# Chapter – 10

# **Depreciation Accounting**

# I. Multiple Choice Questions Choose the Correct Answer

# Question 1.

Under straight line method, the amount of depreciation is .....

- (a) Incfeasing every year
- (b) Decreasing every year
- (c) Constant for all the years
- (d) Fluctuating every year

# Answer:

(c) Constant for all the years

# Question 2.

If the total charge of depreciation and maintenance cost are considered, the method that provides a uniform charge is .....

- (a) Straight line method
- (b) Diminishing balance method
- (c) Annuity method
- (d) Insurance policy method

# Answer:

(b) Diminishing balance method

# Question 3.

Under the written down value method of depreciation, the amount of depreciation is .....

- (a) Uniform in all the years
- (b) Decreasing every year
- (c) Increasing every year
- (d) None of the above

# Answer:

(b) Decreasing every year

# Question 4.

Depreciation provided on machinery is debited to .....

- (a) Depreciation account
- (b) Machinery account
- (c) Trading account
- (d) Provision for depreciation account

# Answer:

(a) Depreciation account

# Question 5.

Cash received from sale of fixed asset is credited to .....

- (a) Profit and loss account
- (b) Fixed asset account
- (c) Depreciation account
- (d) Bank account

# Answer:

(b) Fixed asset account

# Question 6.

Depreciation is provided on ...... (a) Fixed assets (b) Current assets (c) Outstanding charges (d) All assets

## Answer:

(a) Fixed assets

# Question 7.

Depreciation is caused by ..... (a) Lapse of time (b) Usage (c) Obsolescence (d) a, b and c

## Answer:

(d) a, b and c

# Question 8.

Depreciation is the process of .....

- (a) Allocation of cost of the asset to the period of its useful life
- (b) Valuation of assets
- (c) Maintenance of an asset in a state of efficiency
- (d) Adding value to the asset

## Answer:

(a) Allocation of cost of the asset to the period of its useful life

# Question 9.

For which of the following assets, the depletion method is adopted for writing off cost of the asset?

- (a) Plant and machinery
- (b) Mines and quarries
- (c) Buildings
- (d) Trademark

# Answer:

(b) Mines and quarries

# Question 10.

A depreciable asset may suffer obsolescence due to .....

- (a) Passage of time
- (b) Wear and tear
- (c) Technological changes
- (d) None of the above

# Answer:

(c) Technological changes

# Question 11.

Which method shall be efficient, if repairs and maintenance cost of an asset increases as it grows older?

(a) Straight line method

(b) Reducing balance method

(c) Sinking fund method

(d) Annuity method

# Answer:

(b) Reducing balance method

# Question 12.

Depreciation is to be calculated from the date when .....

- (a) Asset is put to use
- (b) Purchase order is made
- (c) Asset is received at business premises
- (d) Invoice of assets is received

# Answer:

(a) Asset is put to use

# Question 13.

If the rate of depreciation is same, then the amount of depreciation under straight line method vis – a – vis written down value method will be

- (a) Equal in all years
- (b) Equal in the first year but higher in subsequent years
- (c) Equal in the first year but lower in subsequent years
- (d) Lower in the first year but equal in subsequent years

# Answer:

(b) Equal in the first year but higher in subsequent years

# Question 14.

Residual value of an asset means the amount that it can fetch on sale at the of its useful life.

- (a) Beginning
- (b) End
- (c) Middle
- (d) None

# Answer:

(b) End

# **II. Very Short Answer Questions**

# Question 1.

What is meant by depreciation?

# Answer:

The process of allocation of the relevant cost of a fixed asset over its useful life is known as depreciation. It is an allocation of cost against the benefits derived from a fixed asset during an accounting period.

# Question 2.

List out the various methods of depreciation.

# Answer:

- 1. Straight line method or fixed instalment method or Original cost method.
- 2. Written down value method or Diminishing balance method or Reducing balance method.
- 3. Sum of years digits method.
- 4. Machine hour rate method.
- 5. Depletion method.
- 6. Annuity method.
- 7. Revaluation method.
- 8. Sinking fund method.
- 9. Insurance Policy method.

# Question 3.

Give the formula to find out the amount and rate of depreciation under straight line method of depreciation.

# Answer:

- 1. Amount of depreciation per year Original cost of the asset - Estimated scrap value
- Estimated useful life of the asset in years

Amount of depreciation per year ×100

2. Rate of depreciation =

Original cost

**Question 4.** What is annuity method?

# Answer:

Under this method, not only the original cost of the asset but also the amount of interest on the investment is taken into account while computing depreciation. The idea of considering interest is that if the investment is made in any other asset instead of the relevant fixed asset, it . would have earned a certain rate of interest. To calculate the amount of depreciation, annuity factor is used. Annuity factor can be found out from the annuity table or by using formula. Amount of depreciation is computed as follows: Amount of depreciation = Annuity factor x original cost of the asset.

# Question 5.

What is sinking fund method?

## Answer:

This method is adopted especially when it is desired not merely to write off an asset but also to provide enough funds to replace an asset at the end of its working life. Under this method, the amount charged as depreciation is transferred to depreciation fund and invested outside the business. The investment is made in safe securities which offer a certain rate of interest. Interest is received annually and reinvested every year along with the amount of annual depreciation. On the expiry of the life of the asset, the investments are sold and the sale proceeds are used for replacement of the asset. This method of depreciation is suitable for assets of higher value. This method is also known as depreciation fund method.

# **III. Short Answer Questions**

# Question 1.

What are the objectives of providing depreciation?

# Answer:

- 1. To find out the true profit or loss
- 2. To present the true and fair view of financial position
- 3. To facilitate replacement of fixed assets

- 4. To avail tax benefits
- 5. To comply with legal requirements

## Question 2.

What are the causes for depreciation?

### Answer:

- 1. Wear and tear
- 2. Efflux of time
- 3. Obsolescence
- 4. Inadequacy for the purpose
- 5. Lack of maintenance
- 6. Abnormal factors

## Question 3.

State the advantages and limitations of straight line method of depreciation.

## Answer:

## Advantages:

- Simple and easy to understand
- Equality of depreciation burden
- Assets can be completely written off
- Suitable for the assets having fixed working life

## Limitations:

- Ignores the actual use of the asset
- Ignores the interest factor
- Total charge on the assets will be more when the asset becomes older
- Difficulty in the determination of scrap value

# Question 4.

State the advantages and limitations of written down value method of depreciation.

# Answer: Advantages:

- Equal charge against income
- Logical method

#### Limitations:

- Assets cannot be completely written off
- Ignores the interest factor
- Difficulty in determining the rate of depreciation
- Ignores the actual use of the asset

#### Question 5.

Distinguish between straight line method and written down value method of providing depreciation.

#### Answer:

S.No.	Points of difference	Straight line method	Written down value method
. 1	Basis of calculation	Depreciation is calculated on the original cost of the asset for all the years.	Depreciation is calculated on the written down value of the asset year after year.
2	Amount of depreciation	The amount of depreciation is the same for all the years.	The amount of depreciation goes on decreasing year after year.
3	Book value of the asset at the end of its life	The book value of the asset becomes zero when there is no scrap value or is equal to its scrap value at the end of its life.	The book value of the asset never becomes zero.
4	Computation of rate of depreciation	It is easy to calculate the rate of depreciation.	It is very difficult to calculate the rate of depreciation.

# **IV. Exercises**

## Straight line method:

# Question 1.

A firm purchased a plant for  $\gtrless$  40,000. Erection charges amounted to  $\gtrless$  2,000. Effective life of the plant is 5 years. Calculate the amount of depreciation per year under straight line method.

## Answer:

Calculation of amount of depreciation

Amount of depreciation =  $\frac{\text{Original cost} - \text{Scrap value}}{\text{Estimated life}}$ Original cost = Purchase of plant + Erection charges = ₹ 40,000 + ₹ 2,000 = ₹ 42,000

Estimated life = 5 years =  $\frac{242000-0}{5 \text{ years}}$  = ₹ 8,400/-

# Question 2.

A company purchased a building for  $\gtrless$  50,000. The useful life of the building is 10 years and the residual value is  $\gtrless$  2,000. Find out the amount and rate of depreciation under straight line method.

# Answer:

## Question 3.

Furniture was purchased for  $\gtrless$  60,000 on 1-7-2016. It is expected to last for 5 years. Estimated scrap at the end of five years is  $\gtrless$  4,000. Find out the rate of depreciation under straight line method.

# Answer:

Original cost - Scrap value

(1) Amount of depreciation = Estimated life Original cost = ₹ 60,000 Scrap value = ₹ 4,000 Estimated life = 5 years  $= \frac{60,000-4,000}{5 \text{ years}} = \frac{56,000}{5} = ₹ 11,200/-$ 

# Question 4.

Calculate the rate of depreciation under straight line method from the following information: Purchased a second hand machinery on 1.1.2018 for  $\gtrless$  38,000 On 1.1.2018 spent  $\gtrless$  12,000 on its repairs Expected useful life of machine is 4 years Estimated residual value  $\gtrless$  6,000

## Answer:

Original cost – residual value

Original cost - residual value

(1) Calculation of amount of depreciation = Estimated life of asset Original cost = Purchase of machinery + repair charges = 38,000 + 12,000 = 50,000Residual value = 6,000Estimated life = 4 years =  $\frac{50,000-6,000}{4 \text{ years}} = ₹ 11,000/-$ (2) Rate of depreciation =  $\frac{\text{Amount of depreciation}}{\text{Original cost}} \times 100$ 

 $= \frac{11,000}{50,000} \times 100 = 22 \%$ 

Question 5.

Calculate the rate of depreciation under straight line method. Purchase price of a machine  $\gtrless$  80,000 Expenses to be capitalised  $\gtrless$  20,000 Estimated residual value  $\gtrless$  4,000 Expected useful life  $\gtrless$  4 years

# Answer:

Original cost - residual value

Original cost – residual value = Estimated life of asset Original cost = Machine purchased + capitalised expenses 80,000 + 20,000 = 1,00,000 Residual value = 4,000 Estimated life = 4 years  $= \frac{1,00,000-4,000}{4 \text{ years}} = \frac{96,000}{4} = ₹ 24,000/-$ 

# Question 6.

Machinery was purchased on 1<sup>st</sup> January 2015 for  $\gtrless$  4,00,000.  $\gtrless$  15,000 was spent on its erection and  $\gtrless$  10,000 on its freight charges. Depreciation is charged at 10% per annum on straight line method. The books are closed on 31<sup>st</sup> March each year. Calculate the amount of depreciation on machinery for the first two years.

# Answer:

# Calculation of depreciation:

Original cost = Machinery purchased + erection charges + freight charges = 4,00,000 + 15,000 + 10,000 = 4,25,000 01.01.2015 = Original cost = 4,25,000 31.03.2015 = less: depreciation 10% = 10,625 .....(1) for 3 months 01.04.2015 = Book value = 4,14,375 31.03.2016 = less: depreciation 10% = 42,500 .....(2) 01.01.2017 = Book value = 3,71,875 First year depreciation = ₹ 10,625 Second year depreciation = ₹ 42,500

# Question 7.

An asset is purchased on 1.1.2016 for  $\gtrless$  25,000. Depreciation is to be provided annually according to straight line method. The useful life of the asset is 10 years and its residual value is  $\gtrless$  1,000. Accounts are closed on 31<sup>st</sup> December every year. You are required to find out the rate of depreciation and give journal entries for first two years.

Answer:

Amount of depreciation = Original cost = ₹ 25,000 Residual value = ₹ 1,000 Estimated life = 10 years =  $\frac{25,000-1,000}{10 \text{ years}} = \frac{24,000}{10} = ₹ 24,000/-$ 

(2) Rate of depreciation =  $\frac{\text{Amount of depreciation}}{\text{Original cost}} \times 100$ =  $\frac{2,400}{25,000}$  x 100 = 9.6%

Journal Entries for first two years

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
01.01.2016	Asset A/c To Bank A/c (Asset purchased)	Dr.		25,000	25,000
31.12.2016	Depreciation A/c To Asset A/c (Depreciation provided @ 9.6%	Dr.		2,400	2,400
31.12.2016	Profit & Loss A/c To Depreciation A/c (Depreciation transferred to P & L A/c)	Dr.		2,400	2,400

31.12.2017	Depreciation A/c Dr. To Asset A/c (Depreciation provided @ 9.6%)	4	2,400	2,400
31.12.2017	Profit & Loss A/c Dr. To Depreciation A/c (Depreciation transferred to P & L A/c)		2,400	2,400

# Question 8.

From the following particulars, give journal entries for 2 years and prepare machinery account under straight line method of providing depreciation: Machinery was purchased on 1.1.2016

Price of the machine ₹ 36,000

Freight charges ₹ 2,500

Installation charges ₹ 1,500

Life of the machine 5 years

# Answer:

Journal Entries for 2 years

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
01.01.2016	Machinery A/c To Bank A/c (Machinery bought and other expenses)	Dr.		40,000	40,000
31.12.2016	Depreciation A/c To Machinery A/c (Depreciation provided)	Dr.		8,000	8,000
31.12.2016	Profit & Loss A/c To Depreciation A/c (Depreciation transferred to P & L A/c)	Dr.		8,000	8,000
31.12.2017	Depreciation A/c To Machinery A/c (Depreciation provided)	Dr.		8,000	8,000
31.12.2017	Profit & Loss A/c To Depreciation A/c (Depreciation transferred to P & L A/c)	Dr.	-	8,000	8,000

# Machinery **Dr.**

Cr.

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
01.01.16	To Bank A/c		40,000	31.12.16	By Depreciation A/c		8,000
					By Balance c/d		32,000
			40,000				40,000
01.01.17	To Balance b/d		32,000	31.12.17	By Depreciation A/c		8,000
					By Balance c/d		24,000
			32,000				32,000
01.01.18	To Balance b/d		24,000				

# Question 9.

A manufacturing company purchased on  $1^{st}$  April, 2010, a plant and machinery for  $\gtrless$  4,50,000 and spent  $\gtrless$  50,000 on its installation. After having used it for three years, it was sold for  $\gtrless$  3,85,000. Depreciation is to be provided every year at the rate of 15% per annum on the fixed instalment method. Accounts are closed on  $31^{st}$  March every year. Calculate profit or loss on sale of machinery.

### Answer:

Calculation of P	rofit or Loss on sale of Machinery	
Date	Particulars	

Date	Particulars		₹
01.04.2010	Plant & machinery purchased		4,50,000
01.04.2010	Add: Its installation		50,000
01.04.2010	Original Cost	=	5,00,000
31.03.2011	Less: Depreciation @ 15%	=	75,000
01.04.2011	Book Value	=	4,25,000
31.03.2012	Less: Depreciation @ 15%		75,000
01.04.2012	Book Value	=	3,50,000
31.03.2013	Less: Depreciation @ 15%	=	75,000
01.04.2013	Book Value	=	2,75,000

Note: If the selling price is more than the book value is called profit. Selling price – Book value = Profit 3,85,000 – 2,75,000 = 1,10,000 Profit on sale of Machinery is =  $\gtrless$  1,10,000.

# Question 10.

On 1<sup>st</sup> April 2008, Sudha and Company purchased machinery for ₹ 64,000. To install the machinery expenses incurred was ₹ 28,000. Depreciate machinery 10% p.a. under straight line method. On 30<sup>th</sup> June, 2010 the worn out machinery was sold for ₹ 52,000. The books are closed on 31<sup>st</sup> December every year. Show machinery account.

# Answer:

Workings:

Date	Particulars		₹
01.04.2008	Machinery purchased		64,000
01.04.2008	Add: Instal expenses		28,000
-	Original or total cost	=	92,000
31.12.2018	Less: Depreciation @ 10% for 9 months	=	6,900
01.01.2009	Book Value	=	85,100
31.12.2009	Less: Depreciation @ 10%		9,200
01.01.2010	Book Value	=	75,900
30.06.2010	Less: Depreciation @ 10% for 6 months		4,600
	Book Value	=	71,300

If Book value is more than the selling price it is called loss.

Book value – selling price = loss

71,300 - 52,000 = 19,300

Loss on sale of machinery is = 19,300

#### Machinery Dr.

Particulars L.F. Particulars L.F. ₹ Date ₹ Date 92,000 6,900 01.04.08 To Bank A/c 31.12.08 By Depreciation A/c (64.000 +By Balance c/d 31.12.08 85,100 28,000) 92,000 92,000 85,100 By Depreciation A/c 9.200 01.01.09 To Balance b/d 31.12.09 31.12.09 By Balance c/d 75,900 85,100 85,100 75,900 30.06.10 By Depreciation A/c 01.01.10 To Balance b/d 4,600 30.06.10 By Bank A/c 52,000 By Profit & loss A/c 30.06.10 19,300 75,900 75,900

# Question 11.

Ragul purchased machinery on April 1, 2014 for  $\gtrless$  2,00,000. On 1<sup>st</sup> October 2015, a new machine costing  $\gtrless$  1,20,000 was purchased. On 30<sup>th</sup> September 2016, the machinery purchased on April 1, 2014 was sold for  $\gtrless$  1,20,000. Books of accounts are closed on 31<sup>st</sup> March and depreciation is to be provided at 10% p.a. on straight line method. Prepare machinery account and depreciation account for the years 2014 – 15 to 2016 – 17.

Cr.

# Answer:

# Workings

Machinery first				Machinery Second			
Date	Particulars		₹	Date	Particulars		₹
01.04.14	Purchased		2,00,000				
31.03.15	Less: Dep 10%		20,000	100			
01.04.15	Book Value		1,80,000	01.10.15	Purchased		1,20,000
31.03.16	Less: Dep 10%	. К. л	20,000	31.03.16	Less: Dep 10% for 6 months		6,000
01.04.16	Book Value	I I	1,60,000	01.04.16	Book Value		1,14,000
30.09.16	Less: Dep 10% for 6 months	e Ma	10,000	31.03.17	Less: Dep 10%		12,000
	Book Value		1,50,000	01.04.17	Book Value	=	1,02,000
31.5	Less: S.P		1,20,000	3			2
	∴ Loss	=	30,000				2

#### Machinery Dr.

Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
01.04.14	To Bank A/c		2,00,000	31.03.15	By Depreciation A/c		20,000
				31.03.15	By Balance c/d		1,80,000
			2,00,000				2,00,000
01.04.15	To Balance b/d		1,80,000	31.03.16	By Depreciation A/c		26,000
01.10.15	To Bank A/c		1,20,000		(20,000 + 6,000)		
				31.03.16	By Balance c/d		2,74,000
			3,00,000				3,00,000
01.04.16	To Balance b/d		2,74,000	30.06.16	By Depreciation A/c		10,000
	•.			30.06.16	By Bank A/c		1,20,000
				30.06.16	By Profit & Loss A/c		30,000
				31.03.17	By Depreciation A/c		12,000
				31.03.17	By Balance c/d		1,02,000
			2,74,000	1999 - 19			2,74,000
01.04.17	To Balance b/d		1,02,000				1

Written down value method

# Question 12.

An asset is purchased for  $\gtrless$  50,000. The rate of depreciation is 15% p.a. Calculate the annual depreciation for the first two years under diminishing balance method.

# Answer:

Workings: Calculation of depreciation of Machinery

Particulars		₹	
Purchased Machinery		50,000	
Less: Depreciation @ 15%		7,500	– I year
Book Value	=	42,500	
Less: Depreciation @ 15%		6,375	– II year
Book Value	=	36,125	].

# Question 13.

A boiler was purchased on 1st January 2015 from abroad for  $\gtrless$  10,000. Shipping and forwarding charges amounted to  $\gtrless$  2,000. Import duty  $\gtrless$  7,000 and expenses of installation amounted to  $\gtrless$  1,000. Calculate depreciation for the first 3 years @10% p.a. on diminishing balance method assuming that the accounts are closed 31<sup>st</sup> December each year.

# Answer:

Calculation of amount of depreciation on diminishing balance method:

Date		Particulars		₹	
01.01.2015		A boiler purchased		10,000	
01.01.2015	Add:	Shipping & Forwarding charges		2,000	
· · ·	Add:	Import duty		7,000	
	Add:	Installation charges		1,000	
-		Total cost or original cost	°≑	20,000	
31.12.2015	Less:	Depreciation @ 10%	, =	2,000	1 <sup>st</sup> year
01.01.2016		Book value	=	18,000	
31.12.2016	Less:	Depreciation @ 10%	=	1,800	2 <sup>nd</sup> year
01.01.2017		Book value	=	16,200	1.0
31.12.2017	Less:	Depreciation @ 10%	· =	1,620	3 <sup>rd</sup> year
01.01.2018		Book value	=,	14,580	

2015 Depreciation ₹ 2,000

2016 Depreciation ₹ 1,800 2017 Depreciation ₹ 1,620

# Question 14.

A furniture costing ₹ 5,000 was purchased on 1.1.2016, the installation charges being ₹ 1,000. The furniture is to be depreciated @ 10% p.a. on the diminishing balance method. Pass journal entries for the first two years.

#### Answer:

Date		Particulars		₹
01.01.2016		Furniture purchased		5,000
	Add:	Installation charges		1,000
		Total cost or original cost	=	6,000
31.12.2016	Less:	Depreciation 10%		600
01.01.2017		Book value	= '	5,400
31.12.2017	Less:	Depreciation 10%	=	540
01.01.2018		Book value	=	4,860

Journal Entries

Date	Particulars	10	L.F.	Dr. (₹)	Cr. (₹)
01.01.2016	Furniture A/c To Bank A/c (Furniture bought including instal charges)	Dr. lation		6,000	6,000
31.12.2016	Depreciation A/c To Furniture A/c (Depreciation provided @ 10%)	Dr.		600	600
31.12.2016	Profit & Loss A/c To Depreciation A/c (Depreciation transferred to P&L /	Dr. A/c)		600	600
31.12.2017	Depreciation A/c To Furniture A/c (Depreciation provided @ 10%)	Dr.		540	540
31.12.2017	Profit & Loss A/c To Depreciation A/c (Depreciation transferred to P & L	Dr. A/c)	(*)	540	540

# Question 15.

A firm acquired a machine on  $1^{st}$  April 2015 at a cost of  $\gtrless$  50,000. Its life is 6 years. The firm writes off depreciation @ 30% p.a. on the diminishing balance method. The firm closes its books on  $31^{st}$  December every year. Show the machinery account and depreciation account for three years starting from  $1^{st}$  April 2015.

## Answer:

Workings:

Date		Particulars		₹
01.04.2015		Machinery purchased		50,000
31.12.2015	Less:	Depreciation @ 30%		11,250
01.01.2016		Book value	=	38,750
31.12.2016	Less:	Depreciation @ 30%	=	11,625
01.01.2017		Book value	=	27,125
31.12.2017	Less:	Depreciation @ 30%	=	8,138
01.01.2018		Book value	=	18,987

# Machinery **Dr.**

Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
01.04.15	To Bank A/c		50,000	31.12.15 31.12.15	By Depreciation A/c By Balance c/d		11,250 38,750
			50,000				50,000
01.01.16	To Balance b/d		38,750	31.12.16 31.12.16	By Depreciation A/c By Balance c/d		11,625 27,125
			38,750				38,750
01.01.17	To Balance b/d		27,125	31.12.17 31.12.17	By Depreciation A/c By Balance c/d		8,138 18,987
	•		27,125				27,125
01.01.18	To Balance b/d		18,987				

Depreciation A/c

Dr.	1	]	Depreciat	ion A/c			Cr.
Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
31.12.15	To Machinery A/c		11,250	31.12.15	By P & L A/c		11,250
. *			11,250				11,250
31.12.16	To Machinery A/c		-11,625	31.12.16	By P & L A/c		11,625
			11,625				11,625
31.12.17	To Machinery A/c		8,138	31.12.17	By P & L A/c		8,138
		-	8,138	х.			8,138

# Question 16.

A firm purchased a machine for  $\gtrless$  1,00,000 on 1-7-2015. Depreciation is written off at 20% on reducing balance method. The firm closes its books on 31<sup>st</sup> December each year. Show the machinery account upto 31-12-2017.

## Answer:

Workings:

Date		Particulars		₹	Ŀ
01.07.2015		Machinery purchased		1,00,000	
31.12.2015	Less:	Depreciation @ 20% for 6		10,000	-(1)
		months			
01.01.2016		Book value	=	90,000	
31.12.2016	Less:	Depreciation @ 20%	= '	18,000	- (2)
01.01.2017		Book value	= .	72,000	
31.12.2017	Less:	Depreciation @ 20%	=	14,400	- (3)
				57,600	

MachineryA/c

Dr.							Cr
Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
01.07.15	To Bank A/c		1,00,000	31.12.15	By Depreciation A/c		10,000
80	-			31.12.15	By Balance c/d		90,000
			1,00,000	1			1,00,000
01.01.16	To Balance b/d		90,000	31.12.16	By Depreciation A/c		18,000
				31.12.16	By Balance c/d		72,000
		- 13	90,000	s and a second			90,000
01.01.17	To Balance b/d		72,000	31.12.17	By Depreciation A/c		14,400
	~			31.12.17	By Balance c/d		57,600
40			72,000	4:5	224		72,000
01.01.18	To Balance b/d		57,600		01.0		

# Question 17.

On 1<sup>st</sup> October 2014, a truck was purchased for ₹ 8,00,000 by Laxmi Transports Ltd. Depreciation was provided @ 15% p.a. under diminishing balance method. On 31<sup>st</sup> March 2017, the above truck was sold for ₹ 5,00,000. Accounts are closed on 31<sup>st</sup> March every year. Find out the profit or loss made on the sale of the truck.

# Answer:

Calculation of Profit or loss on sale of truck:

Date		Particulars		₹
01.10.2014		A truck purchased		8,00,000
31.03.2015	Less:	Depreciation @ 15% for 6 months		60,000
01.04.2015		Book value	=	7,40,000
31.03.2016	Less:	Depreciation @ 15%	=	1,11,000
01.04.2016		Book value		6,29,000
31.03.2017	Less:	Depreciation @ 15%	=	94,350
01.04.2017		Book value	-	5,34,650

**Note:** If Book value is more than the selling price it is called loss:

Book value – selling price = Loss 5,34,650 - 5,00,000 = 34,650 $\therefore$  Loss on sale of truck = ₹ 34,650

# Question 18.

On 1<sup>st</sup> January 2015, a second hand machine was purchased for ₹ 58,000 and ₹ 2,000 was spent on its repairs. On 1<sup>st</sup> July 2017, it was sold for ₹ 28,600. Prepare the machinery account for the years 2015 to 2017 under written down value method by assuming the rate of depreciation as 10% p.a. and the accounts are closed on  $31^{st}$  December every year.

#### Answer:

	Calculation	of pro	fit or	loss	on	sale	of	machinerv
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Date		Particulars		₹
01.01.2015		Second hand machine purchased	=	58,000
01.01.2015	Add:	Its repair charges	=	2,000
01.01.2015		Total cost or original cost	=	60,000
31.12.2015	Less:	Depreciation @ 10%	=	6,000
01.01.2016		Book value	-	54,000
31.12.2016	Less:	Depreciation @ 10%	=	5,400
01.01.2017		Book value	.=	48,600
30.06.2017	Less:	Depreciation @ 10% for 6 months	₹	2,430
01.07.2017		Book value	=	46,170

**Note:** If Book value is more than the selling price it is called loss.

Book value – selling price = loss

46,170 - 28,600 = 17,570

∴ Loss on sale of machinery = ₹ 17,570

Dr.							Cr.
Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
01.01.15	To Bank A/c (incl. repairs)		60,000	31.12.15 31.12.15	By Depreciation A/c By Balance c/d		6,000 54,000
			60,000				60,000
01.01.16	To Balance b/d		54,000	31.12.16 31.12.16	By Depreciation A/c By Balance c/d		5,400 48,600
			54,000				54,000
01.01.17	To Balance b/d		48,600	30.06.16 30.06.16 30.06.16	By Depreciation A/c By Bank A/c By Profit & Loss A/c (loss on sale)		2,430 28,600 17,570
			48,600				48,600

# Question 19.

Raj & Co purchased a machine on 1<sup>st</sup> January 2014 for  $\gtrless$  90,000. On 1<sup>st</sup> July 2014, they purchased another machine for  $\gtrless$  60,000. On 1<sup>st</sup> January 2015, they sold the machine purchased on 1<sup>st</sup> January 2014 for  $\gtrless$  40,000. It was decided that the machine be depreciated at 10% per annum on diminishing balance method. Accounts are closed on 31<sup>st</sup> December every year. Show the machinery account for the years 2014 and 2015.

# Answer:

Workings

	Machine 1			Machine 2	
Date	Particulars	₹	Date	Particulars	₹
01.01.2014		90,000	01.07.14		60,000
31.12.2014	Depreciation	9,000	31.12.14	Depreciation 10%	3,000
	10%			6 months	· · · · · ·
01.01.2015		81,000	01.01.15		57,000
	· · ·		31.12.15	Depreciation 10%	5,700
			01.01.16		51,300

**Note:** If Book value is more than the selling price is called loss. Book value – selling price = loss

81,000 - 40,000 = 41,000

# Machinery **Dr.**

Cr.

Date	Particulars	L.F.	₹	Date	Particulars	L.F.	₹
01.01.14 01.07.14	To Bank A/c To Bank A/c		90,000 60,000	31.12.14	By Depreciation A/c $(9,000 + 3,000)$	0	12,000
				31.12.14	By Balance c/d		1,38,000
			1,50,000				1,50,000
01.01.15	To Balance		1,38,000	01.01.15	By Bank A/c		40,000
	b/d	8		01.01.15	By Profit & loss A/c (loss on sale)	1	41,000
			0.65	31.12.15	By Depreciation A/c	o .	5,700
				31.12.15	By Balance c/d		51,300
	41 (S		1,38,000				1,38,000
01.01.16	To Balance b/d		51,300				