Depreciation Accounting

AS-6

Fundamentals Of Accounting
Learning Objectives

After studying the chapter, you will be able to:

- Grasp the meaning and nature of depreciation.
- Determine the amount of depreciation from the total value of the fixed assets and its useful life.
- Understand various methods of depreciation.
Depreciation

- is a measure of wearing out, consumption or other loss of value of a depreciable asset
- arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortisation of assets whose useful life is predetermined.
Depreciable Assets

Depreciable Assets are those which

(i) are expected to be used during more than one accounting period; and

(ii) have a limited useful life; and

(iii) are held by an enterprise for use in the production or supply of goods and services for rental to other or for administrative purposes and not for the purpose of sale in the ordinary course of business.
OBJECTIVES – Depreciation

(1) **Correct income measurement**: Depreciation should be charged for proper estimation of periodic profit or loss.

(2) **True position statement**: Value of the fixed assets should be adjusted for depreciation charged in order to depict the actual financial position.
(3) *Funds for replacement:* Generation of adequate funds in the hands of the business for replacement of the asset at the end of its useful life.

(4) *Ascertainment of true cost of production:* For ascertaining the cost of the production, it is necessary to charge depreciation as an item of cost of production.
SUMMARY

Objectives

- To ascertain true results of operations
- To present true and fair view of the financial position
- To accumulate funds for the replacement of asset
- To ascertain true costs of production
Factors in the measurement

Estimation of exact amount of depreciation is not easy. Generally following factors are taken into consideration for calculation of depreciation.

1. Cost of asset including expenses for installation, commissioning, trial run etc.
2. Estimated useful life of the asset.
3. Estimated scrap value (if any) at the end of useful life of the asset.
Summary

- Historical

- Estimated

- Estimated

Cost of asset

Useful life of the asset

Scrap (residual) value

Depreciable amount

Acquisition cost
Less: Residual value
Depreciable amount

Estimated useful life of the asset

Rs.

11,000
1,000
10,000

5 years
SUMMARY

Depreciation = \frac{\text{Depreciable Amount}}{\text{Estimated useful life}}

Factors affecting the Amount of depreciation

- Cost of asset
- Expected useful life
- Estimated residual value
Straight Line Method

Straight Line Depreciation = \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Useful life}}

Straight Line Depreciation Rate = \frac{\text{Straight Line Depreciation} \times 100}{\text{Cost of Asset}}
Written Down Value Method

\[
1 - \left(1 - \frac{\text{Residual Value}}{\text{Cost of asset}}\right)^{\frac{n}{100}}
\]

where, \( n \) = useful life

Accounting Entries under Straight Line and Reducing Balance Methods:

There are two alternative approaches for recording accounting entries for depreciation
First Alternative

A provision for depreciation account is opened to accumulate the balance of depreciation and the assets are carried historical cost.

Accounting entry

Profit and Loss Account ------------------Dr.
To Provision for Depreciation Account
Second Alternative

Amount of Depreciation is credited to the Asset Account every year and the Asset Account is carried at historical cost less depreciation.

*Accounting entries:*

- Depreciation Account -----------------Dr.
  
  To Asset Account

- Profit and Loss Account--------------Dr.
  
  To Depreciation Account
Sum of years digits method

Annual Depreciation =
No. of years (including the present year) of remaining life of the asset
Total of all digits of the life of the asset (in years)
Illustration

M/s Raj & Co. purchased a machine for Rs. 1,00,000. Estimated useful life and scrap value were 10 years and Rs. 12,000 respectively.

Calculate depreciation using sum of years digit method.
Solution

Total of digits = 10 + 9 + 8 -------- + 1  
               = 55

Depreciation for 1st Year = \( \frac{10 \times 88000}{55} \)  
                          = 16,000
Production Units Method

Amount of depreciation = Depreciable Amount \times \frac{Production \ during \ the \ period}{Estimated \ total \ production}
ILLUSTRATION

A machine purchased for Rs. 2,00,000.
Life 10 years.
Scrap Value is Rs. 20,000.
Expected to produce 1,50,000 units during its life time.
Expected production during life is as follows:
Contd:

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-3</td>
<td>20,000 units p.a.</td>
</tr>
<tr>
<td>4-7</td>
<td>15,000 units p.a.</td>
</tr>
<tr>
<td>8-10</td>
<td>10,000 units p.a.</td>
</tr>
</tbody>
</table>

Determine value of depreciation each year using production of units method.
Solution

Annual Depreciation =

1-3  \[ \frac{20,000 \times 88,000}{1,50,000} = 24,000 \]

4-7  \[ \frac{15,000 \times 88,000}{1,50,000} = 18,000 \]

8-10  \[ \frac{10,000 \times 88,000}{1,50,000} = 12,000 \]
Illustration

Jain Bros. acquired a machine on 1\textsuperscript{st} July, 2004 at a cost of Rs. 14,000 and spent Rs. 1,000 on its installation. The firm writes off depreciation at 10\% of the original cost every year. The books are closed on 31\textsuperscript{st} December every year. Show the Machinery Account and Depreciation Account for the year 2004-2005.
### Solution

**As per Straight Line Method**

#### Machinery Account

<table>
<thead>
<tr>
<th>Dr. 2004</th>
<th>Rs.</th>
<th>2004</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Bank</td>
<td>14,000</td>
<td>Dec.31</td>
<td>By Depreciation A/c</td>
</tr>
<tr>
<td>July 1</td>
<td>1,000</td>
<td></td>
<td>10% on Rs. 15,000 for 6 months</td>
</tr>
<tr>
<td>To Bank – Installation Expenses</td>
<td></td>
<td></td>
<td>750</td>
</tr>
<tr>
<td></td>
<td>15,000</td>
<td></td>
<td>14,250</td>
</tr>
<tr>
<td>By Balance c/d</td>
<td></td>
<td></td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>2005 Jan. 1</td>
<td>To Balance b / d</td>
<td>14,250</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------</td>
<td>------------------</td>
<td>--------</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>14,250</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>14,250</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>14,250</td>
</tr>
</tbody>
</table>
Illustration

Jain Bros. acquired a machine on 1\textsuperscript{st} July, 2004 at a cost of Rs. 14,000 and spent Rs. 1,000 on its installation. The firm writes off depreciation at 10\% every year. The books are closed on 31\textsuperscript{st} December every year. Show the Machinery Account and calculation of depreciation on diminishing balance method for the year 2004-2005
## Solution

**As per Reducing Balance Method**

<table>
<thead>
<tr>
<th>2004</th>
<th>Rs.</th>
<th>2004</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>July 1</strong></td>
<td><strong>To Bank</strong></td>
<td><strong>14,000</strong></td>
<td><strong>Dec.31</strong></td>
</tr>
<tr>
<td><strong>2005</strong></td>
<td><strong>To Bank</strong></td>
<td><strong>1,000</strong></td>
<td><strong>Dec.31</strong></td>
</tr>
<tr>
<td><strong>Jan. 1</strong></td>
<td><strong>To Balance</strong></td>
<td><strong>15,000</strong></td>
<td><strong>2005</strong></td>
</tr>
<tr>
<td></td>
<td><strong>b/d</strong></td>
<td><strong>14,250</strong></td>
<td><strong>Dec.31</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>14,250</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th><strong>Rs.</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>July 1</strong></td>
<td><strong>750</strong></td>
<td><strong>14,250</strong></td>
<td><strong>15,000</strong></td>
</tr>
<tr>
<td><strong>2005</strong></td>
<td><strong>1,425</strong></td>
<td><strong>12,825</strong></td>
<td><strong>14,250</strong></td>
</tr>
</tbody>
</table>
Illustration

A firm purchased on 1\textsuperscript{st} January, 2005 certain machinery for Rs. 58,200 and spent Rs. 1,800 on its erection. On July 1, 2005 another machinery for Rs. 20,000 was acquired. On 1\textsuperscript{st} July, 2006 the machinery purchased on 1\textsuperscript{st} January, 2005 having become obsolete was auctioned for Rs. 38,600 and on the same date fresh machinery was purchased at a cost of Rs. 40,000
Solution

Depreciation was provided for annually on 31st December at the rate of 10 per cent on written down value. Prepare machinery account.

<table>
<thead>
<tr>
<th>Dr. 2005</th>
<th></th>
<th>Rs.</th>
<th>2005</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1 To Bank</td>
<td></td>
<td>58,200</td>
<td>Dec. 31 By Depreciation A/c</td>
<td>7,000</td>
</tr>
<tr>
<td>Jan. 1 To Bank-erection charges</td>
<td></td>
<td>1,800</td>
<td>By Balance c/d</td>
<td>73,000</td>
</tr>
<tr>
<td>July 1 To Bank</td>
<td></td>
<td>20,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>80,000</td>
<td></td>
<td>80,000</td>
</tr>
</tbody>
</table>
## Solution

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Jan. 1 To Balance b/d</td>
<td>73,000</td>
</tr>
<tr>
<td></td>
<td>July 1 To Bank</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>1,13,000</strong></td>
</tr>
</tbody>
</table>

| 2006  | July 1 By Depreciation on sold machine | 2,700 |
|       | By Bank                               | 38,600 |
|       | By Profit and Loss A/c                | 12,700 |
|       | Dec. 31 By Depreciation               | 3,900  |
|       | By Balance c/d                        | 55,100 |
|       | **Total**                             | **1,13,000** |
### Book Value of Machines

<table>
<thead>
<tr>
<th></th>
<th>Machine I</th>
<th>Machine II</th>
<th>Machine III</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td>60,000</td>
<td>20,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Depreciation for 2005</strong></td>
<td>6,000</td>
<td>1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Written down value</strong></td>
<td>54,000</td>
<td>19,000</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation for 2006</strong></td>
<td>2,700</td>
<td>1,900</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Written down value</strong></td>
<td>51,300</td>
<td>17,100</td>
<td>38,000</td>
</tr>
<tr>
<td><strong>Sale Proceeds</strong></td>
<td>38,600</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loss on Sale</strong></td>
<td>12,700</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Illustration

A firm purchased on 1st January, 2003 certain machinery for Rs. 52,380 and spent Rs. 1,620 on its erection. On January 1, 2003 another machinery for Rs. 19,000 was acquired. On 1st July, 2004 the machinery purchased on 1st January, 2003 having become obsolete was auctioned for Rs. 28,600 and on the same date fresh machinery was purchased at a cost of Rs. 40,000.
Depreciation was provided for annually on 31st December at the rate of 10 per cent on written down value. In 2005, however, the firm changed this method of providing depreciation and adopted the method of providing 5 per cent per annum depreciation on the original cost of the machinery with retrospective effect.
## Solution

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount (Rs.)</th>
<th>Date</th>
<th>Description</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>To Bank</td>
<td>52,380</td>
<td>Dec. 31</td>
<td>By Depreciation A/c</td>
<td>7,300</td>
</tr>
<tr>
<td>Jan. 1</td>
<td>To Bank-erection</td>
<td>1,620</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 1</td>
<td>To Bank</td>
<td>19,000</td>
<td></td>
<td>By Balance c/d</td>
<td>65,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td>73,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 1</td>
<td>To Balance b/d</td>
<td>65,700</td>
<td>July 1</td>
<td>By Depreciation</td>
<td>2,430</td>
</tr>
<tr>
<td></td>
<td></td>
<td>40,000</td>
<td></td>
<td>By Bank</td>
<td>28,600</td>
</tr>
<tr>
<td>July 1</td>
<td>To Bank</td>
<td>1,05,700</td>
<td>Dec. 31</td>
<td>By Profit &amp; Loss A/c</td>
<td>17,570</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>By Depreciation A/c</td>
<td>3,710</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>By Balance c/d</td>
<td>53,390</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,05,700</td>
</tr>
</tbody>
</table>
Continued

<table>
<thead>
<tr>
<th></th>
<th>2005 Jan. 1</th>
<th>2005 Dec. 31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>To Balance b/d</strong></td>
<td>53,390</td>
<td><strong>By Depreciation A/c</strong></td>
</tr>
<tr>
<td><strong>To Profit and Loss A/c</strong></td>
<td><strong>2,710</strong></td>
<td><strong>By Balance c/d</strong></td>
</tr>
<tr>
<td>(Excess Dep. written back)</td>
<td><strong>2,710</strong></td>
<td></td>
</tr>
</tbody>
</table>

56,100
## Working Notes

### (1) Book Value of Machines

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>54,000</td>
<td>19,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Depreciation for 2003</td>
<td>5,400</td>
<td>1,900</td>
<td></td>
</tr>
<tr>
<td>Written down value</td>
<td>48,600</td>
<td>17,100</td>
<td></td>
</tr>
<tr>
<td>Depreciation for 2004</td>
<td>2,430</td>
<td>1,710</td>
<td>2,000</td>
</tr>
<tr>
<td>Written down value</td>
<td>46,170</td>
<td>15,390</td>
<td>38,000</td>
</tr>
</tbody>
</table>
(2) Written down value on the basis of 5% depreciation on straight line basis as at 31st Dec., 2004.

<table>
<thead>
<tr>
<th>Sale Proceeds in 2005</th>
<th>28,600</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss on Sale</td>
<td>17,570</td>
</tr>
</tbody>
</table>
## Working Notes

<table>
<thead>
<tr>
<th></th>
<th>Machine I</th>
<th>Machine II</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td>19,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Depreciation for 2 years</strong></td>
<td>1,900</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Depreciation for 1/2 year</strong></td>
<td>17,100</td>
<td>39,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>17,100</td>
<td>56,100</td>
</tr>
</tbody>
</table>

*Rs. 56,100*
Illustration

M/s. Mayur & Co. purchased a machine on 1.1.2000 for Rs. 20,00,000. Estimated useful life was 10 years and scrap value at the end was expected to be Rs. 2,00,000. On 1.1.2005, the written down value of the machine was revalued to be up by 20%, useful life was re-estimated as 13 years and scrap value as Rs. 2,80,000. The company follows reducing
Solution


<table>
<thead>
<tr>
<th>Dr. 2005</th>
<th>Rs. 2005</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1</td>
<td>To Balance b/d</td>
<td>20,00,000</td>
</tr>
<tr>
<td></td>
<td>To R. Res.</td>
<td>1,26,492</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21,26,492</td>
</tr>
<tr>
<td>Dec. 31</td>
<td>By Balance c/d</td>
<td>21,26,492</td>
</tr>
<tr>
<td></td>
<td></td>
<td>21,26,492</td>
</tr>
</tbody>
</table>
Provision for Depreciation Account

<table>
<thead>
<tr>
<th>Dr. 2005</th>
<th>Rs. 2005</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan.1</td>
<td>To Balance c/d</td>
<td>14,56,480</td>
</tr>
<tr>
<td>Jan.1</td>
<td>Dec.31 By Balance b/d</td>
<td>88,942</td>
</tr>
<tr>
<td>Jan.1</td>
<td>By P&amp; L</td>
<td>14,56,480</td>
</tr>
</tbody>
</table>
Working Notes

(1) 2000: Calculation of rate of WDV depreciation

\[
\text{rate of WDV depreciation} = \left( \frac{2,00,000}{20,00,000} \right) \times 100 = 20.567
\]

(2) Statement of Depreciation

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.2000</td>
<td>Cost of the mac.</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>------------</td>
<td>---------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>31.12.2001</td>
<td>Depreciation</td>
<td>3,26,740</td>
</tr>
<tr>
<td>1.1.2002</td>
<td>W.D.V.</td>
<td>12,61,920</td>
</tr>
<tr>
<td>31.12.2002</td>
<td>Depreciation</td>
<td>2,59,539</td>
</tr>
<tr>
<td>1.1.2003</td>
<td>W.D.V.</td>
<td>10,02,381</td>
</tr>
<tr>
<td>31.12.2003</td>
<td>Depreciation</td>
<td>2,06,160</td>
</tr>
<tr>
<td>1.1.2004</td>
<td>W.D.V.</td>
<td>7,96,221</td>
</tr>
<tr>
<td>31.12.2004</td>
<td>Depreciation</td>
<td>1,63,759</td>
</tr>
</tbody>
</table>
Continued

1.1.2005 W.D.V. 6,32,462
  Add : Upward Revaluation (20%) 1,26,492
  7,58,954

31.12.2005 Depreciation 88,942
  (11.719%* on Rs. 7,58,954) 6,70,012

1.1.2006 W.D.V.
(3) *2005 : Calculation of rate of WDV

\[
\text{rate} = \left[1 - \frac{2,80,000}{\sqrt{7,58,954}}\right] \times 100 = 11.719
\]
MCQ 1

Amit Ltd. purchased a machine on 01.01.2003 for Rs. 1,20,000. Installation expenses were Rs. 10,000. Residual value after 5 years Rs. 5,000. On 01.07.2003, expenses for repairs were incurred to the extent of Rs. 2,000. Depreciation is provided @ 10% p.a. under written down value method. Depreciation for the 4th year = ___________.

a. 25,000       b. 13,000       c. 10,530       d. 9,477
Original cost = Rs. 1,26,000; Salvage value = Nil; Useful life = 6 years. Depreciation for the first year under sum of years digits method will be

(a) Rs. 6,000  (b) Rs. 12,000
(c) Rs. 18,000  (d) Rs. 36,000
MCQ 3

Obsolescence of a depreciable asset may be caused by

I. Technological
II. Improvement in production method.
III. Change in market demand for the product or service output.
IV. Legal or other restrictions.

(a) Only (I) above
(b) Both (I) and (II) above
(c) All (I), (II), (III) and (IV) above
(d) Only (IV) above
MCQ 4

Amit Ltd. purchased a machine on 01.01.2003 for Rs. 1,20,000. Installation expenses were Rs. 10,000. Residual value after 5 years Rs. 5,000. On 01.07.2003, expenses for repairs were incurred to the extent of Rs. 2,000. Depreciation is provided under straight line method. Depreciation rate = 10%. Annual Depreciation = _______

a. 13,000  
b. 17,000  
c. 21,000  
d. 25,000
Original cost = Rs. 1,26,000; Salvage value = Nil; Useful life = 6 years. Depreciation for the fourth year under sum of years digits method will be

(a) Rs. 6,000  
(b) Rs. 12,000  
(c) Rs. 18,000  
(d) Rs. 24,000
Amit Ltd. purchased a machine on 01.01.2003 for Rs. 1,20,000. Installation expenses were Rs. 10,000. Residual value after 5 years Rs. 5,000. On 01.07.2003, expenses for repairs were incurred to the extent of Rs. 2,000. Depreciation is provided under straight line method. Annual Depreciation = __________.

a. 13,000  
b. 17,000  
c. 21,000  
d. 25,000
Continued

Which of the following statements is/are false?

I. The term ‘depreciation’, ‘depletion’ and ‘amortization’ convey the same meaning.

II. Provision for depreciation a/c is debited when provision for depreciation a/c is created.

III. The main purpose of charging the profit and loss a/c with the amount of depreciation is to spread the cost of an asset over its useful life for the purpose of income determination.

(a) Only (I) above         (b) Only (II) above
(c) Only (III) above       (d) All (I) (II) and (III) above
MCQ 8

Original cost = Rs. 1,26,000. Salvage value = 6,000. Depreciation for 2\textsuperscript{nd} year @ Units of Production Method, if units produced in 2\textsuperscript{nd} year was 5,000 and total estimated production 50,000.

a. 10,800  
b. 11,340  
c. 12,600  
d. 12,000
MCQ 9

The number of production or similar units expected to be obtained from the use of an asset by an enterprise is called as

(a) Unit life  (b) Useful life
(c) Production life  (d) Expected life
MCQ 10

Which of the following is not true with regard to fixed assets?

(a) They are acquired for using them in the conduct of business operations
(b) They are not meant for resale to earn profit
(c) They can easily be converted into cash
(d) Depreciation at specified rates is to be charged on most of the fixed assets
MCQ 11

Original cost = Rs. 1,26,000. Salvage value = 6,000. Useful Life = 6 years. Annual depreciation under SLM =

(a) 21,000  (b) 20,000
(c) 15,000  (d) 14,000
Original cost = Rs. 1,26,000. Salvage value = 6,000. Depreciation for 2\textsuperscript{nd} year @ 10\% p.a. under WDV method =

(a) 10,800  (b) 11,340
(c) 15,000  (d) 14,000
MCQ 13

Which of the following expenses is not included in the acquisition cost of a plant and equipment?
(a) Cost of site preparation
(b) Delivery and handling charges
(c) Installation costs
(d) Financing costs incurred subsequent to the period after plant and equipment is put to use.
MCQ 14

For charging depreciation, on which of the following assets, the depletion method is adopted?
(a) Plant & machinery
(b) Land & building
(c) Goodwill
(d) Wasting assets like mines and quarries
MCQ 15

If a concern proposes to discontinue its business from March 2005 and decides to dispose off all its assets within a period of 4 months, the Balance Sheet as on March 31, 2005 should indicate the assets at their
(a) Historical cost
(b) Net realizable value
(c) Cost less depreciation
(d) Cost price or market value, whichever is lower
MCQ 16

In the case of downward revaluation of an asset which is for the first time revalued, the account to be debited is

(a) Fixed Asset
(b) Revaluation Reserve
(c) Profit & Loss account
(d) General Reserve
MCQ 17

In which of the following methods, is the cost of the asset written off in equal proportion, during its useful economic life?

(a) Straight line method
(b) Written down value method
(c) Units-of-production method
(d) Sum-of-the-years’-digits method
MCQ 18

The portion of the acquisition cost of the asset, yet to be allocated is known as
(a) Written down value
(b) Accumulated value
(c) Realisable value
(d) Salvage value
MCQ 19

Original Cost = Rs. 1,00,000. Life = 5 years. Expected salvage value = Rs. 2,000

(i) Depreciation for 3rd year as per straight line method is
a. Rs. 12,800  b. Rs. 19,600
   c. Rs. 20,000  d. Rs. 20,400

(ii) Rate of depreciation p.a. =
   a. 20.0%  b. 19.8%
   c. 19.6%  d. 19.4%
On April 01, 2004 the debit balance of the machinery account of A Ltd. was Rs. 5,67,000. The machine was purchased on April 01, 2002. The company charged depreciation at the rate of 10% per annum under diminishing balance method. On October 01, 2004, the company acquired a new machine at a cost of Rs. 60,000 and incurred Rs. 6,000 for installation of the new machine. The company decided to change the system of providing depreciation.
From the diminishing balance method to the straight-line method with retrospective effect from April 01, 2002. The rate of depreciation will remain the same. The company decided to make necessary adjustments in respect of depreciation due to the change in the method in the year 2004-2005.
Continued

(i) Cost of machinery on 01.04.2002 = _____
a. Rs. 5,67,000  b. Rs. 6,30,000  
c. Rs. 7,00,000  d. Rs. 7,77,778

(ii) Depreciation provided in 2002-03 = _____
    a. Rs. 56,700  b. Rs. 63,000  
c. Rs. 70,000  d. Rs. 77,778

(iii) Depreciation provided in 2003-04 = _____
    a. Rs. 51,030  b. Rs. 56,700  
c. Rs. 63,000  d. Rs. 70,000
(iv) Depreciation under new method for 2002-03 and 2003-04 = _______.
   a. Rs. 1,33,400     b. Rs. 1,26,000
   c. Rs. 1,40,000     d. Rs. 1,55,556

(v) Further depreciation to be provided=______.
   a. Rs. 5,670          b. Rs. 6,300
   c. Rs. 7,000          d. Rs. 7,778
(vi) Balance in Machinery A/c on 31.03.2004 =______.
   a. Rs. 5,67,000   b. Rs. 6,30,000
   c. Rs. 7,00,000   d. Rs. 7,77,778

(vii) Depreciation for the year 2004-05 =___.
   a. Rs. 3,300       b. Rs. 7,000
   c. Rs. 10,300      d. Rs. 73,300
(viii) The balance outstanding to the debit of machinery account as on March 31, 2005 after effecting the above changes was
   a. Rs. 5,45,700           b. Rs. 5,52,700
   c. Rs. 5,46,000           d. Rs. 5,49,400
THE END

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