

Chapter 7: Depreciation

EXERCISE 1 [PAGE 241]

Exercise 1 | Q 1 | Page 241

QUESTION

Answer in One Sentence only:

What is depreciation?

SOLUTION

Depreciation means a shrinkage in the value of an asset due to factors like wear and tear, the passage of time or obsolescence, etc.

Exercise 1 | Q 2 | Page 241

QUESTION

Answer in One Sentence only:

Why depreciation is charged?

SOLUTION

Depreciation is charged to find out the true amount of profit or loss in a particular accounting period and to arrive at the true value of the asset.

Exercise 1 | Q 3 | Page 241

QUESTION

Answer in One Sentence only:

What is a 'Scrap Value' of an asset?

SOLUTION

The net amount which is expected to be realised on the final disposal of a fixed asset is called 'Scrap Value' or 'Residual Value'.

Exercise 1 | Q 4 | Page 241

QUESTION

Answer in One Sentence only:

Why depreciation is charged even in the year of loss?

SOLUTION

Unless depreciation is charged, the true amount of profit and loss cannot be ascertained properly and we cannot make provision for the replacement of assets therefore depreciation is charged even in the year of loss.

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QUESTION

Answer in One Sentence only:

Which account is credited when depreciation is charged?

SOLUTION

A relevant asset account is credited when depreciation is charged.

Exercise 1 | Q 6 | Page 241

QUESTION

Answer in One Sentence only:

Where is the profit or loss on sale of asset is transferred?

SOLUTION

Profit or loss on sale of asset is to be transferred to 'Profit and Loss A/c'.

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QUESTION

Answer in One Sentence only:

To which account balance on Depreciation A/c is transferred?

SOLUTION

Balance of Depreciation A/c is to be transferred to 'Profit and Loss A/c'.

Exercise 1 | Q 8 | Page 241

QUESTION

Answer in One Sentence only:

What is the formula to calculate depreciation by Straight Line Method?

SOLUTION

Formula to calculate depreciation by straight line method is as follows:

Depreciation is calculated by the following formula

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

Exercise 1 | Q 9 | Page 241

QUESTION

Answer in One Sentence only:

What is Fixed Instalment Method?

SOLUTION

The method in which depreciation is charged at a specific rate on the original cost of the asset every year, so as to reduce the asset account to nil or to its scrap value at the end of its estimated life is known as Fixed Instalment Method.

Exercise 1 | Q 10 | Page 241

QUESTION

Answer in One Sentence only:

Which account is debited when expenses are paid on installation of Machinery?

SOLUTION

Machinery account is to be debited when expenses are paid on installation of machinery.

EXERCISE 2 [PAGES 241 - 242]

Exercise 2 | Q 1 | Page 241

QUESTION

Write the word/term/phrase which can substitute the following statement:

A continuous, gradual and permanent reduction in the value of a fixed asset.

SOLUTION

A continuous, gradual and permanent reduction in the value of a fixed asset.

- **Depreciation**

Exercise 2 | Q 2 | Page 241

QUESTION

Write the word/term/phrase which can substitute the following statement:

The expenditure incurred for purchase, installation charges, etc. of an asset.

SOLUTION

The expenditure incurred for purchase, installation charges, etc. of an asset. - **Cost of asset**

Exercise 2 | Q 3 | Page 241

QUESTION

Write the word/term/phrase which can substitute the following statement:

The amount that a fixed asset is expected to realise on its disposal.

SOLUTION

The amount that a fixed asset is expected to realise on its disposal. - **Scrap value**

Exercise 2 | Q 4 | Page 241

QUESTION

Write the word/term/phrase which can substitute the following statement:

The period for which the asset remains in working condition.

SOLUTION

The period for which the asset remains in working condition. - **Life period of asset**

Exercise 2 | Q 5 | Page 241

QUESTION

Write the word/term/phrase which can substitute the following statement:

The method of depreciation in which the total depreciation is equally spread over the life of the asset.

SOLUTION

The method of depreciation in which the total depreciation is equally spread over the life of the asset. - **Fixed Instalment method**

Exercise 2 | Q 6 | Page 242

QUESTION

Write the word/term/phrase which can substitute the following statement:

The method of depreciation in which the rate of depreciation is fixed but the amount of depreciation reduces every year.

SOLUTION

The method of depreciation in which the rate of depreciation is fixed but the amount of depreciation reduces every year. - **Reducing balance method**

Exercise 2 | Q 7 | Page 242

QUESTION

Write the word/term/phrase which can substitute the following statement:

The type of asset on which depreciation is charged.

SOLUTION

The type of asset on which depreciation is charged. - **Fixed asset**

Exercise 2 | Q 8 | Page 242

QUESTION

Write the word/term/phrase which can substitute the following statement:

Expenses incurred for fixation of the new asset to bring it in working condition.

SOLUTION

Expenses incurred for fixation of the new asset to bring it in working condition.
- **Installation charges**

Exercise 2 | Q 9 | Page 242

Write the word/term/phrase which can substitute the following statement:

Excess of Selling price of fixed asset over its Written Down Value.

SOLUTION

Excess of Selling price of fixed asset over its Written Down Value. - **Profit on sale of asset**

Exercise 2 | Q 10 | Page 242

QUESTION

Write the word/term/phrase which can substitute the following statement:

Method of depreciation that cannot reach to zero value.

SOLUTION

Method of depreciation that cannot reach to zero value. - **Reducing/ Diminishing balance method**

EXERCISE 3 [PAGE 242]

Exercise 3 | Q 1 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

Decrease in the value of fixed assets is known as _____

- Depreciation
- Appreciation
- Combination
- None of these

SOLUTION

Decrease in the value of fixed assets is known as **Depreciation.**

Exercise 3 | Q 2 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

Depreciation is charged only on _____ assets.

- Fixed
- Current
- Non-performing
- Fictitious

SOLUTION

Depreciation is charged only on **Fixed** assets.

Exercise 3 | Q 3 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

The amount spent on installation of new machinery is a _____ expenditure.

- Revenue
- Capital
- Deferred Revenue
- Income

SOLUTION

The amount spent on installation of new machinery is a **Capital** expenditure.

Exercise 3 | Q 4 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

The amount that a fixed asset is expected to realise on its disposal is known as _____

- Book value
- Scrap value
- Market value
- Original value

SOLUTION

The amount that a fixed asset is expected to realise on its disposal is known as **Scrap value**.

Exercise 3 | Q 5 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

The amount of depreciation reduces year after year under _____

- Fixed Instalment Method

- Written Down Value Method
- Depreciation Fund Method
- Revaluation Method

SOLUTION

The amount of depreciation reduces year after year under **Written Down Value Method**.

Exercise 3 | Q 6 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

The amount of depreciation remains constant every year under _____

- Straight Line Method
- Diminishing Balance Method
- Revaluation Method
- Insurance Policy Method

SOLUTION

The amount of depreciation remains constant every year under **Straight Line Method**.

Exercise 3 | Q 7 | Page 242

QUESTION

Select the most appropriate answer from the alternatives given below and rewrite the sentence:

The balance of depreciation account is transferred to _____

- Manufacturing A/c
- Trading A/c
- Profit & Loss A/c
- Balance sheet

SOLUTION

The balance of depreciation account is transferred to **Profit & Loss A/c**.

EXERCISE 4 [PAGES 242 - 243]

Exercise 4 | Q 1 | Page 242

QUESTION

State whether the following statement is True or False with reasons:

Depreciation is charged on fixed assets.

- True
- False

SOLUTION

This statement is True.

To find out actual profit or loss of business and to make provision for the replacement of assets. depreciation is charged on fixed assets.

Exercise 4 | Q 2 | Page 242

QUESTION

State whether the following statement is True or False with reasons:

Depreciation increases the value of the asset.

- True
- False

SOLUTION

This statement is False.

Depreciation means a continuous, gradual and permanent reduction in the value of fixed assets, so we can say that depreciation decreases the value of the asset.

Exercise 4 | Q 3 | Page 242

QUESTION

State whether the following statement is True or False with reasons:

Balance of depreciation account is transferred to Profit & Loss A/c.

- True
- False

SOLUTION

This statement is True.

Depreciation is a non-cash expense for the business, every income or expense account is to be transferred to profit & loss A/c. to ascertain the actual profit or loss of the business. Therefore the balance of depreciation account is transferred to Profit and Loss A/c.

Exercise 4 | Q 4 | Page 242

QUESTION

State whether the following statement is True or False with reasons:

The Profit or Loss on sale of fixed asset is ascertained only after charging depreciation.

- True
- False

SOLUTION

This statement is True.

Unless depreciation is charged to the revenues, the exact amount of profit or loss of business cannot be ascertained properly. Therefore, the profit or loss on sale of fixed assets is ascertained only after charging depreciation.

Exercise 4 | Q 5 | Page 243

QUESTION

State whether the following statement is True or False with reasons:

Wages paid for installation of Machinery are debited to Wages A/c.

- True
- False

SOLUTION

This statement is False.

Wages paid for installation of machinery is nothing but part of cost of machinery only, Therefore, it is to be debited to Machinery A/c. only.

Exercise 4 | Q 6 | Page 243

QUESTION

State whether the following statement is True or False with reasons:

It is not necessary to depreciate an asset if it is not in use.

- True
- False

SOLUTION

This statement is False.

Depreciation is charged as an element of cost. If an asset is not in use, even though its value reduces due to the passage of time. Therefore, we can say that it is compulsory to depreciate an asset if it is not in use.

Exercise 4 | Q 7 | Page 243

QUESTION

State whether the following statement is True or False with reasons:

Depreciation is charged on Current Assets only.

- True
- False

SOLUTION

This statement is False.

Depreciation is charged on fixed assets only because it is necessary to apportion the cost over a number of years during the useful life of an asset and there is no question of useful life for current assets.

Exercise 4 | Q 8 | Page 243

QUESTION

State whether the following statement is True or False with reasons:

Depreciation need not be charged when business is making losses.

- True
- False

SOLUTION

This statement is False.

Depreciation is an element of cost which is to be calculated/charged irrespective of profit or loss of the business. Also, to find actual profit or loss of the business, it is compulsory to calculate depreciation.

EXERCISE 5 [PAGE 243]

Exercise 5 | Q 1 | Page 243

QUESTION

Complete the following sentence:

Depreciation is charged on _____ asset.

SOLUTION

Depreciation is charged on **fixed** assets.

Exercise 5 | Q 2 | Page 243

QUESTION

Complete the following sentence:

Wages paid for Installation/fixation of Machinery is debited to _____ account.

SOLUTION

Wages paid for Installation/fixation of machinery is debited to **machinery** account.

Exercise 5 | Q 3 | Page 243

QUESTION

Complete the following sentence:

Under _____ system, the amount of depreciation changes every year.

SOLUTION

Under **reducing balance** system, the amount of depreciation changes every year.

Exercise 5 | Q 4 | Page 243

QUESTION

Complete the following sentence:

$$\text{Depreciation} = \frac{\text{cost of asset} - \text{_____}}{\text{Estimated Working Life of the Asset}}$$

SOLUTION

$$\text{Depreciation} = \frac{\text{cost of asset} - \text{_____}}{\text{Estimated Working Life of the Asset}}$$

Exercise 5 | Q 5 | Page 243

QUESTION

Complete the following sentence:

Gradual and permanent decrease in the value of asset is known as _____

SOLUTION

Gradual and permanent decrease in the value of an asset is known as **depreciation**.

Exercise 5 | Q 6 | Page 243

QUESTION

Complete the following sentence:

In Fixed Instalment System the amount of depreciation is _____ every year.

SOLUTION

In Fixed Instalment System, the amount of depreciation is **constant** every year.

Exercise 5 | Q 7 | Page 243

QUESTION

Complete the following sentence:

The amount spent on installation of Machinery is a _____ expenditure.

SOLUTION

The amount spent on installation of machinery is a **capital** expenditure.

Exercise 5 | Q 8 | Page 243

QUESTION

Complete the following sentence:

_____ is the value which an asset realises at the end of its useful life.

SOLUTION

Scrap value is the value which an asset realises at the end of its useful life.

Exercise 5 | Q 9 | Page 243

QUESTION

Complete the following sentence:

Depreciation Account is a _____ account.

SOLUTION

Depreciation Account is **nominal** account.

Exercise 5 | Q 10 | Page 243

QUESTION

Complete the following sentence:

Depreciation is derived from a Latin word _____.

SOLUTION

Depreciation is derived from a Latin word **depreciation**.

EXERCISE 6 [PAGE 243]

Exercise 6 | Q 1 | Page 243

QUESTION

Do you agree or disagree with the following statement:

Depreciation is non-cash expense.

- Agree
- Disagree

SOLUTION

Depreciation is non-cash expense. - **Agree**

Exercise 6 | Q 2 | Page 243

QUESTION

Do you agree or disagree with the following statement:

Under written down value method the Depreciation curve slopes parallel to 'X' axis.

- Agree

- Disagree

SOLUTION

Under written down value method the Depreciation curve slopes parallel to 'X' axis..

- **Disagree**

Exercise 6 | Q 3 | Page 243

QUESTION

Do you agree or disagree with the following statement:

The rate of depreciation depends upon the life of fixed asset.

- Agree
- Disagree

SOLUTION

The rate of depreciation depends upon the life of fixed asset. - **Agree**

Exercise 6 | Q 4 | Page 243

QUESTION

Do you agree or disagree with the following statement:

The terminal value of assets never affects the annual amount of depreciation.

- Agree
- Disagree

SOLUTION

The terminal value of assets never affects the annual amount of depreciation.

- **Disagree**

Exercise 6 | Q 5 | Page 243

Do you agree or disagree with the following statement:

By charging depreciation on fixed assets ascertainment of true and fair financial position is possible.

- Agree
- Disagree

SOLUTION

By charging depreciation on fixed assets ascertainment of true and fair financial position is possible. - **Agree**