have lesser possibility of obsolescence and lesser repair charges.	It is suitable for assets which needs more repair in the later years such as plant and machinery and car.
As depreciation remains same over the years but repair cost increases in the later years, there will be unequal effect over the life of the asset.	As depreciation cost is high and repairs are less in the initial years but in the latter years the repair costs increase and depreciation cost decreases, there will be equal effect over the life of the asset.
It is not recognised under the income tax act.	It is recognised under the income tax act.

Q6. "In case of a long term asset, repair and maintenance expenses are expected to rise in later years than in earlier year". Which method is suitable for charging depreciation if the management does not want to increase burden on profits and loss account on account of depreciation and repair.
Solution:
The written down value method is most appropriate to overcome the burden of the profit and loss account because of high depreciation and repair costs over the years of the asset. The cost of depreciation reduces and the repair and maintenance expenses increase over the yea₹ However, the entire burden will not get ease to the management.

Q7. What are the effects of depreciation on profit and loss account and balance sheet?
Solution:
The effects of depreciation on Profit and Loss Account are as follows:

1. An increase in depreciation will be debited in the profit and loss account which reduces net profit.
2. Hence total expenses increase which leads to an excess of debit over credit balance.

The effects of depreciation on Balance Sheet are as follows:

1. The original cost or book value of the concerned asset gets reduced.
2. The overall balance of asset's column in the balance sheet gets reduced.

Q8. Distinguish between 'provision' and 'reserve'.
Solution:

Provision	Reserve
It is charge against profit.	It is an appropriation of profit.
It is created to meet a specific liability or contingencies.	It is made for strengthening the financial position of the business. Some reserves are also mandatory under law.
It is recorded on the debit side of profit and loss account.	It is recorded on the credit side of the profit and loss appropriation account.
It can be shown either (i) by way of deduction from the item on the assets side for which it is created, or (ii) in the liabilities side along with the current liabilities.	It is shown on the liabilities side after capital.
It cannot be utilized for dividend distribution.	It can be utilized for dividend distribution.
It is never invested outside the business.	It can be invested outside the business.
It reduces net profits.	It reduces only divisible profit.

Q9. Give four examples each of 'provision' and 'reserves'.
Solution:
Four examples of provision are given below.

1. Provision for bad and doubtful debts
2. Provision for discount on debtors
3. Provision for depreciation
4. Provision for tax

Four examples of reserve are given below.

1. General reserve
2. Capital redemption reserve
3. Dividend equalisation reserve
4. Debenture redemption reserve

Q10. Distinguish between 'revenue reserve' and 'capital reserve'.
Solution:

Revenue Reserve	Capital Reserve
It is formed out of revenue profit which is earned from normal activities of business operations.	It is formed out of capital profit which is a gain from other than normal activities of business operations, such as sale of fixed assets.

It can be used for distribution of dividend.	It cannot be used for distribution of dividend.
It is created for increasing the financial position of the business.	It is created for the purpose of the Companies Act.

Q11. Give four examples each of 'revenue reserve' and 'capital reserve'.
Solution:
Examples of revenue reserve are as follows:

1. General reserve
2. Investment equalisation reserve
3. Dividend equalisation reserve
4. Debenture reserve

Examples of capital reserve are as follows:

1. Issues of shares at premium
2. Profit on forfeiture of shares
3. Profit on sale of fixed assets
4. Profit on redemption of debentures

Q12. Distinguish between 'general reserve' and 'specific reserve'.
Solution:

Specific Reserve	General Reserve
It is created for specific purpose.	It is not created for specific purpose.
It is not available for any future contingencies or expansion of business. It is utilised only for that purpose for which it is created.	It is available for any future contingencies or expansion of business. It strengthens the financial position.
Dividend equalisation reserve, debenture redemption reserve, development rebate reserves.	Contingency reserve and general reserve

Q13. Explain the concept of 'secret reserve'.
Solution:
Secret reserves are created by overstating liabilities or understating assets which are not shown in the balance sheet. This will reduce tax liabilities, because the liabilities are overstated. It is created by management to avoid competition by reducing profit. Creation of secret reserve is not allowed by Companies Act, 1956 which requires full disclosure of all material facts and accounting policies while preparing final statements.

Long Answer Type Questions

Q1. Explain the concept of depreciation. What is the need for charging depreciation and what are the causes of depreciation?
Solution:
Depreciation means fall in book value of depreciable fixed asset because of

1. wear and tear of the asset,
2. passage/efflux of time,
3. obsolescence, or
4. accident.

The need for providing depreciation is:

1. **To ascertain the correct profit:** Correct profit or loss can be ascertained when all the expenses and losses incurred for earning revenues are charged to Profit and Loss Account. Assets are used for earning revenues and its cost is charged in form of depreciation from Profit and Loss Account.
2. **To show true and fair view of the financial position:** If depreciation is not charged, assets will be shown at higher value than their actual value in the balance sheet. Consequently, the balance sheet will not reflect true and fair view of financial statements.
3. **To retain, out of profit, funds for replacement:** Unlike other expenses, depreciation is non cash expense. So, the amount of depreciation debited to the profit and loss account will be retained in the business. These funds will be available for replacement of fixed assets when its useful life ends.
4. **To ascertain correct cost of production:** Depreciation on the assets, which are engaged in production, is included in the cost of production. If depreciation is not charged, the cost of production is underestimated, which will lead to low selling price and thus leads to low profit.
5. **To meet the legal requirement:** To comply with the provisions of the Companies Act and Income Tax Act, it is necessary to charge depreciation.

The causes of depreciation are as stated below:

1. **Use of Asset i.e., wear and tear:** Due to constant use of the fixed assets there exist a normal wear and tear that leads to fall in the value of the assets.
2. **Passage/Efflux of Time:** Whether assets are used or not, with the passage of time, its effective life will decrease.
3. **Obsolescence:** Due to new technologies, innovations and inventions, assets purchased today may become outdated by tomorrow which leads to the obsolescence of fixed assets.
4. **Accidents:** An asset may lose its value due to mishaps such as a fire accident, theft or by natural calamities and they are permanent in nature.

Q2. Discuss in detail the straight line method and written down value method of depreciation. Distinguish between the two and also give situations where they are useful.
Solution:
The two methods of depreciation are

1. Fixed percentage on original cost or straight line method
2. Fixed percentage on diminishing balance or written down value method

Straight Line Method
According to this method, a fixed and equal amount is charged as depreciation for every accounting period during the life time of an asset. This method is based on the assumption of equal usage of time over asset's entire useful life. Hence, the amount of depreciation is same from period to period over the life of the asset.

Depreciation amount can be calculated by using the following formula:

- If the asset has a residual value at the end of its useful life, the amount to be written of every year is as follows:
  Depreciation = Cost of asset – Estimated net residual value / No. of years of expected life
- If the annual depreciation amount is given then we can calculate the rate of depreciation as follows:
  Rate of depreciation = Annual depreciation amount / Cost of asset * 100

Advantages of Straight Line Method

1. Simple to calculate the depreciation amount
2. Assets can be depreciated up to the estimated scrap value
3. Easy to understand the amount of depreciation
4. Every year, the same amount of depreciation is debited to profit and loss account, and hence the effect on profit and loss account will remain the same.

Disadvantages of Straight Line Method

1. Interest on capital invested in assets is not provided in this method.
2. Over the years, the work efficiency of assets decreases and repair expenses increases. Therefore, there is burden on the profit and loss account.
3. Book value of the assets becomes zero but still the assets are used in the business.

Written Down Value Method
In this method depreciation is charged on the book value of the asset and the amount of depreciation reduces year after year. It implies that a fixed rate on the written down value of the asset is charged as depreciation every year over the expected useful life of the asset. The rate of depreciation is applicable to the book value but not to the cost of asset.

Rate of depreciation can be ascertained on the basis of cost, scrap value and useful life of the asset as follows:

$$R = 1 - \sqrt[n]{\frac{S}{C}} = 100$$

Where, R is the rate of depreciation in percent, n is the useful life of the asset; S is the scrap value at the end of useful life and C is the cost of the asset.

Advantages of Written Down Value Method

1. The profit and loss account of depreciation and repair expenses has same weightage throughout the useful life of asset because depreciation decreases with an increase in repair expenses.
2. Since the benefits from asset keep on decreasing, the cost of asset is allocated rationally.
3. This method is most favorable for those assets which require increased repairs and maintenance expenses over the years.
4. This method is widely accepted under the Income Tax Act.

Disadvantages of Written Down Value Method

1. The value of assets can never be zero even though it is discarded.
2. In this method, it is difficult to calculate depreciation.
3. There is no provision of interest on capital invested in use of assets.

Difference between Straight Line and Written Down Value Method

Straight Line Method	Written Down Value Method
Depreciation is calculated on the original cost of fixed asset	Depreciation is calculated on the book value (i.e. original cost less depreciation) of fixed asset
Amount of depreciation remains constant for all years	Amount of depreciation keeps on decreasing year after year
At the end of the useful life of an asset, the balance in the asset account will reduce to zero	At the end of the useful life of an asset, the balance in the asset account will not reduce to zero
It is not accepted by Income Tax Law	It is accepted by Income Tax Law
It is suitable for assets which get completely depreciated on the account of expiry of its useful life	It is suitable for assets which require more and more repairs in the later stage of its useful life
Rate of depreciation is easy to calculate	Rate of depreciation is difficult to calculate

Q3. Describe in detail two methods of recording depreciation. Also give the necessary journal entries.
Solution:
The two methods of recording depreciation are as follows:
1. When Depreciation is Charged or Credited to the Assets Account
In this method, depreciation is deducted from the asset value and charged (debited) to profit and loss account. Hence the asset value is reduced by the amount of depreciation.

Journal entries for recording under this method are as follows:	
Asset A/c To Cash/Bank A/c (Being the asset purchased and the cost of an asset including installation expenses and freight)	Dr.
Depreciation A/c To Asset A/c (Being the amount of depreciation charged)	Dr.
Profit and Loss A/c To Depreciation A/c (Being the depreciation amount transferred to profit and loss account)	Dr.

In the Balance sheet, asset appears at its written down value which is cost less depreciation charged till date. In this method, the original cost of an asset and the total amount of depreciation which has been charged cannot ascertain from this balance sheet.
2. When Depreciation is Credited to Provision for Depreciation Account
In this method, depreciation is credited to the provision for depreciation account or accumulated depreciation account every year. Depreciation is accumulated in a separate account instead of adjusting into the asset account at the end of each accounting period. In

the balance sheet, the asset will continue to appear at the original cost every year. Thus, the balance sheet shows the original cost of the asset and the total amount of depreciation charged on asset.

Journal entries for recording under this method are as follows:	
Asset A/c To Cash/Bank/Vendor A/c (Being the asset purchased and the cost of an asset including installation expenses and freight)	Dr.
Depreciation A/c To Provision for Depreciation A/c (Being the amount of depreciation charged)	Dr.
Profit and Loss A/c To Depreciation A/c (Being the depreciation amount to transferred profit and loss account)	Dr.

Q4. Explain determinants of the amount of depreciation.
Solution:

1. **Historical (Original) Cost of the Asset:** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The total cost of an asset include all expenses incurred up to the point the asset is ready for use like freight expenses and installation charges.
   Total Cost =Purchase Price+ Freight Expenses+ Installation Charges.
2. **Estimated Net Residual Value:** It is estimated as the net realisable value of an asset at the end of its useful life. It is deducted from the total cost of an asset and the difference is written off over the useful life of the asset. For example, Furniture acquired at Rs.1,30,000, its useful life is estimated to be 10 years and it is estimated scrap value Rs.10,000.
   Depreciation p.a.= 1,30,000-10,000/10 Years = Rs.12,000
3. **Estimated Useful Life:** Every asset has its useful life other than its physical life (in terms of number of years, units, etc.), used by a business. The asset may exist physically but may not be able to produce the goods at a reasonable cost. For example, an asset is likely to lose its useful value within 15 years, its useful life, i.e., life for purpose of accounting should be considered as only 15 years.

Q5. Name and explain different types of reserves in details.
Solution:
Types of Reserves:

1. **Revenue Reserve:** It is an amount set aside out of revenue profits for distribution of dividends. For example, general reserve, investment fluctuation fund, capital reserve and workmen compensation fund. It is not a charge against profit but it is appropriation of profit shown in the profit and loss account. It is beneficial for the smooth function of the business. The retention of profit in the form of reserves reduces the amount of profit to distribute among the business owners. This is further classified in to general reserve and specific reserve.
   1. **General reserve** means a reserve which is not maintained for specific purpose. It helps to strengthen the financial status of the business. It is also known as free reserve and contingency reserve.
   2. **Specific reserve** means a reserve which is maintained for specific purpose. For example, dividend equalisation reserve is created to maintain dividend rate. This reserve amount is utilised to maintain the rate dividend in the year of low profit.

Likewise, the workmen compensation fund is maintained to provide claims of the workers, investment fluctuation fund is used at times of decline in the value of investment and debenture redemption reserve is used to provide funds for redemption of debentures.

2. **Capital Reserve:** It is an amount set aside out of capital profits which is not available for distribution as dividend among the shareholders. It is used for writing capital losses/issue of bonus share in a company. Examples of capital reserves are
   - Profit prior to incorporation
   - Premium on issue of shares or debentures
   - Profit on redemption of debenture
   - Profit on forfeiture of share
   - Profit on sale of fixed assets
   - Capital redemption reserve
   - Profit on revaluation of fixed assets and liabilities

Q6. What are 'provisions'? How are they created? Give accounting treatment in case of provision for doubtful Debts.
Solution:
Provision is an amount which is set aside by charging it to profit for the purpose of providing for any known liability or uncertain loss or expense. The amount of which cannot be determined with certainty is also referred to as provision. Few examples are provision for depreciation, provision for doubtful debts and provision for discount on bad debtors.
The main objective of provision is to account all expenses and losses. Through the creation of provision account, the amount of liability, losses and expenses are estimated and accounted for the accounting period. Therefore, the true profit and loss is ascertained, liabilities and assets are presented with correct values.
Importance of Provision:

1. To meet anticipated losses and liabilities: Provision is created to meet the anticipated losses and liabilities such as provision for doubtful debts, provision for discount on debtors and provision for taxation.
2. To meet known losses and liabilities: Provision is created to meet known losses and liabilities such as provision for repairs and renewals.
3. To present correct financial statements: To present a true and fair view of profit and financial statement, the business must maintain provision for known liabilities and losses.

Therefore, provision is necessarily to be created to ascertain the current income or profit. Also, it is considered as a charge against revenue or profits.
Accounting Treatment
Provision is a charge against the profit which is debited in the profit and loss account. In the balance sheet, the amount of provision may be shown on the asset side by deducting from the relevant asset or on the liability side along with the current liabilities.

1. Treatment on asset side- Provision for doubtful debts is deducted from the amount of sundry debtors and the provision for depreciation is deducted from the relevant asset.
2. Treatment on liability side- Provision for repairs and charges are shown along with the current liabilities.

Numerical Questions

Q1. On April 01, 2010, Bajrang Marbles purchased a Machine for ₹ 2,80,000 and spent ₹

10,000 on its carriage and ₹ 10,000 on its installation. It is estimated that its working life is 10 years and after 10 years its scrap value will be ₹ 20,000.

(a) Prepare Machine account and Depreciation account for the first four years by providing depreciation on straight line method. Accounts are closed on March 31st every year.

(b) Prepare Machine account, Depreciation account and Provision for depreciation account (or accumulated depreciation account) for the first four years by providing depreciation using straight line method accounts are closed on March 31 every year.

Solution:

Books of Bajrang Marbles

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010				2011			
Apr 01	To Bank A/c		3,00,000	Mar31	By Depreciation A/c		28,000
				Mar31	By Balance c/d		2,72,000
			3,00,000				3,00,000
2011				2012			
Apr01	To Balance b/d		2,72,000	Mar31	By Depreciation A/c		28,000
				Mar 31	By Balance c/d		2,44,000
			2,72,000				2,72,000
2012				2013			
Apr 01	To Balance b/d		2,44,000	Mar 31	By Depreciation A/c		28,000
				Mar 31	By Balance c/d		2,16,000
			2,44,000				2,44,000
2013				2014			
Apr 01	To Balance b/d		2,16,000	Mar 31	By Depreciation A/c		28,000
				Mar 31	By Balance c/d		1,88,000
			2,16,000				2,16,000

Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011				2011			
Mar 31	To Machinery A/c		28,000	Mar 31	By Profit and Loss A/c		28,000
			28,000				28,000
2012				2012			
Mar 31	To Machinery A/c		28,000	Mar 31	By Profit and Loss A/c		28,000
			28,000				28,000
2013				2013			
Mar 31	To Machinery A/c		28,000	Mar 31	By Profit and Loss A/c		28,000
			28,000				28,000
2014				2014			
Mar 31	To Machinery A/c		28,000	Mar 31	By Profit and Loss A/c		28,000
			28,000				28,000

Working notes :

1. Calculation of annual depreciation

Depreciation p.a. = Cost-Scrap Value/Estimated Life of Assets(years)

= (2,80,000+10,000+10,000)-20,000/10

= ₹ 28,000 per annum

Books of Bajrang Marbles

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010				2011			
Apr 01	To Bank A/c		3,00,000	Mar 31	By Balance c/d		3,00,000
			3,00,000				3,00,000
2011				2012			
Apr 01	To Balance b/d		3,00,000	Mar 31	By Balance c/d		3,00,000
			3,00,000				3,00,000
2012				2013			
Apr 01	To Balance b/d		3,00,000	Mar 31	By Balance c/d		3,00,000
			3,00,000				3,00,000
2013				2014			
Apr 01	To Balance b/d		3,00,000	Mar 31	By Balance c/d		3,00,000
			3,00,000				3,00,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar 31	To Balance c/d		28,000	2011 Mar.31	By Depreciation A/c		28,000
			28,000				**28,000**
2012 Mar 31	To Balance c/d		56,000	2011 Apr 01	By Balance b/d		28,000
				2012 Mar 31	By Depreciation A/c		28,000
			56,000				**56,000**
2013 Mar 31	To Balance c/d		84,000	2012 Apr 01	By Balance b/d		56,000
				2013 Mar 31	By Depreciation A/c		28,000
			84,000				**84,000**
2014 Mar 31	To Balance c/d		1,12,000	2013 Apr 01	By Balance b/d		84,000
				2014 Mar 31	By Depreciation A/c		28,000
			1,12,000				**1,12,000**

Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Mar 31	To Provision for Depreciation A/c		28,000	2011 Mar 31	By Profit and Loss A/c		28,000
			28,000				**28,000**
2012 Mar 31	To Provision for Depreciation A/c		28,000	2012 Mar 31	By Profit and Loss A/c		28,000
			28,000				**28,000**
2013 Mar 31	To Provision for Depreciation A/c		28,000	2013 Mar 31	By Profit and Loss A/c		28,000
			28,000				**28,000**
2014 Mar 31	To Provision for Depreciation A/c		28,000	2014 Mar 31	By Profit and Loss A/c		28,000
			28,000				**28,000**

Q2. On July 01, 2010, Ashok Ltd. Purchased a Machine for ₹ 1,08,000 and spent ₹ 12,000 on its installation. At the time of purchase it was estimated that the effective commercial life of the machine will be 12 years and after 12 years its salvage value will be ₹ 12,000.
Prepare machine account and depreciation Account in the books of Ashok Ltd. For first three years, if depreciation is written off according to straight line method. The accounts are closed on December 31st, every year.
Solution:

Books of Ashok Ltd.
Machinery Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010 Jul01	To Bank A/c		1,20,000	2010 Dec 31 Dec 31	By Depreciation A/c By Balance c/d		4,500 1,15,500
			1,20,000				**1,20,000**
2011 Jan 01	To Balance b/d		1,15,500	2011 Dec 31 Dec 31	By Depreciation A/c By Balance c/d		9,000 1,06,500
			1,15,500				**1,15,500**
2012 Jan 01	To Balance b/d		1,06,500	2012 Dec 31 Dec 31	By Depreciation A/c By Balance c/d		9,000 97,500
			1,06,500				**1,06,500**
2013 Jan 01	To Balance b/d		97,500				

Depreciation Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010 Dec 31	To Machinery A/c		4,500	2010 Dec 31	By Profit and Loss A/c		4,500
			4,500				**4,500**
2011 Dec 31	To Machinery A/c		9,000	2011 Dec 31	By Profit and Loss A/c		9,000
			9,000				**9,000**
2012 Dec 31	To Machinery A/c		9,000	2012 Dec 31	By Profit and Loss A/c		9,000
			9,000				**9,000**

Working Notes :

1. Calculation of annual depreciation

Depreciation p.a.

= Cost-Scrap Value/Estimated Life of Asset (Years)

= (1,08,000+12,000)-12,000/12 Years

= ₹ 9,000 per annum

Q3. Reliance Ltd. Purchased a second hand machine for ₹ 56,000 on October 01, 2011 and spent ₹ 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for ₹ 6,000 at the end of its useful life of 15 yea₹ Moreover an estimated cost of ₹ 1,000 is expected to be incurred to recover the salvage value of ₹ 6,000. Prepare machine account and Provision for depreciation account for the first three years charging depreciation by fixed installment Method. Accounts are closed on December 31, every year.

Solution:

Books of Reliance Ltd
Machinery Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Oct 01	To Bank A/c		84,000	2011 Dec 31	By Balance c/d		84,000
			84,000				**84,000**
2012 Jan 01	To Balance b/d		84,000	2012 Dec 31	By Balance c/d		84,000
			84,000				**84,000**
2013 Jan 01	To Balance b/d		84,000	2013 Dec 31	By Balance c/d		84,000
			84,000				**84,000**

Provisions for Depreciation Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Dec 31	To Balance c/d		1,316	2011 Dec 31	By Depreciation A/c		1,316
			1,316				**1,316**
2012 Dec 31	To Balance c/d		6,583	2012 Jan 01 Dec 31	By Balance b/d By Depreciation A/c		1,316 5,267
			6,583				**6,583**
2013 Dec 31	To Balance c/d		11,850	2013 Jan 01 Dec 31	By Balance b/d By Depreciation A/c		6,583 5,267
			11,850				**11,850**
				2013 Jan.01	By Balance b/d		11,850

Working notes:

Calculation of annual depreciation

Depreciation p.a.

= Cost-Scrap Value/Estimated Life of Asset (years)

= (56,000+28,000)-5,000/15

= ₹ 5,267 per annum

Calculation of annual depreciation

Depreciation p.a.

=Cost-Scrap Value/Estimated Life of Asset (years)

=(56,000+28,000)-5,000/15

=₹ 5,267 per annum

Scrap Value = Salvage Value- estimated cost to recover the salvage value

= ₹ 6,000-₹ 1,000

= ₹ 5,000

Q4. Berlia Ltd. Purchased a second hand machine for Rs.56,000 on July 01, 2011 and spent Rs.24,000 on its repair and installation and Rs.5,000 for its carriage. On September 01, 2012, it purchased another machine for Rs.2, 50,000 and spent Rs.10,000 on its installation. Depreciation is provided on machinery @10% p.a. on original cost method annually on December 31. Prepare machinery account and depreciation account from the year 2011 to 2014.

Prepare machinery account and depreciation account from the year 2011 to 2014, if depreciation is provided on machinery @10% p.a. on written down value method annually on December 31.

Solution:

Books of Berlia Ltd.

Machinery Account (Original Cost Method)

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
Jul 01	To Bank A/c		85,000	Dec 31	By Depreciation A/c			
	(56,000 + 24,000 + 5,000)				Machine 1 (6m)	4,250		4,250
				Dec 31	By Balance c/d			80,750
			85,000					**85,000**
2012				2012				
Jan 01	To Balance b/d		80,750	Dec 31	By Depreciation A/c			
Sep 01	To Bank A/c		2,60,000		Machine 1	8,500		
	(2,50,000 + 10,000)				Machine 2 (4m)	8,667		17,167
				Dec 31	By Balance c/d			3,23,583
			3,40,750					**3,40,750**
2013				2013				
Jan 01	To Balance b/d		3,23,583	Dec 31	By Depreciation A/c			
					Machine 1	8,500		
					Machine 2	26,000		34,500
				Dec 31	By Balance c/d			2,89,083
			3,23,583					**3,23,583**
2014				2014				
Jan 01	To Balance b/d		2,89,083	Dec 31	By Depreciation A/c			
					Machine 1	8,500		
					Machine 2	26,000		34,500
				Dec 31	By Balance c/d			2,54,583
			2,89,083					**2,89,083**

Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011				2011			
Dec 31	To Machinery A/c		4,250	Dec 31	By Profit and Loss A/c		4,250
			4,250				**4,250**
2012				2012			
Dec 31	To Machinery A/c		17,167	Dec 31	By Profit and Loss A/c		17,167
			17,167				**17,167**
2013				2013			
Dec 31	To Machinery A/c		34,500	Dec 31	By Profit and Loss A/c		34,500
			34,500				**34,500**
2014				2014			
Dec 31	To Machinery A/c		34,500	Dec 31	By Profit and Loss A/c		34,500
			34,500				**34,500**

Working Notes :

Calculation of Annual Depreciation	
1.	Depreciation (p.a.) on Machinery Purchased on July 01,2011
	Depreciation p.a.=Cost-Scrap Value/Estimated Life of Asset (years)
	=(56,000+24,000+5,000)*10%
	=₹8,500 per annum
2.	Depreciation on Machinery purchased on July 01, 2011 for the year 2011 (6 month)
	=₹8,500p.a. *6/12
	=₹4,250
3.	Depreciation (p.a.) Machinery purchased on September 01,2012
	Depreciation p.a.=Cost-Scrap Value/Estimated Life of Asset (years)
	=(2,50,000+10,000)*10%
	=₹26,000 per annum
4.	Depreciation on Machinery purchased on September 01,2012 for the year 2012 (4 month)
	=₹26,000*4/12
	=₹8667

Books of Berlia Ltd.

Machinery Account (Written Down value method)

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
Jul 01	To Bank A/c		85,000	Dec 31	By Depreciation A/c			4,250
	(56,000 + 24,000 + 5,000)			Dec 31	By Balance c/d			80,750
			85,000					**85,000**
2012				2012				
Jan 01	To Balance b/d		80,750	Dec 31	By Depreciation A/c			
Sep 01	To Bank A/c							
	(2,50,000+10,000)				(80750*10%)	8,075		
					Machine 2 (260,000*10%*4/12)	8,667		16,742
				Dec 31	By Balance c/d			
					Machine 1 (80,750-8,075)	72,675		
					Machine 2 (2,60,000-8,667)	2,51,333		3,24,008
			3,40,750					**3,40,750**
2013				2013				
Jan 01	To Balance b/d		3,24,008	Dec 31	By Depreciation A/c			
					Machine 1 (72,675*10%)	7,268		
					Machine 2 (2,51,333*10%)	25,133		32,401
				Dec 31	By Balance c/d			
					Machine 1 (72,675-7,268)	65,407		
					Machine 2 (2,51,333-25,133)	2,26,200		2,91,607
			3,24,008					**3,24,008**
2014				2014				
Jan 01	To Balance b/d		2,91,607	Dec 31	By Depreciation A/c			
					Machine 1 (65,407*10%)	6,541		
					Machine 2 (2,26,200*10%)	22,620		29,161
				Dec 31	By Balance c/d			
					Machine 1 (65,407-6,541)	58,866		
					Machine 2 (2,26,200-22,620)	2,03,580		2,62,446
			2,91,607					**2,91,607**

Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011				2011			
Dec 31	To Machinery A/c		4,250	Dec 31	By Profit and Loss A/c		4,250
			4,250				**4,250**
2012				2012			
Dec 31	To Machinery A/c		16,742	Dec 31	By Profit and Loss A/c		16,742
			16,742				**16,742**
2013				2013			
Dec 31	To Machinery A/c		32,401	Dec 31	By Profit and Loss A/c		32,401
			32,401				**32,401**
2014				2014			
Dec 31	To Machinery A/c		29,161	Dec 31	By Profit and Loss A/c		29,161
			29,161				**29,161**

Q5. Ganga Ltd. purchased a machinery on January 01, 2011 for Rs.5,50,000 and spent Rs.50,000 on its installation. On September 01, 2011 it purchased another machine for Rs.3,70,000. On May 01, 2012 it purchased another machine for Rs.8,40,000 (including installation expenses).

Depreciation was provided on machinery @10% p.a. on original cost method annually on December 31. Prepare:

a. Machinery account and depreciation account for the years 2011, 2012, 2013 and 2014.

b. If depreciation is accumulated in provision for Depreciation account then prepare machine account and provision for depreciation account for the years 2011, 2012, 2013 and 2014.

Solution:

Book of Ganga Ltd
Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
Jan 01	To Bank A/c (5,50,000 + 50,000)		6,00,000	Dec 31	By Depreciation A/c			
Sept 01	To Bank A/c		3,70,000		Machine 1	60,000		
					Machine 2 (4months)	12,333		72,333
				Dec 31	By Balance c/d			8,97,667
			9,70,000					**9,70,000**
2012				2012				
Jan 01	To Balance b/d		8,97,667	Dec 31	By Depreciation A/c			
May 01	To Bank A/c		8,40,000		Machine 1	60,000		
					Machine 2	37,000		
					Machine 3 (8months)	56,000		1,53,000
				Dec 31	By Balance c/d			15,84,667
			17,37,667					**17,37,667**
2013				2013				
Jan 01	To Balance b/d		15,84,667	Dec 31	By Depreciation A/c			
					Machine 1	60,000		
					Machine 2	37,000		
					Machine 3	84,000		1,81,000
				Dec 31	By Balance c/d			14,03,667
			15,84,667					**15,84,667**
2014				2014				
Jan 01	To Balance b/d		14,03,667	Dec 31	By Depreciation A/c			
					Machine 1	60,000		
					Machine 2	37,000		
					Machine 3	84,000		1,81,000
				Dec 31	By Balance c/d			12,22,667
			14,03,667					**14,03,667**

Depreciation Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Dec 31	To Machinery A/c		72,333	2011 Dec 31	By Profit and Loss A/c		72,333
			72,333				**72,333**
2012 Dec 31	To Machinery A/c		1,53,000	2012 Dec 31	By Profit and Loss A/c		1,53,000
			1,53,000				**1,53,000**
2013 Dec 31	To Machinery A/c		1,81,000	2013 Dec 31	By Profit and Loss A/c		1,81,000
			1,81,000				**1,81,000**
2014 Dec 31	To Machinery A/c		1,81,000	2014 Dec 31	By Profit and Loss A/c		1,81,000
			1,81,000				**1,81,000**

Working Notes: Calculation of Annual Depreciation

Machinery I		
Original cost on 1Jan, 2011 (5,50,000+50,000)=6,00,000		
10% Depreciation for 2011	60,000	
10% Depreciation for 2012	60,000	
10% Depreciation for 2013	60,000	
10% Depreciation for 2014	60,000	2,40,000
Machinery II		
Original cost on 1Sep, 2011 =3,70,000		
10% Depreciation for 2011 4months	12,330	
10% Depreciation for 2012	37,000	
10% Depreciation for 2013	37,000	
10% Depreciation for 2014	37,000	1,23,330
Machinery III		
Original cost on 1May, 2012 =8,40,000		
10% Depreciation for 2012 8months	56,000	
10% Depreciation for 2013	84,000	
10% Depreciation for 2014	84,000	2,24,000
Total		5,87,330

Machinery Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Jan 01 Sept 01	To Bank A/c (5,50,000 + 50,000) To Bank A/c		6,00,000 3,70,000	2011 Dec 31	By Balance c/d		9,70,000
			9,70,000				**9,70,000**
2012 Jan 01 May 01	To Balance b/d To Bank A/c		9,70,000 8,40,000	2012 Dec 31	By Balance c/d		18,10,000
			18,10,000				**18,10,000**
2013 Jan 01	To Balance b/d		18,10,000	2013 Dec 31	By Balance c/d		18,10,000
			18,10,000				**18,10,000**
2014 Jan 01	To Balance b/d		18,10,000	2014 Dec 31	By Balance c/d		18,10,000
			18,10,000				**18,10,000**

Provision for Depreciation Account

Dr. Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Cr. Amount ₹
2011				2011			
Dec 31	To Balance c/d		72,333	Dec 31	By Depreciation A/c		72,333
			72,333				**72,333**
2012				2012			
				Jan 01	By Balance b/d		72,333
Dec 31	To Balance c/d		2,25,333	Dec 31	By Depreciation A/c		1,53,000
			2,25,333				**2,25,333**
2013				2013			
				Jan 01	By Balance b/d		2,25,333
Dec 31	To Balance c/d		4,06,333	Dec 31	By Depreciation A/c		1,81,000
			4,06,333				**4,06,333**
2014				2014			
				Jan 01	By Balance b/d		4,06,333
Dec 31	To Balance c/d		5,87,333	Dec 31	By Depreciation A/c		1,81,000
			5,87,333				**5,87,333**

Q6. Azad Ltd. purchased furniture on October 01, 2012 for Rs.4,50,000. On March 01, 2013 it purchased another furniture for Rs.3,00,000. On July 01, 2014 it sold off the first furniture purchased in 2012 for Rs.2, 25,000.Depreciation is provided at 15% p.a. on written down value method each year. Accounts are closed each year on March 31. Prepare furniture account, and accumulated depreciation account for the years ended on March 31, 2013, March 31,2014 and March 31,2015. Also give the above two accounts if furniture disposal account is opened.

Solution:

Books of Azad Ltd.
Furniture Account

Dr. Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Cr. Amount ₹
2012				2013			
Oct 01	To Bank A/c		4,50,000	Mar 31	By Balance c/d		7,50,000
2013							
Mar 01	To Bank A/c		3,00,000				
			7,50,000				**7,50,000**
2013				2014			
Apr 01	To Balance b/d		7,50,000	Mar 31	By Balance c/d		7,50,000
			7,50,000				**7,50,000**
2014				2014			
Apr 01	To Balance b/d		7,50,000	July 01	By Furniture Disposal A/c		4,50,000
				2015			
				Mar 31	By Balance c/d		3,00,000
			7,50,000				**7,50,000**

Accumulated Depreciation Account

Dr. Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Cr. Amount ₹
2013				2013				
Mar 31	To Balance c/d		37,500	Mar 31	By Depreciation A/c			
					Furniture 1 (6 months)	33,750		
					Furniture 2 (1 months)	3,750		37,500
			37,500					**37,500**
2014				2013				
Mar 31	To Balance c/d		1,44,376	Apr 01	By Balance b/d			37,500
				2014				
				Mar 31	By Depreciation A/c			
					Furniture 1	62,438		
					Furniture 2	44,438		1,06,876
			1,44,376					**1,44,376**
2014				2014				
July 01	To Furniture Disposal A/c		1,09,456	Apr 01	Balance b/d			1,44,376
2015				July 01	By Depreciation A/c			13,268
Mar 31	To Balance c/d		85,960	2015				
				Mar 31	By Depreciation A/c			37,772
			1,95,416					**1,95,416**

Furniture Disposal Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2014				2014			
Jul 01	To Furniture A/c		4,50,000	Jul 01	By Accumulated Depreciation A/c		1,09,456
				Jul 01	By Bank A/c		2,25,000
				Jul 01	By Profit and Loss A/c (Loss)		1,15,544
			4,50,000				4,50,000

Working Note : -

1. Calculation of Profit or Loss on sale of furniture.

Furniture 1					
Years	Opening Balance		Depreciation		Closing Balance
2012 - 2013	4,50,000	-	33,750 (6 months)	=	4,16,250
2013 - 2014	4,16,250	-	62,438	=	3,53,812
2014 - 2015	3,53,812	-	13,268 (3 months)	=	3,40,544
			1,09,456		

Particulars	₹
Balance as on July 01,2014	3,40,544
Less : Sale on July 01,2014 (Selling Price)	2,25,000
Loss on sale of furniture	**1,15,544**

Q7. M/s Lokesh Fabrics purchased a Textile Machine on April 01, 2011 for Rs.1,00,000. On July 01, 2012 another machine costing Rs.2,50,000 was purchased . The machine purchased on Rs.01, 2011 was sold for Rs.25,000 on October 01, 2015. The company charges depreciation @15% p.a. on straight line method. Prepare machinery account and machinery disposal account for the year ended March 31, 2016.

Solution:

Books of M/s Lokesh Fabrics
Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2012				
Apr 01	To Bank A/c		1,00,000	Mar 31	By Depreciation A/c			
					Machine 1	15,000		15,000
				Mar 31	By Balance c/d			85,000
			1,00,000					**1,00,000**
2012				2013				
Apr 01	To Balance b/d		85,000	Mar 31	By Depreciation A/c			
July 01	To Bank A/c		2,50,000		Machine 1	15,000		
					Machine 2 (9 months)	28,125		43,125
				Mar 31	By Balance c/d			2,91,875
			3,35,000					**3,35,000**
2013				2014				
Apr 01	To Balance b/d		2,91,875	Mar 31	By Depreciation A/c			
					Machine 1	15,000		
					Machine 2	37,500		52,500
					(i) 15,000, (ii)37,500			
				Mar 31	By Balance c/d			2,39,375
			2,91,875					**2,91,875**
2014				2015				
Apr 01	To Balance b/d		2,39,375	Mar 31	By Depreciation A/c			
					Machine 1	15,000		
					Machine 2	37,500		52,500
				Mar 31	By Balance c/d			1,86,875
			2,39,375					**2,39,375**
2015				2015				
Apr 01	To Balance b/d		1,86,875	Oct 01	By Depreciation A/c			
					Machine 1 (6 months)	7,500		7,500
				Oct 01	By Machinery Disposal A/c			32,500
				2016				
				Mar 31	By Depreciation A/c			
					Machine 2	37,500		37,500
				Mar 31	By Balance c/d			1,09,375
			1,86,875					**1,86,875**

Machinery Disposal Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Oct 01	To Machinery A/c		32,500	Oct 01	By Bank A/c		25,000
				Oct 01	By Profit and Loss A/c (Loss)		7,500
			32,500				**32,500**

Working Note :

Calculation of Profit or Loss on sale of Machine sold on Oct 01,2015

Years	Depreciation
1 April - 31 March 2011-12	15,000
1 April - 31 March 2012-13	15,000
1 April - 31 March 2013-14	15,000
1 April - 31 March 2014-15	15,000
1April - 1 Oct 2015	7,500
	67,500

Original cost	1,00,000
Less : Accumulated depreciation for 4yrs and 6 months	67,500
Book value of the Machine on Oct 01,2015	32,500
Less: Sale Proceeds	25,000
Loss on Sale of Machinery	**7,500**

Q8. The following balances appear in the books of Crystal Ltd, on Jan 01, 2015
Machinery account on ₹ 15,00,000
Provision for depreciation account ₹ 5,50,000
On April 01, 2015 a machinery which was purchased on January 01, 2012 for ₹ 2, 00,000 was sold for ₹ 75,000. A new machine was purchased on July 01, 2015 for ₹ 6, 00,000. Depreciation is provided on machinery at 20% p.a. on Straight line method and books are

closed on December 31 every year. Prepare the machinery account and provision for depreciation account for the year ending December 31, 2015.
Solution:

Books of Crystal Ltd.
Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Jan 01	To Balance b/d (old)		15,00,000	Apr 01	By Machinery Disposal A/c		2,00,000
July01	To Bank A/c		6,00,000	Dec 31	By Balance c/d		19,00,000
			21,00,000				21,00,000

Provision For Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2015				2015				
Apr 01	To Machinery Disposal A/c		1,30,000	Jan 01	By Balance b/d			5,50,000
				Apr 01	By Depreciation A/c			
					Machine I Old (1 Jan, 2012) (3 months)	10,000		10,000
				Dec 31	By Depreciation A/c			
					Machine I old (Balance) (15,00,000-2,00,000)*20% (13,00,000*20%)	2,60,000		
Dec 31	To Balance c/d		7,50,000		Machine II (1 July, 2015) (6 months)	60,000		3,20,000
			8,80,000					**8,80,000**

Machinery Disposal Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Apr 01	To Machinery A/c		2,00,000	Apr 01	By Provision for Depreciation A/c		1,30,000
Apr 01	To Profit and Loss A/c (Profit)		5,000	Apr 01	By Bank A/c		75,000
			2,05,000				**2,05,000**

Working Note :

Calculation of Profit or Loss on sale of Machine sold on April 01,2015

Years	Opening Balance		Depreciation		Closing Balance
2012	2,00,000	-	40,000	=	1,60,000
2013	1,60,000	-	40,000	=	1,20,000
2014	1,20,000	-	40,000	=	80,000
2015	80,000	-	10,000 (3 months)	=	70,000
Accumulated Depreciation		=	1,30,000		

Value on April 01, 2015	70,000
Less : - Sale on April 1, 2015	75,000
Profit and Sale of Machinery	**5,000**

Q9. M/s. Excel Computers has a debit balance of ₹ 50,000 (original cost ₹ 1, 20,000) in computers account on April 01, 2010. On July 01, 2010 it purchased another computer costing ₹ 2, 50,000. One more computer was purchased on January 01, 2011 for ₹ 30,000. On April 01, 2014 the computer which has purchased on July 01, 2010 became obsolete and was sold for ₹ 20,000. A new version of the IBM computer was purchased on August 01, 2014 for ₹ 80,000. Show Computers account in the books of Excel Computers for the years ended on March 31, 2011, 2012, 2013, 2014 and 2015. The computer is depreciated @10% p.a. on straight line method basis.
Solution:

Books of M/s Excel Computers

Computer Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2010				2011				
Apr 01	To Balance b/d (old)		50,000	Mar 31	By Depreciation A/c			
July 01	To Bank A/c		2,50,000		Old (1,20,000*10%)	12,000		
2011					Computer 1 (9 months)	18,750		
Jan 01	To Bank A/c		30,000		Computer 2 (3months)	750		31,500
				Mar 31	By Balance c/d			2,98,500
			3,30,000					**3,30,000**
2011				2012				
Apr 01	To Balance b/d		2,98,500	Mar 31	By Depreciation A/c			
					Old (1,20,000*10%)	12,000		
					Computer 1	25,000		
					Computer 2	3,000		40,000
				Mar 31	By Balance c/d			2,58,500
			2,98,500					**2,98,500**
2012				2013				
Apr 01	To Balance b/d		2,58,500	Mar 31	By Depreciation A/c			
					Old (1,20,000*10%)	12,000		
					Computer 1	25,000		
					Computer 2	3,000		40,000
				Mar 31	By Balance c/d			2,18,500
			2,58,500					**2,58,500**
2013				2014				
Apr 01	To Balance b/d		2,18,500	Mar 31	By Depreciation A/c			
					Old (1,20,000*10%)	12,000		
					Computer 1	25,000		
					Computer 2	3,000		40,000
				Mar 31	By Balance c/d			1,78,500
			2,18,500					**2,18,500**
2014				2014				
Apr 01	To Balance b/d		1,78,500	Apr 01	By Bank A/c (Sale of Computer 1)			20,000
Aug 01	To Bank A/c		80,000	Apr 01	By Profit and Loss A/c (Loss)			1,36,250
				2015				
				Mar 31	By Depreciation A/c			
					Old (50,000-48,000)	2,000		
					Computer 2	3,000		
					Computer 3 (8 months)	5,333		10,333
				Mar 31	By Balance c/d			91,917
			2,58,500					**2,58,500**

Working note:

Calculation of Profit or Loss on sale of Computer purchased on July 01, 2010

Years		Opening Balance		Depreciation			Closing Balance
	2010-11	2,50,000	-	18,750	(9 months)	=	2,31,250
	2011-2012	2,31,250	-	25,000		=	2,06,250
	2012-2013	2,06,250	-	25,000		=	1,81,250
	2013-2014	1,81,250	-	25,000		=	1,56,250
	Accumulated Depreciation		=	1,18,750			

Value on April 01, 2014	1,56,250
Less : Sale on April 01, 2014	20,000
Loss on sale of Computer	**1,36,250**

Q10. Carriage Transport Company purchased 5 trucks at the cost of ₹ 2,00,000 each on April 01, 2011. The company writes off depreciation @ 20% p.a. on original cost and closes its books on December 31, every year. On October 01, 2013, one of the trucks is involved in an accident and is completely destroyed. Insurance company has agreed to pay ₹ 70,000 in full settlement of the claim. On the same date the company purchased a second hand truck for ₹ 1,00,000 and spent ₹ 20,000 on its overhauling. Prepare truck account and provision for depreciation account for the three years ended on December 31, 2013. Also give truck account if truck disposal account is prepared.

Solution:

Books of Carriage Transport Company

Truck Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011				2011			
Apr 01	To Bank A/c		10,00,000	Dec 31	By Balance c/d		10,00,000
			10,00,000				**10,00,000**
2012				2012			
Jan 01	To Balance b/d		10,00,000	Dec 31	By Balance c/d		10,00,000
			10,00,000				**10,00,000**
2013				2013			
Jan 01	To Balance b/d		10,00,000	Oct 01	By Truck Disposal A/c		2,00,000
Oct 01	To Bank A/c (1,00,000+20,000)		1,20,000	Dec 31	By Balance c/d		9,20,000
			11,20,000				**11,20,000**

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
				Dec 31	By Depreciation A/c			
					Truck 1 (9months)	30,000		
					Truck 2 (9months)	30,000		
					Truck 3 (9months)	30,000		
					Truck 4 (9months)	30,000		
Dec 31	To Balance c/d		1,50,000		Truck 5 (9months)	30,000		1,50,000
			1,50,000					**1,50,000**
2012				2012				
				Jan 01	By Balance c/d			1,50,000
				Dec 31	By Depreciation A/c			
					Truck 1	40,000		
					Truck 2	40,000		
					Truck 3	40,000		
					Truck 4	40,000		
Dec 31	To Balance c/d		3,50,000		Truck 5	40,000		2,00,000
			3,50,000					**3,50,000**
2013				2013				
Oct 01	To Truck Disposal A/c		1,00,000	Jan.01	By Balance b/d			3,50,000
				Oct 01	By Depreciation A/c			
					Truck 1 (9 months)	30,000		30,000
				Dec 31	By Depreciation A/c			
					Truck 2	40,000		
					Truck 3	40,000		
					Truck 4	40,000		
					Truck 5	40,000		
Dec 31	To Balance c/d		4,46,000		Truck 6 (3months)	6,000		1,66,000
			5,46,000					**5,46,000**

Truck Disposal Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2013				2013			
Oct 01	To Truck A/c		2,00,000	Oct 01	By Provision for Depreciation A/c		1,00,000
				Oct 01	By Insurance Co. (Insurance Claim)		70,000
				Oct 01	By Profit and Loss A/c (Loss on accident)		30,000
			2,00,000				**2,00,000**

Working Note :

Loss due to accident:

	Opening Balance		Depreciation		Closing balance
Apr.01,2011	2,00,000	-	30,000	=	1,70,000
Jan.01,2012	1,70,000	-	40,000	=	1,30,000
Jan.01,2013	1,30,000	-	30,000	=	1,00,000
Accumulated Depreciation		=	1,00,000		

Value on Oct.01,2013	=	1,00,000
Less : Insurance Claim	=	70,000
Loss on Accident		30,000

Q11. Saraswati Ltd. purchased a machinery costing ₹ 10,00,000 on January 01, 2011. A new machinery was purchased on 01 May, 2012 for ₹ 15,00,000 and another on July 01, 2014 for ₹ 12,00,000. A part of the machinery which originally cost ₹ 2,00,000 in 2011 was sold for ₹ 75,000 on October 31, 2014. Show the machinery account, provision for depreciation account and machinery disposal account from 2011 to 2015 if depreciation is provided at 10% p.a. on original cost and account are closed on December 31, every year.

Solution:

Books of Saraswati Ltd.

Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011				2011			
Jan 01	To Bank A/c		10,00,000	Dec 31	By Balance c/d		10,00,000
			10,00,000				**10,00,000**
2012				2012			
Jan 01	To Balance b/d		10,00,000				
May 01	To Bank A/c		15,00,000	Dec 31	By Balance c/d		25,00,000
			25,00,000				**25,00,000**
2013				2013			
Jan 01	To Balance b/d		25,00,000	Dec 31	By Balance c/d		25,00,000
			25,00,000				**25,00,000**
2014				2014			
Jan 01	To Balance b/d		25,00,000	Oct31	By Machinery Disposal A/c		2,00,000
Jul 01	To Bank A/c		12,00,000	Dec 31	By Balance c/d (8,00,000+15,00,000+12,00,000)		35,00,000
			37,00,000				**37,00,000**
2015				2015			
Jan 01	To Balance b/d		35,00,000	Dec 31	By Balance c/d		35,00,000
			35,00,000				**35,00,000**

Provision For Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
				Dec 31	By Depreciation A/c			
Dec 31	To Balance c/d		1,00,000		Machine 1	1,00,000		1,00,000
			1,00,000					**1,00,000**
2012				2012				
				Jan.01	By Balance b/d			1,00,000
				Dec 31	By Depreciation A/c			
					Machine 1	1,00,000		
Dec 31	To Balance c/d		3,00,000		Machine 2 (8months)	1,00,000		2,00,000
			3,00,000					**3,00,000**
2013				2013				
Dec 31	To Balance c/d		5,50,000	Jan 01	By Balance b/d			3,00,000
				Dec 31	By Depreciation A/c			
					Machine 1	1,00,000		
					Machine 2	1,50,000		2,50,000
			5,50,000					**5,50,000**
2014				2014				
Oct 31	To Machinery Disposal A/c		76,667	Jan 01	By Balance b/d			5,50,000
				Oct 31	By Depreciation A/c			
					Machine 1 (Part costing ₹2,00,000)	16,667		16,667
				Dec 31	By Depreciation A/c			2,90,000
					Machine 1 (Remaining cost)	80,000		
					Machine 2	1,50,000		
Dec 31	To Balance c/d		7,80,000		Machine 3 (6months)	60,0000		2,90,000
			8,56,667					**8,56,667**
2015				2015				
				Jan.01	By Balance b/d			7,80,000
				Dec 31	By Depreciation A/c			
					Machine 1	80,000		
					Machine 2	1,50,000		
Dec 31	To Balance c/d		11,30,000		Machine 3	1,20,000		3,50,000
			11,30,000					**11,30,000**

Machinery Disposal Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2014				2014			
Oct 31	To Machinery A/c		2,00,000	Oct 31	By Provision for Depreciation A/c		76,667
				Oct 31	By Bank A/c (sale)		75,000
				Oct 31	By Profit and Loss A/c (Loss)		48,333
			2,00,000				2,00,000

Working Note :

Profit or Loss on sale of part of Machinery 1:

	Opening Balance		Depreciation		Closing balance
2011	2,00,000	-	20,000	=	1,80,000
2012	1,80,000	-	20,000	=	1,60,000
2013	1,60,000	-	20,000	=	1,40,000
2014	1,40,000	-	16,667	=	1,23,333
Accumulated Depreciation			76,667		

Book Value as on Oct.01,2014	1,23,333
Less: Sale on Oct.01,2014	75,000
Loss on sale	₹48,333

Q12. On July 01, 2011 Ashwani purchased a machine for ₹ 2,00,000 on credit. Installation expenses ₹ 25,000 are paid by cheque. The estimated life is 5 years and its scrap value after 5 years will be ₹ 20,000. Depreciation is to be charged on straight line basis. Show the journal entry for the year 2011 and prepare necessary ledger accounts for first three years.

Solution:

Books of Ashwani

Journal

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2011 July 01	Machinery A/c Dr.		2,25,000	
	To Creditors for Machinery A/c			2,00,000
	To Bank A/c			25,000
	(Being machinery bought on credit and ₹25,000 paid for installation through cheque)			
2011 Dec31	Depreciation A/c Dr.		20,500	
	To Machinery A/c			20,500
	(Being depreciation charged on Machinery)			
2011 Dec 31	Profit and Loss A/c Dr.		20,500	
	To Depreciation A/c			20,500
	(Being depreciation transferred to Profit and Loss Account)			
2012 Dec 31	Depreciation A/c Dr.		41,000	
	To Machinery A/c			41,000
	(Being depreciation charged on Machinery)			
2012 Dec 31	Profit and Loss A/c Dr.		41,000	
	To Depreciation A/c			41,000
	(Being depreciation transferred to Profit and Loss Account)			
2013 Dec 31	Depreciation A/c Dr.		41,000	
	To Machinery A/c			41,000
	(Being depreciation charged on Machinery)			
2013 Dec 31	Profit and Loss A/c Dr.		41,000	
	To Depreciation A/c			41,000
	(Being depreciation transferred to Profit and Loss Account)			

Ledger

Machinery Account

Dr. Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Cr. Amount ₹
2011				2011			
July 01	To Creditor for Machinery A/c		2,00,000	Dec 31	By Depreciation A/c		20,500
July 01	To Bank A/c		25,000				
			2,25,000				2,25,000
2012				2012			
Jan01	To Balance b/d		2,04,500	Dec 31	By Depreciation A/c		41,000
				Dec 31	By Balance c/d		1,63,500
			2,04,500				2,04,500
2013				2013			
Jan 01	To Balance b/d		1,63,500	Dec 31	By Depreciation A/c		41,000
				Dec 31	By Balance c/d		1,22,500
			1,63,500				1,63,500

Working note :

Calculation of Annual Depreciation	
Depreciation p.a.	= Cost-Scrap Value/ Estimated Useful Life (years)
	= (2,00,000+25,000)-20,000/5
	=₹41,000 per annum

Q13. On October 01, 2010, a Truck was purchased for ₹ 8,00,000 by Laxmi Transport Ltd. Depreciation was provided at 15% p.a. on the diminishing balance basis on this truck. On December 31, 2013 this Truck was sold for ₹ 5, 00,000. Accounts are closed on 31st March every year. Prepare a Truck Account for the four years.

Solution:

Books of Laxmi Transport Ltd.

Truck Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010				2011			
Oct 01	To Bank A/c		8,00,000	Mar 31	By Depreciation A/c (6 months)		60,000
				Mar 31	By Balance c/d		7,40,000
			8,00,000				**8,00,000**
2011				2012			
Apr 01	To Balance b/d		7,40,000	Mar 31	By Depreciation A/c		1,11,000
				Mar 31	By Balance c/d		6,29,000
			7,40,000				**7,40,000**
2012				2013			
Apr 01	To Balance b/d		6,29,000	Mar 31	By Depreciation A/c		94,350
				Mar 31	By Balance c/d		5,34,650
			6,29,000				**6,29,000**
2013				2013			
Apr 01	To Balance b/d		5,34,650	Dec 31	By Depreciation A/c (9months)		60,148
Dec 31	To Profit and Loss A/c(Profit)		25,498	Dec 31	By Bank A/c (sale)		5,00,000
			5,60,148				**5,60,148**

Working Notes:

Profit or Loss on Sale of Part of Truck:

Year	Opening Balance		Depreciation		Closing Balance
2010-2011	8,00,000	-	60,000 (6month)	=	7,40,000
2011-2012	7,40,000	-	1,11,000	=	6,29,000
2012-2013	6,29,000	-	94,350	=	5,34,650
2013-2014	5,34,650	-	60,148 (9 month)	=	4,74,502

WDV as on Dec 31, 2013	4,74,502
Less: Sale on Dec 31, 2013	5,00,000
Profit on sale	25,498

Q14. Kapil Ltd. purchased a machinery on July 01, 2011 for ₹ 3,50,000. It purchased two additional machines, on April 01, 2012 costing ₹ 1,50,000 and on October 01, 2012 costing ₹ 1,00,000. Depreciation is provided @10% p.a. on straight line basis. On January 01, 2013, first machinery become useless due to technical changes. This machinery was sold for ₹ 1,00,000. Prepare machinery account for 4 years on the basis of calendar year.

Solution:

Books of Kapil Ltd.
Machinery Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
Jul 01	To Bank A/c		3,50,000	Dec31	By Depreciation A/c			
					Machine 1 (6 month)	17,500		17,500
				Dec 31	By Balance c/d			3,32,500
			3,50,000					**3,50,000**
2012				2012				
Jan 01	To Balance b/d		3,32,500	Dec 31	By Depreciation A/c			
Apr01	To Bank A/c		1,50,000		Machine 1	35,000		
Oct 01	To Bank A/c		1,00,000		Machine 2 (9 months)	11,250		
					Machine 3(3months)	2,500		48,750
				Dec 31	By Balance c/d			5,33,750
			5,82,500					**5,82,500**
2013				2013				
Jan 01	To Balance b/d		5,33,750	Jan 01	By Bank A/c (sale)			1,00,000
				Jan 01	By Profit and Loss A/c(Loss)			1,97,500
				Dec31	By Depreciation A/c			
					Machine 2	15,000		
					Machine 3	10,000		25,000
				Dec 31	By Balance c/d			2,11,250
			5,33,750					**5,33,750**
2014				2014				
Jan 01	To Balance b/d		2,11,250	Dec 31	By Depreciation A/c			
					Machine 2	15,000		
					Machine 3	10,000		25,000
				Dec 31	By Balance c/d			1,86,250
			2,11,250					**2,11,250**
2015								
Jan 01	To Balance b/d		1,86,250					

Working Note :

Profit or Loss on sale of part of Machinery 1:

	Opening Balance		Depreciation		Closing balance
2011	3,50,000	-	17,500	=	3,32,500
2012	3,32,500	-	35,000	=	2,97,500

WDV as on Jan 01, 2013	2,97,500
Less: Sale on Jan 01, 2013	1,00,000
Loss on sale	1,97,500

Q15. On January 01, 2011, Satkar Transport Ltd, purchased 3 buses for ₹ 10,00,000 each. On July 01, 2013, one bus was involved in an accident and was completely destroyed and ₹ 7,00,000 were received from the Insurance Company in full settlement. Depreciation is written off @15% p.a. on diminishing balance method. Prepare bus account from 2011 to 2014. Books are closed on December 31 every year.

Solution:

Books of Satkar Transport Ltd.

Bus Account

Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011				2011			
Jan01	To Bank A/c		30,00,000	Dec31	By Depreciation A/c		
					Bus 1	1,50,000	
					Bus 2	1,50,000	
					Bus 3	1,50,000	4,50,000
				Dec31	By Balance c/d		
					Bus 1 (10,00,000-1,50,000)	8,50,000	
					Bus 2 (10,00,000-1,50,000)	8,50,000	
					Bus 3 (10,00,000-1,50,000)	8,50,000	25,50,000
			30,00,000				**30,00,000**
2012				2012			
Jan01	To Balance b/d		25,50,000	Dec31	By Depreciation A/c		
					Bus 1	1,27,500	
					Bus 2	1,27,500	
					Bus 3	1,27,500	3,82,500
				Dec31	By Balance c/d		
					Bus 1 (8,50,000-1,27,500)	7,22,500	
					Bus 2 (8,50,000-1,27,500)	7,22,500	
					Bus 3 (8,50,000-1,27,500)	7,22,500	21,67,500
			25,50,000				**25,50,000**
2013				2013			
Jan01	To Balance b/d		21,67,500	July 01	By Depreciation A/c		
July01	To Profit and Loss A/c (Profit)		31,688		Bus 1 (6months)	54,188	54,188
				July 01	By Bank A/c (Insurance Claim)		7,00,000
				Dec31	By Depreciation A/c		
					Bus 2	1,08,375	
					Bus 3	1,08,375	2,16,750
				Dec31	By Balance c/d		
					Bus 2 (7,22,500-1,08,375)	6,14,125	
					Bus 3 (7,22,500-1,08,375)	6,14,125	12,28,250
			21,99,188				**21,99,188**
2014				2014			
Jan01	To Balance b/d		12,28,250	Dec31	By Depreciation A/c		
					Bus 2	92,119	
					Bus 3	92,119	1,84,238
				Dec31	By Balance c/d		
					Bus 2	5,22,006	
					Bus 3	5,22,006	10,44,012
			12,28,250				**12,28,250**

Working Note :

Profit or Loss Due to Accident:

	Opening Balance		Depreciation		Closing balance
2011	10,00,000	-	1,50,000	=	8,50,000
2012	8,50,000	-	1,27,500	=	7,22,500
2013	7,22,500	-	54,188 (6month)	=	6,68,312

WDV as on July 01, 2013	6,68,312
Less: Insurance Claim	7,00,000
Profit due to accident	31,688

Q16. On October 01, 2011 Juneja Transport Company purchased 2 Trucks for ₹ 10,00,000 each. On July 01, 2013, One Truck was involved in an accident and was completely destroyed and ₹ 6,00,000 were received from the insurance company in full settlement. On December 31, 2013 another truck was involved in an accident and destroyed partially, which was not insured. It was sold off for ₹ 1,50,000. On January 31, 2014 company purchased a fresh truck for ₹ 12,00,000. Depreciation is to be provided at 10% p.a. on the written down value every year. The books are closed every year on March 31. Give the truck account from 2011 to 2014.

Solution:

Books of Juneja Transport Company

Truck Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2012				
Oct 01	To Bank A/c		20,00,000	Mar 31	By Depreciation A/c			
					Truck 1 (6 months)	50,000		
					Truck 2 (6 months)	50,000		1,00,000
				Mar 31	By Balance c/d			
					Truck 1 (10,00,000-50,000)	9,50,000		
					Truck 2 (10,00,000-50,000)	9,50,000		19,00,000
			20,00,000					**20,00,000**
2012				2013				
Apr 01	To Balance b/d		19,00,000	Mar 31	By Depreciation A/c			
					Truck 1	95,000		
					Truck 2	95,000		1,90,000
				Mar 31	By Balance c/d			
					Truck 1 (9,50,000-95,000)	8,55,000		
					Truck 2 (9,50,000-95,000)	8,55,000		17,10,000
			19,00,000					**19,00,000**
2013				2013				
Apr 01	To Balance b/d		17,10,000	July 01	By Depreciation A/c			
					Truck 1 (3 months)	21,375		21,375
				July 01	By Bank A/c (Insurance Claim)			6,00,000
				July 01	By Profit and Loss A/c (loss)			2,33,625
				Dec31	By Depreciation A/c			
					Truck 2 (9months)	64,125		64,125
				Dec 31	By Bank A/c (Sale)			1,50,000
				Dec 31	By Profit and Loss A/c(Loss)			6,40,875
2014				2014				
Jan 31	To Bank A/c		12,00,000	Mar 31	By Depreciation A/c			
					Truck 3 (2 months)	20,000		20,000
				Mar 31	By Balance c/d			11,80,000
			29,10,000					**29,10,000**

Working Note:

Truck - 1 Profit or Loss due to Accident:

	Opening Balance	-	Depreciation	=	Closing balance
2011-12	10,00,000	-	50,000 (6 months)	=	9,50,000
2012-13	9,50,000	-	95,000	=	8,55,000
2013-2014	8,55,000	-	21,375 (3 months)	=	8,33,625

Value on July 01,2013	=	8,33,625
Less: Insurance Claim	=	6,00,000
Loss on Truck - 1	=	₹2,33,625

Truck - 2 Profit or Sale on sale:

	Opening Balance	-	Depreciation	=	Closing balance
Oct.01,2012	10,00,000	-	50,000 (6 months)	=	9,50,000
Apr.01,2012	9,50,000	-	95,000	=	8,55,000
Apr.01,2013	8,55,000	-	64,125 (9 months)	=	7,90,875

Value on Dec 31,2013	=	7,90,875
Less: Sold	=	1,50,000
Loss on Truck - 2	=	₹6,40,875

Q17. A Noida based Construction Company owns 5 cranes and the value of this asset in its books on April 01, 2011 is ₹ 40,00,000. On October 01, 2011 it sold one of its cranes whose value was ₹ 5, 00,000 on April 01, 2011 at a 10% profit. On the same day it purchased 2 cranes for ₹ 4, 50,000 each. Prepare cranes account. It closes the books on December 31, 2012 and provides for depreciation on 10% written down value.

Solution:

Books of Construction Company

Cranes Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2011				2011				
Apr 01	To Balance c/d		40,00,000	Oct 01	By Depreciation A/c (Crane ₹5,00,000)			25,000
Oct 01	To Profit and Loss A/c (Profit)		47,500	Oct 01	By Bank A/c (sale)			5,22,500
Oct 01	To Bank A/c		9,00,000	2012				
				Mar 31	By Depreciation A/c 4 cranes + new 2 Cranes			2,85,000
				Mar 31	By Balance c/d 32,37,500 + 8,77,500			41,15,000
			49,47,500					49,47,500

Working Notes:

Calculation of crane Valued 500000/-

	Opening Balance	-	Depreciation	=	Closing balance
2011-12	500000		25000 (6 months)	=	4,75,000

Value on Oct 01, 2011	=	4,75,000
=Less: Sale on Oct 01, 2011	=	5,22,500
Loss on Sale	=	47,500

Calculation of depreciation for 4 cranes

	Opening Balance	-	Depreciation	=	Closing balance
2011-12	3500,000		2,62,500 (9 months)	=	32,37,500

Calculation of depreciation for 4 cranes

	Opening Balance	-	Depreciation	=	Closing balance
2011-12	900,000		22,500 (3 months)	=	8,77,500

Q18. Shri Krishan Manufacturing Company purchased 10 machines for ₹ 75,000 each on July 01, 2010. On October 01, 2012, one of the machines got destroyed by fire and an insurance claim of ₹ 45,000 was admitted by the company. On the same date another machine is purchased by the company for ₹ 1,25,000.

The company writes off 15% p.a. depreciation on written down value basis. The company maintains the calendar year as its financial year. Prepare the machinery account from 2010 to 2013.

Solution:

Books of Shri Krishna Manufacturing Company

Machinery Account

Dr.								Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2010				2010				
July 01	To Bank A/c		7,50,000	Dec 31	By Depreciation A/c (75000*15%*6/12)*10			56,250
				Dec 31	By Balance c/d (`6,93,750/10 each)			6,93,750
			7,50,000					7,50,000
2011				2011				
Jan 01	To Balance b/d		6,93,750	Dec 31	By Depreciation A/c (69,375*15%)*10			1,04,063
				Dec 31	By Balance c/d (`5,89,687/10 each)			5,89,687
			6,93,750					6,93,750
2012				2012				
Jan 01	To Balance b/d		5,89,687	Oct 01	By Depreciation A/c			
Oct 01	To Bank A/c		1,25,000		Machine 1 (9 months)	6,634		6,634
				Oct 01	By Bank A/c (Insurance Claim)			45,000
				Oct 01	By Profit and Loss A/c (Loss)			7,335
				Dec 31	By Depreciation A/c			
					Other 9 Machine (`58968.7*15%)*9/12	79,608		
					New Machine (1,25,000*15%)*3/12	4,688		84,296
				Dec 31	By Balance c/d			
					Other 9 Machine	4,51,110		
					New Machine	1,20,312		5,71,422
			7,14,687					7,14,687
2013				2013				
Jan 01	To Balance b/d		5,71,422	Dec 31	By Depreciation A/c			
					Other 9 Machine (4,51,110*15%)	67,667		
					New Machine (1,20,312*15%)	18,047		85,714
				Dec 31	By Balance c/d			
					Other 9 Machine	3,83,443		
					New Machine	1,02,265		4,85,708
			5,71,422					5,71,422

Working Note :

Machine Costing 75,000 sold on Oct.01,2012

	Opening Balance	-	Depreciation	=	Closing balance
2010	75,000	-	5,625 (6 months)	=	69,375
2011	69,375	-	10,406	=	58,969
2012	58,969	-	6634 (9 months)	=	52,335

Value on Oct.01.2012	=	52,335
Less: Insurance Claim	=	45,000
Loss due to accident	=	₹7,335

Q19. On January 01, 2010, a Limited Company purchased machinery for ₹ 20,00,000. Depreciation is provided @15% p.a. on diminishing balance method. On March 01, 2012, one fourth of machinery was damaged by fire and ₹ 40,000 were received from the insurance company in full settlement. On September 01, 2012 another machinery was purchased by the company for ₹ 15,00,000. Write up the machinery account from 2012 to 2013. Books are closed on December 31, every year.

Solution:

Machinery Account

Dr.								Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars		J.F.	Amount ₹
2012				2012				
Jan 01	To Balance b/d (WN 1) (10,83,750 + 3,61,250)		14,45,000	Mar01	By Depreciation A/c (1/4 Machine for 2 months)			9,031
				Mar01	By Bank A/c (Insurance Claim)			40,000
Sept 01	To Bank A/c		15,00,000	Mar01	By Profit and Loss A/c (Loss)			3,12,219
				Dec 31	By Depreciation A/c			
					3/4th of Machine	1,62,563		
					New Machine (4 months)	75,000		2,37,563
				Dec 31	By Balance c/d			
					3/4th of Machine	9,21,187		
					New Machine	14,25,000		23,46,187
			29,45,000					**29,45,000**
2013				2013				
Jan 01	To Balance b/d		23,46,187	Dec 31	By Depreciation A/c			
					3/4th of Machine	1,38,178		
					New Machine	2,13,750		3,51,928
				Dec 31	By Balance c/d			
					3/4th of Machine	7,83,009		
					New Machine	12,11,250		19,94,259
			23,46,187					**23,46,187**

Working note :

1. Machine (i)

Years	January 01	-	Depreciation (15 % p.a.)	=	Closing Balance
2010	20,00,000	-	3,00,000	=	17,00,000
2011	17,00,000	-	2,55,000	=	14,45,000
2012	14,45,000	-			

2. 1/4th of machine (i)

Years	January 01	-	Depreciation (15 % p.a.)	=	Closing Balance
2010	5,00,000	-	75,000	=	4,25,000
2011	4,25,000	-	63,750	=	3,61,250
2012	3,61,250	-	9,031 (9m)	=	3,52,219

Value on 1 Mar.2012	=	3,52,219
Less: Insurance Claim	=	40,000
Loss		₹3,12,219

3. 3/4th of Machine

Years	January 01	-	Depreciation (15 % p.a.)	=	Closing Balance
2010	15,00,000	-	2,25,000	=	12,75,000
2011	12,75,000	-	1,91,250	=	10,83,750
2012	10,83,750	-	1,62,563	=	9,21,187
2013	9,21,187	-	1,38,177	=	7,83,009

4.New Machine

15 % depreciation on new machine
15,00,000 *15/100 *4/12= 75,000
14,25,000 *15/100= 2,13,750

Q20. A Plant was purchased on 1st July, 2010 at a cost of ₹ 3,00,000 and ₹ 50,000 were spent on its installation. The depreciation is written off at 15% p.a. on the straight line method. The plant was sold for ₹ 1,50,000 on October 01, 2012 and on the same date a new Plant was installed at the cost of ₹ 4,00,000 including purchasing value. The accounts are closed on December 31 every year.

Show the machinery account and provision for depreciation account for 3 years.

Solution:

Plant Account

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010 July 01	To Bank A/c (3,00,000+50,000)		3,50,000	2010 Dec 31	By Balance c/d		3,50,000
			3,50,000				**3,50,000**
2011 Jan 01	To Balance b/d		3,50,000	2011 Dec 31	By Balance c/d		3,50,000
			3,50,000				**3,50,000**
2012 Jan 01	To Balance b/d		3,50,000	2012 Oct 01	By Provision for Depreciation A/c		1,18,125
Oct 01	To Bank A/c		4,00,000	Oct 01	By Bank A/c (sale)		1,50,000
				Oct 01	By Profit and Loss A/c (Loss)		81,875
				Dec 31	By Balance c/d		4,00,000
			7,50,000				**7,50,000**

Provision for Depreciation Account

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2010 Dec 31	To Balance c/d		26,250	2010 Dec 31	By Depreciation A/c Plant 1		26,250
			26,250				**26,250**
2011 Dec 31	To Balance c/d		78,750	2011 Jan 01	By Balance b/d		26,250
				Dec 31	By Depreciation A/c Plant 1		52,500
			78,750				**78,750**
2012 Oct01	To Plant A/c		1,18,125	2013 Jan 01	By Balance b/d		78,750
				Oct 01	By Depreciation A/c Plant 1 (9 month)		39,375
Dec 31	To Balance c/d		15,000	Dec 31	By Depreciation A/c Plant 2 (3 month)		15,000
			1,33,125				**1,33,125**

Working Note :

Profit or Loss on Sale of Plant:

	Opening Balance	-	Depreciation		=	Closing balance
2010	3,50,000	-	26,250	(6months)	=	3,23,750
2011	3,23,750	-	52,500		=	2,71,250
2012	2,71,250	-	39,375	(9 months)		2,31,875

Value on Oct 01,2012	=	2,31,875
Less: Sale on Oct 01, 2012	=	1,50,000
Loss	=	81,875

Q21. An extract of Trial balance from the books of Tahiliani and Sons Enterprises on Mar 31 2015 is given below:

Name of the Account	Debit Amount ₹	Credit Amount ₹
Sundry debtors	50,000	
Bad debts	6,000	
Provision for doubtful debts		4,000

Additional Information:

- Bad Debts proved bad but not recorded amounted to ₹ 2,000.
- Provision is to be maintained at 8% of Debtors.

Give necessary accounting entries for writing off the bad debts and creating the provision for doubtful debts account. Also show the necessary accounts.

Solution:

Journal of Tahiliani and Sons Enterprises

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
i.	Bad debts A/c To Debtors A/c (Being further bad debts charged from Debtors Account)	Dr.		2,000	2,000
ii.	Provision for Doubtful Debts A/c To Bad debts A/c (Being amount of bad debts transferred to Provision for Doubtful debt Account)	Dr.		8,000	8,000
iii.	Profit and Loss A/c To Provision for Doubtful Debt A/c (Being amount of Provision for Doubtful Debt transferred to Profit and Loss Account	Dr.		7,840	7,840

Bad debts Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Mar 31	To Balance b/d		6,000				
Mar 31	To Debtors A/c		2,000	Mar 31	By Provision for Doubtful Debts A/c		8,000
			8,000				8,000

Debtors Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Mar 31	To Balance b/d		50,000	Mar 31	By Bad debts A/c		2,000
				Mar 31	By Balance c/d		48,000
			50,000				50,000

Provision for Doubtful Debt Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Mar 31	To Bad debts A/c (6,000 + 2,000)		8,000	Mar 31	By Balance b/d		4,000
Mar 31	To Balance c/d (48,000*10%)		3,840	Mar 31	By Profit and Loss A/c		7,840
			11,840				11,840

Profit and Loss Account (Extract)

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Mar 31	To Provision for Bad Debts		7,840				

Q22. The following information are extract from the Trial Balance of M/s Nisha traders on 31 March 2015.

Sundry Debtors	₹ 80,500
Bad debts	₹ 1,000

Provision for bad debts	₹ 5,000
Additional Information	
Bad Debts	₹ 500

Provision is to be maintained at 2% of Debtors.

Prepare bad debts account, Provision for bad debts account and profit and loss account.

Solution:

Bad debts Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Mar 31	To Balance b/d		1,000				
Mar 31	To Debtors A/c		500	Mar 31	By Provision for Bad debts A/c		1,500
			1,500				**1,500**

Provision for Bad debts Account

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2015				2015			
Mar 31	To Bad debts A/c		1,500	Mar 31	By Balance b/d		5,000
Mar 31	To Profit and Loss A/c		1,900				
Mar 31	To Balance c/d (80,000*2%)		1,600				
			5,000				**5,000**

Profit and Loss Account (Extract)

Dr. Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
				2015			
				Mar 31	By Provision for Bad Debts A/c		1,900