SAMPLE CONTENT

SMART NOTES

Std. XI

Book Keeping and Accountancy

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SMART NOTES

BOOK-KEEPING & ACCOUNTANCY

F.Y.J.C.

MAHARASHTRA STATE BOARD

(As per the new textbook published by Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune)

Salient Features:

- Based on the latest textbook
- Exhaustive coverage of theory
- All textbook solved & practice sums covered
- Ample sums provided for additional practice
- Type-wise bifurcation of sums for systematic study
- Illustrative solved examples for conceptual clarity
- 'Higher Order Thinking Sums (HOTS)' provided to challenge students
- All type of objective questions covered
- Final answers for all questions provided at the end of the book

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PREFACE

Book-Keeping & Accountancy 'Smart Notes' is a book curated to facilitate learning & instil conceptual understanding within students. This treasure trove of knowledge fosters robust conceptual clarity and inspires confidence within the nimble mind of young learners.

This book is a 'question book' developed with a view to enable students to get enough practice. We have covered the theory of each chapter in detail to enable the students to understand each concept of the chapter in greater depth. We have not only 'covered the problems given in the textbook' but have provided 'ample sums for students' practice'. The additional sums are at par with the sums given in the textbook. We have given 'illustrative solved examples' to help the students to get greater conceptual clarity. 'Higher Order Thinking Sums (HOTS)' give the students an opportunity to challenge themselves. The 'final solution' for all sums is provided at the end of the book for your reference.

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us at : **mail@targetpublications.org**

From,
Publisher

Edition: Third

Disclaimer

This reference book is transformative work based on 'Book - Keeping & Accountancy; Third Reprint : 2022' published by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. We the publishers are making this reference book which constitutes as fair use of textual contents which are transformed by adding and elaborating, with a view to simplify the same to enable the students to understand, memorize and reproduce the same in examinations.

This work is purely inspired upon the course work as prescribed by the Maharashtra State Bureau of Textbook Production and Curriculum Research, Pune. Every care has been taken in the publication of this reference book by the Authors while creating the contents. The Authors and the Publishers shall not be responsible for any loss or damages caused to any person on account of errors or omissions which might have crept in or disagreement of any third party on the point of view expressed in the reference book.

Why to study Book-Keeping & Accoutancy?

Apart from the basic objective of doing well in your exams, there are various reasons for studying Book Keeping & Accountancy (BK):

1. BK is the fundamental subject of commerce. Most courses of commerce have BK as one of the primary subjects.
2. Finance is the core of any business. It is difficult to understand finance without the basic knowledge of accounts.
3. All organizations have to regularly maintain books of accounts and file income tax returns. All these organizations require qualified accountants to finalize their books of accounts.
4. Accounts is required everywhere from household budget to national budget.

How to study from this book ?

1. It is advisable that you begin by reading the theory of the chapter. This will help you to understand the basics & aid in solving sums.
2. We have placed illustrative solved examples at specific places in the chapter. These illustrative examples can be downloaded by scanning the QR code besides it. The illustrative examples will give you a good idea about solving a sum.
3. You can then proceed to solve "textbook problems". All problems in the book have been arranged type-wise (as per the adjustments) to help you learn the chapter gradually step-by-step.
4. Solving the "homework problems" will help you gain perfection in solving sums.
5. Quickly study all the objectives, which you will now be able to solve easily considering you have fair knowledge of the entire chapter.

   You are now ready to go to the next level ☺

KEY FEATURES

Type-wise bifurcation of sums

All the sums in the books have been bifurcated on the basis of their type. This will facilitate systematic study and will enable the students to understand each concept thoroughly.

QR Codes For Illustrative examples

Conceptual clarity is utmost important and in a subject like accountancy that can be achieved better through an illustrative example. That is why we have incorporated a number of illustrative examples in this book through QR Codes.

HOTS

We have included HOTS (Higher Order Thinking Sums) in all the relevant chapters to give the students an opportunity to challenge themselves.

Homework Problem Section

For a subject like accountancy practice is very crucial. Keeping this in mind separate Homework problem section providing ample sums for additional practice has been given.

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Note: i. Questions marked with (S) represent solved problems of textbook.
ii. Questions marked with (P) represent practice problems of textbook.
iii. All objective questions from the textbook are represented by (T) mark.
iv. The sums in the textbook are in a certain order. However, in order to enable the students to study the chapter in a systematic step-by-step manner, we have rearranged the sums type-wise on the basis of adjustments. A table for the same is provided at the start of some chapters. Therefore, the order of sums in textbook and this book for some chapters will not match.

7 Depreciation

Sr. No.	Problem Type	Textual Problem Section Q. No.	Homework Problem Section Q. No.
I.	**Straight Line Method**		
1.	Purchase of asset	Q. 1 to Q. 3	Q. 1
2.	Sale of assets	Q. 4 to Q. 6	Q. 2
3.	Sale of old asset and Purchase of new asset	Q. 7 to Q. 12	Q. 3 to Q. 8
II.	**Written Down Value Method**		
4.	Sale of asset	Q. 13	Q. 9
5.	Purchase of new asset	Q. 14	Q. 10
6.	Sale of old asset and Purchase of new asset	Q. 15 to Q. 20	Q. 11 to Q. 14
7.	Part sale of old asset and Purchase of new asset	Q. 21, 22	Q. 15 to Q. 19

Meaning and Definition of Depreciation

The term Depreciation has been derived from the Latin word 'Depretium' which means 'reduction'. As fixed assets possess long life, they lose value due to actual usage or wear and tear. This decline or reduction in the value of asset is known as depreciation. Thus, Depreciation may be described as a permanent, continuing and gradual reduction in the value of fixed assets because of usage or with time or due to obsolescence (outdated or not of use) or accident.
"Depreciation is defined as shrinkage in the value of an asset due to wear and tear, passage of time or obsolescence".
The actual income of the business enterprise can be ascertained only after the depreciation of assets for that particular year is charged to the revenues. Also, we cannot make provision for the replacement of the asset unless we charge the depreciation. Depreciation is charged every year whether the business concern is earning profits or not.
It may be noted that Land is an exception and it never depreciates. At times, its value appreciates.

Definitions:

i. "Depreciation is the gradual decrease in the value of an asset from any cause." – *R. N. Carter*

ii. "A measure of the wearing out, consumption or other loss of a value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes."
– *The Institute of Chartered Accountants of India* (ICAI)

iii. "Depreciation is the allocation of the depreciable amount of an asset over its estimated useful life. Depreciation for the accounting period is charged to income either directly or indirectly."
– *The International Accounting Standard Committee* (ICAC)

Causes and Importance

Causes of Depreciation:

i. Normal and Natural Wear and Tear: Normal and natural wear and tear or actual use of Fixed Assets results in the reduction in its value. Higher the use of an asset, higher the wear and tear.

ii. Passage of Time: Even if a Fixed Asset is not being put to use, it gets depreciated due to passage of time, e.g. patents, trademarks, copyrights, leases, software, designs, etc.

iii. Obsolescence: Whenever there is a technological development or when the techniques of production change, the old assets become obsolete or out-dated and this results in reduction in their values. It is called obsolescence, e.g. Computer, Television, Printing machines, etc.

iv. Depletion: To deplete means to empty. Depletion takes place in case of assets such as forests, oil-wells, mines, quarries, etc.

v. **Natural Calamities/Impairment of an Asset:** The price of fixed assets decreases due to natural calamities such as earthquakes, storms, cyclones, fire, floods or accidents, etc. which cause damages to the Fixed assets and their price reduces.

vi. **Invention:** When the new machines or assets are invented, the utility of the earlier assets or machines reduces and hence their value reduces. E.g. When in the market, iPhone 8 was launched, the market value of iPhone 7 reduced.

vii. **Market Value:** Market Value of an asset changes according to the prevailing conditions. Hence, depreciation also changes. If the market value of an asset decreases then it causes depreciation.

Need and Importance of Depreciation:

i. Depreciation is Cost/Loss to the business. Hence, it needs to be charged to Profit and Loss Account so as to calculate the actual profit for a particular period. It is a non-cash expenditure. It is a Nominal Account.

ii. If the depreciation is not charged, then the asset will appear overvalued in the books of accounts and will not give the true picture. Hence, the reduction in the value of assets needs to be recorded in the books.

iii. When the fixed asset is required to be replaced at the end of its life, a huge sum of money is required. This amount cannot be raised all of a sudden unless planned properly. The business needs to make a provision for the replacement of the asset. Otherwise, it may fall short of funds at the time of buying the new asset. Hence, depreciation is necessary to make provision for the funds and the asset can be replaced easily.

iv. It is required to calculate and pay the correct amount of tax to the Government.

Factors Affecting Depreciation

There are various factors that affect the amount of depreciation. They are listed as follows:

i. **Cost of the Asset:** The total cost of asset includes the purchase price, less any trade discount plus all the costs such as freight, transport charges, installation charges, wages for erection, fixation charges, etc. that are essential to bring the asset to a usable condition. In other words, the total cost of asset includes everything from purchase price to the installation.

ii. **Estimated Terminal or Scrap or Residual Value:** Scrap value refers to the residual value of an asset which can be realized after the expiry of the useful working life of the asset. Depreciation should be determined after deducting the estimated scrap value from the cost of asset.

iii. **Useful or Estimated Economic Life of Assets:** Every asset has a certain useful life which may be calculated in terms of years. An asset may exist physically but not be able to give same productive output at a reasonable cost. The longer the working and useful life, lower will be the amount of depreciation and vice versa. Hence, useful life is considered as more important as compared to physical life of an asset. Therefore, the useful life of an asset is generally to be taken in terms of asset's expected use. This estimated useful life of asset determines the rate or the amount of depreciation.

Methods of Computation of Depreciation

There are different methods for charging depreciation according to the nature, use and necessity of an asset. Following are the methods of computing depreciation:

i. Straight Line Method/ Original Cost Method/ Fixed Instalment Method

ii. Written Down Value Method/ Reducing Balance Method / Diminishing Balance Method

iii. Annuity Method

iv. Depreciation Fund Method

v. Revaluation Method

vi. Insurance Policy Method

vii. Machine Hour Rate Method, etc.

[***Note:*** *Out of the above listed methods, only the first two methods are prescribed in the XI syllabus and hence, only these two methods are explained.*]

i. Straight Line Method/ Original Cost Method/ Fixed Instalment Method: This is the most widely used method of providing depreciation. This method is very simple to execute. Under this method, depreciation is charged at a fixed percentage of the original cost of the asset. Thus, a fixed amount is written off every year, so as to reduce the value of asset to nil or to its scrap value at the end of its estimated life.

The amount of depreciation is obtained by deducting the scrap value, if any, from the original cost of the asset and then dividing by the number of years of its expected life. The amount chargeable in respect of depreciation under this method remains constant from year to year.

Such method is called **Straight Line Method** for the reason that if the amount of depreciation and corresponding time period is plotted on a graph, it will result in a straight line.

It is also called **Fixed Instalment Method** as the annual charge of depreciation remains constant or fixed from year to year over the useful life of the asset.

It is also called as **Original Cost Method** as the depreciation is charged on original cost every year.

The depreciation is calculated by using the following formula:

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

Here, Original cost of Asset = Purchasing price of an Asset + Incidental Charges, etc

For example:

A machine costing ₹ 18,000 is purchased and installation charges of ₹ 3000 are paid. Estimated life of the asset is 10 years and the Scrap Value is estimated to be ₹ 1,000 at the end of its life. The amount of depreciation would be:

$$\text{Depreciation (p.a.)} = \frac{(18000 + 3000) - 1000}{10}$$

$$= \frac{20000}{1000}$$

= ₹ 2,000 p.a.

Depreciation can also be calculated using the formula when the rate at which the depreciation is to be charged is known.

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

For example:

The Original cost of an asset is ₹ 1,00,000 and the depreciation is charged @ 10% p.a. at Fixed Instalment Method, then the amount of depreciation will be computed as follows.

	Calculation of Depreciation	Depreciation p.a. (₹)	W.D.V at the end of the year (₹)
Year 1	1,00,000 x 10/100 = ₹ 10,000 p.a.	10,000	90,000
Year 2	1,00,000 x 10/100 = ₹ 10,000 p.a.	10,000	80,000
Year 3	1,00,000 x 10/100 = ₹ 10,000 p.a.	10,000	70,000

Here the amount of depreciation remains same for all the years.

If these figures are plotted on a graph, the curve will be parallel to X-axis.

At the time of calculation of depreciation amount, the period for which the asset is used in the business during the current Accounting year should be considered. E.g. An asset is purchased on 1st October then it is used in the business for only 6 months during the particular accounting year. Hence, depreciation will be charged only for 6 months (from 1st October to 31st March).

ii. Written Down Value Method: Under this method, asset is depreciated at a certain percentage and is calculated on the debit balance of the asset. The value of asset diminishes year after year on account of depreciation. The amount of depreciation charged every year is not fixed as the opening balance of each asset every year goes on decreasing. This further reduces the amount of depreciation. In other words, the rate of depreciation remains constant throughout the life of the asset whereas the amount of depreciation to be charged goes on decreasing. Thus, high amount of depreciation is charged in the initial period which gradually lowers in the subsequent periods. If the amount of depreciation and corresponding time period is plotted on a graph, it will result in a line that slopes downwards from left to right.

In this method the depreciation is charged on the original cost in the first year. However, from the next year it is charged on the written down value of the asset. Hence this method is known as "Written Down Value Method".

Since the value of depreciation goes on reducing every year, it is also known as "Reducing Balance Method" or "Diminishing Balance Method".

For example:

The Original Cost of an asset is ₹ 1,00,000, and the depreciation is charged @ 10% p.a. under Written Down Value Method, then the amount of depreciation will be computed as follows:

	Calculation of Depreciation	Depreciation p.a. (₹)	W.D.V at the end of the year (₹)
Year 1	1,00,000 x 10/100 = ₹ 10,000	10,000	90,000
Year 2	90,000 x 10/100 = ₹ 9,000	9,000	81,000
Year 3	81,000 x 10/100 = ₹ 8,100	8,100	72,900

Thus, it can be seen that the amount of depreciation goes on reducing year after year. It is charged on the opening balance of every year.

If these figures are plotted on a graph it will give a curve that slopes downwards from left to right.

Difference between Straight Line Method and Written Down Value Method

	Straight Line Method	Written Down Value Method
	Meaning	
i.	Under this method, depreciation is charged at fixed percentage on the original cost of the asset, throughout its estimated life.	Under this method, asset is depreciated at fixed percentage and is calculated on the debit balance of the asset which is diminishing year after year on account of depreciation.
	Charge	
ii.	Depreciation is charged on original cost.	Depreciation is charged on the reduced value (Written Down Value of the asset).
	Value of Asset	
iii.	Value of asset becomes nil or zero at the end of its useful life.	Value of asset never becomes zero.
	Amount of Depreciation	
iv.	Amount of depreciation remains same for all the years.	Amount of depreciation goes on reducing every year.
	Acceptability and Recognition	
v.	Such type of method is not recognised by any law.	Such type of method is recognized by Law.
	Suitability	
vi.	Such type of method is preferred when repair charges are less and the possibility of obsolescence is low.	Such type of method is preferred when repair charges are more in later years and possibility of obsolescence also exists.
	Profits	
vii.	Profits are more in the earlier years of the life of the asset than later years.	Profits are less during the earlier years of the life of the asset than the later years.
	Depreciation Curve	
viii.	Under straight line method the curve is parallel to X-Axis.	Under written down value method the curve slopes downwards from left to right.

Accounting Treatment of Depreciation

Following are the Journal Entries to be passed for depreciation. They are same for both the Straight Line Method and Written Down Value Method.

Date	Particulars	L.F.	Debit ₹	Credit ₹
a.	**For Purchase of Asset for Cash**			
	Asset A/c Dr. To Cash / Bank A/c (Being asset purchased and payment made in cash)		xxx	 xxx
b.	**For Purchase of Asset on Credit**			
	Asset A/c Dr. To supplier's / Party's A/c (Being asset purchased on credit from _________)		xxx	 xxx
c.	**For payment of Installation Charges etc.**			
	Asset A/c Dr. To Cash / Bank A/c (Being expenses or installation charges paid)		xxx	 xxx
d.	**For charging Depreciation**			
	Depreciation A/c Dr. To Asset A/c (Being depreciation provided on asset at _____% p.a.)		xxx	 xxx
e.	**For transfer of Depreciation to Profit & Loss Account**			
	Profit & Loss A/c Dr. To Depreciation A/c (Being balance on depreciation account transferred to profit & loss account)		xxx	 xxx
f.	**For Sale Proceeds of Asset (sale at Book value)**			
	Depreciation A/c Dr. To Asset A/c (Being depreciation charged on the asset sold)		xxx	 xxx
	Bank A/c Dr. To Asset A/c (Being sale proceeds on sale of asset)		xxx	 Xxx
g.	**For Sale Proceeds of Asset (at Profit) & Transfer of Profit to Profit and Loss A/c**			
	Depreciation A/c Dr. To Asset A/c (Being depreciation charged on the asset sold)		xxx	 xxx
	Bank A/c Dr. To Asset A/c (WDV) To Profit on Sale of Asset A/c (Being asset has been sold at profit)		xxx	 xxx xxx
	Profit on Sale of Asset A/c To Profit and Loss A/c Dr. (Being profit on sale of asset transferred to profit and loss account)		 xxx	 xxx

h.	For Sale Proceeds of Asset (at Loss) & For transfer of Loss on Sale of Asset to Profit & Loss Account			
	Depreciation A/c Dr. To Asset A/c (Being depreciation charged on the asset sold)		xxx	 xxx
	Bank A/c Dr. Loss on Sale of Asset A/c Dr. To Asset A/c (WDV) (Being asset sold at loss)		xxx xxx	 xxx
	Profit & Loss A/c Dr. To Loss on Sale of Asset A/c (Being loss on sale of asset transferred to profit & loss account)		xxx	 xxx
			xxx	**xxx**

[Note: Please scan the given QR code in *Quill - The Padhai App* to go through the Illustrative Example of Depreciation by Straight Line Method.**]**

[Note: Please scan the given QR code in *Quill - The Padhai App* to go through the Illustrative Example of Depreciation by Written Down Value Method.**]**

Activities from Textbook

1. Vaidhi & Co Bhandup purchased five Computers on various dates which were as follows.
On 1st April, 2015 - ₹ 1,00,000; On 1st July, 2015 - ₹ 30,000.
On 30th September, 2015 - ₹ 80,000; On 1st January, 2016 - ₹ 50,000.
On 31st March, 2016 - ₹ 40,000
Calculate the amount of depreciation for the above five Computers for the year ended 31st March 2016 @ 10% p.a. *(Textbook page no. 247)*

Ans:

Date of Purchase	1st Apr 2015 ₹	1st July 2015 ₹	30th Sept 2015 ₹	1st Jan 2016 ₹	31st Mar 2016 ₹
Number of months in the Business during the year	12	9	6	3	0
Amount (₹)	1,00,000	30,000	80,000	50,000	40,000
Depreciation	10,000	2,250	4,000	1,250	0

2. Rajeev Industries Chiplun Purchased a Machinery on 1st July, 2016 at cost ₹ 40,000. The rate of depreciation is 12% p.a.
Calculate the amount of depreciation for First (3) three years under Straight Line Method and Written Down Value Method. *(Textbook page no. 247)*

Ans:

Calculation of Depreciation	Straight line Method (₹)	Written Down value Method (₹)
Cost on 1st July 2016	40,000	40,000
Less: Depreciation for [2016-17]	3,600	3,600
WDV as on 31st Mar 2017	36,400	36,400
Less: Depreciation for [2017-18]	4,800	4,368
WDV as on 31st Mar 2018	31,600	32,032
Less: Depreciation for [2018-19]	4,800	3,844
WDV as on 31st Mar 2019	26,800	28,188

3. Home Appliances: Electric Products - Mobile and Washing Machine. Which asset would have higher depreciation compared to others? *(Textbook page no. 247)*

Ans: The depreciation depends on factors such as wear & tear with usage, passage of time, obsolescence etc. Considering this Mobiles will have higher depreciation as the usage is continuous. Also, there is a continuous technological upgradation in mobile industry due to which the mobiles become obsolete almost every year.

Textual Problems

Straight Line Method: Purchase of asset

Q.1. 'SIDDHI' Ltd Ratnagiri purchased a Machinery costing ₹ 2,00,000 on 1st April, 2015.

Depreciation is charged @10% on Original Cost each year on 31st March.

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

Q.2. On 1st April 2015 Farid of Nasik purchased a Motor Car for ₹ 55,000. The scrap value of the Motor Car was estimated at ₹ 10,000 and its estimated life is 10 years. The registration charges of the Motor Car was ₹ 5,000.

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

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

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

Straight Line Method: Sale of assets

Q.4. Prabhune and Sons Kolhapur, made Furniture for their own office on 1st October, 2015. For this they had spent ₹ 72,000 on Materials and ₹ 32,000 on Wages.

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

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

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

Q.5. On 1st April, 2016 M/s Punawala & Co. Latur. purchased Equipments of ₹ 50,000 against cheque. They decided to follow Fixed Instalment Method of depreciation. The life of the Equipments is estimated as 8 years and scrap-value of the Equipments at the end of its life is estimated as ₹ 2,000.

On 1st Jan, 2019 entire Equipment is sold for ₹ 35,000. The firm closes its Books of Accounts on 31st March, each year

Prepare Equipments A/c, pass Journal entries for third year and also calculate depreciation. (S)

Q. 6. On 1st Jan, 2017 Sai Industries Nagpur, purchased a Machine costing ₹ 1,65,000 and spent ₹ 15,000 for its installation charges. The estimated life of the Machine is to be 10 years and the scrap value at the end of its life would be ₹ 30,000. On 1st Oct, 2018 the entire Machine was sold for ₹ 1,50,000.

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

Straight Line Method: Sale of old asset and Purchase of new asset

Q.7. On 1st Jan, 2015 'SCON' Transports', Pune, purchased four Trucks for ₹ 25,000 each. Depreciation has been provided @10%p.a. using Straight Line Method.
On 1st Jan, 2016 one Truck was sold for ₹ 20,000. On 1st July, 2016 another Truck (purchased for ₹ 25,000 on 1st Jan, 2015) was sold for ₹ 22,000. A new Truck costing ₹ 40,000 was purchased on 1st Jan 2017.
You are required to prepare Trucks A/c and Depreciation A/c for first three years assuming that books of accounts are closed on 31st March each year. (S)

Q.8. M/s Rubina Traders, Sindhudurg, bought Furniture worth ₹ 30,000 on 1st April, 2016 and additional Furniture on 1st October, 2016 worth ₹ 20,000. They charged depreciation at 15% p.a. on Fixed Instalment Basis.
On 1st October, 2018 they sold one Cupboard for ₹ 5,000 Original cost of which on 1st April, 2016 was ₹ 10,000. On the same date, a new Cupboard was purchased for ₹ 15,000.
Show the Furniture A/c and Depreciation A/c for the years 2016-17, 2017-18 and 2018-19 assuming that the financial year closes on 31st March every year. (S)

Q.9. M/s Amir Agency Solapur showed a debit balance of ₹ 56,000 to Machinery A/c on 1st Oct, 2015. The Original Cost of the Machinery was ₹ 80,000.
On 1st April, 2016 M/s Amir Agency bought an additional Machinery of ₹ 45,000 and spent ₹ 5,000 for its installation. On 1st Oct, 2017 a part of the Machinery purchased on 1st April, 2016 was sold for ₹ 15,000 the Original Cost of which was ₹ 20,000.
M/s Amir Agency charged 10% depreciation on Fixed Instalment Basis and its financial year closes on 31st March every year.
Show Machinery A/c for the years 2015-16, 2016-2017 and 2017-18 and pass Journal Entries for Third year only. (S)

Q.10. Shubhangi Trading Company of Dombivli purchased Machinery for ₹ 86,000 on 1st Jan, 2016 and immediately spent ₹ 4,000 on its fixation and erection. On 1st Oct, 2016 additional Machinery costing ₹ 40,000 was purchased.
On 1st Oct, 2017 the Machinery purchased on 1st Jan, 2016 became obsolete and was sold for ₹ 70,000. On 1st July, 2017 a new Machine was also purchased for ₹ 45,000
Depreciation was provided annually on 31st March at the rate of 12% per annum on fixed instalment method.
Prepare Machinery Account for three years and pass Journal Entries for Third year i.e. 2017-2018. (P)

Q.11. Sameer & Company, Mumbai purchased a Machine worth ₹ 2,00,000 on 1st April, 2016. On 1st July 2017, the company purchased an additional Machine for ₹ 40,000.
On 31st March, 2019, the company sold the Machine purchased on 1st July, 2017 for ₹ 35,000. Company writes off depreciation at the rate of 10% on the original cost and the books of accounts are closed every year on 31st March.
Show the Machinery Account and Depreciation Account for the first three years ending 31st March, 2016-17, 2017-18 and 2018-19. (P)

Q.12. Samarth Manufacturing Co. Ltd, Aurangabad, purchased a New Machinery for ₹ 45,000 on 1st Jan, 2015 and immediately spent ₹ 5,000 on its fixation and erection. In the same year 1st July additional Machinery costing ₹ 25,000 was purchased. On 1st July, 2016, the Machinery purchased on 1st Jan, 2015, became obsolete and was sold for ₹ 40,000.
Depreciation was provided for annually on 31st March at the rate of 10% per annum on Fixed Instalment Method.
You are required to prepare Machinery Account for the year 2014 - 15, 2015 - 16, 2016-17. (P)

Written Down Value Method: Sale of asset

Q.13. Saurabh bought a Machine costing ₹ 1,15,000 on 1st April, 2016 and paid ₹ 5,000 towards its installation. He writes off depreciation @10% p.a. on Written Down Value Method every year. His books are closed on 31st March every year.

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

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

Written Down Value Method: Purchase of new asset

Q.14. M/s Omkar Enterprise Jalgaon acquired a Printing Machine for ₹ 75,000 on 1st Oct, 2015, and spent ₹ 5,000 on its transport and installation. Another Machine for ₹ 45,000 was purchased on 1st Jan, 2017. Depreciation is charged at the rate of 20% on Written Down Value Method, on 31st March every year.

Prepare Printing Machine Account for the first four years. (P)

Written Down Value Method: Sale of old asset and Purchase of new asset

Q.15. Sangam Trading Co. Buldhana purchased Vehicle on 1st April, 2016, costing ₹ 85,000 and spent ₹ 5,000 on its registration. On 30th Sept, 2016, additional Vehicle is purchased for ₹ 10,000.

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

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

Q.16. Sharmila Automobiles Ltd Thane. purchased a Machine for ₹ 80,000 on 1st July,2015. On 1st Oct, 2016, company purchased an additional Machine costing ₹ 30,000. On 31st March, 2018 the Machine purchased on 1st July, 2015 became obsolete and was sold for ₹ 65,000. Depreciation was provided annually on 31st March the rate of 10% per annum on the Reducing Balance Method.

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

Q.17. Kanchan Trading Centre. Dadar, purchased a Computer on 1st April, 2015 for ₹ 50,000. In the same year on 1st Oct additional Computer was purchased for ₹ 20,000. On 1st Oct, 2016 the Computer purchased on 1st April, 2015 was sold for ₹ 40,000 and on the same date new Computer was purchased for ₹ 24,000.

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

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

Q.18. Mahesh Traders Solapur purchased Furniture on 1st April, 2014, for ₹ 20,000. In the same year on 1st Oct, additional Furniture was purchased for ₹ 10,000

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

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

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

Q.19. Radhika-Masale' Amravati purchased a Plant on 1st Jan, 2015 for ₹ 80,000. A new Plant was also purchased for ₹ 60,000, installation expenses being ₹ 10,000 on 1st April, 2016. On 1st Jan, 2017, a new Plant was purchased for ₹ 20,000, by disposing-off the 1st Plant at ₹ 60,000.

Prepare Plant Account and Depreciation Account for 31st March, 2015, 31st March, 2016 and 31st March, 2017, assuming that the rate of depreciation was @10% on Diminishing Balance Method. (P)

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

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

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

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

Written Down Value Method: Part sale of old asset and Purchase of new asset

Q.21. M/s Janki Traders, Ratnagiri acquired a Building on 1st April, 2015 for ₹ 12,00,000. On 1st April, 2016, an extension was made to the above Building by spending ₹ 8,00,000.

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

On 31st March every year, they charged depreciation @10% under Diminishing Balance Method Prepare Building A/c and Depreciation A/c for three (3) years i.e 2015-16,2016-17 and 2017-18. **(S)**

Q.22. Vishal Company, Dhule, purchased Machinery costing ₹ 60,000 on 1st April, 2016. They purchased further Machinery on 1st October, 2017, costing ₹ 30,000 and on 1st July, 2018, costing ₹ 20,000. On 1st Jan, 2019, one-third of the Machinery, which was purchased on 1st April, 2016, became obsolete and it was sold for ₹ 18,000.

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

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

Homework Problems

Straight Line Method: Purchase of asset

Q.1. Following is the information provided by the sole proprietor, Mr. Aakash Seth.

i. On 1st Apr, 2016, he purchased machinery worth ₹ 1,00,000.

ii. On 1st July, 2016, he purchased machinery worth ₹ 50,000.

iii. On 1st Oct, 2017, another machinery was purchased for ₹ 75,000.

Depreciation is provided on Straight Line Method basis @ 10% per annum. He closes the books on 31st March every year.

Prepare Machinery Account and Depreciation Account for 3 years. Give journal entries as well.

Straight Line Method: Sale of assets

Q.2. On 1st Apr, 2009, Tantra Ltd. purchased a second hand machine for ₹ 80,000 and spent ₹ 20,000 on its installation. The scrap value at the end of its expected useful life of 4 years is estimated at ₹ 40,000. On 30th Sep 2011, the machine was sold for ₹ 50,000. Depreciation is charged on Original Cost Method.

Prepare Machinery Account and Depreciation Account for the years 2009-10, 2010-11 and 2011-12 assuming that the accounts are closed on 31st March every year.

Straight Line Method: Sale of old asset and Purchase of new asset

Q.3. M/s Bhagavati Traders, Nashik purchased a machinery for ₹ 90,000 on 1st Oct, 2016. They spent ₹ 10,000 for installation of the machinery. They decided to charge depreciation by following Fixed Instalment Method. The life of machinery is estimated to be 9 years and its scrap value at the end of its life is estimated to be ₹ 10,000. On 31st December, 2018 they sold out the machinery for ₹ 80,000. They purchased another machinery for ₹ 1,00,000 on the same day which had estimated life of 10 years.

They close the books of accounts on 31st March every year. You are required to prepare Machinery Account and Depreciation Account for the first, second and third year.

Q.4. Deluxe Company purchased a furniture worth ₹ 80,000 on 1st April, 2009 and additional furniture on 1st October, 2009 worth ₹ 60,000.
They charged depreciation at 15% p.a on Fixed Installment Basis.
On 1st October, 2011, they sold out furniture for ₹ 60,000 which was purchased on 1st April, 2009.
Prepare Furniture Account and Depreciation Account for the year 2009–10, 2010–11 and 2011–12 assuming that the financial year closes on 31st March every year.

Q.5. Sahil Bros. Kolhapur, purchased a machinery on 1st April 2008 for ₹ 47,000 and spent ₹ 3,000 for its installation. On 1st October, 2008, additional machinery costing ₹ 5,000 was purchased. On 1st July, 2009, the machinery purchased on 1st October, 2008 was sold for ₹ 3,000 and on the same date new machinery was purchased for ₹ 12,000.
They decided to provide depreciation @ 10% p.a. under Straight Line Method on 31st March every year.
Prepare Machinery Account and Depreciation Account for 3 years only.

Q.6. On 1st April, 2009, Mahindra & Company, Sangli purchased two Computers for ₹ 37,000. The fixation charges amounted to ₹ 3,000. They decided to provide depreciation on Computers @ 15% p.a under Fixed Installment Method.
On 1st October, 2011, one computer having original cost of ₹ 20,000 was sold for ₹ 15,000 and on the same date new Computer was purchased for ₹ 30,000.
Depreciation was provided annually on 31st March.
Show Computer Account for 2009–10, 2010–11, 2011–12.

Q.7. The Machinery Account shows a debit balance of ₹ 30,000 on 1st April, 2010 in the books of Ramesh Traders. The machinery was originally purchased on 1st October, 2007 for ₹ 40,000. On 1st April, 2010, a new machinery was purchased for ₹ 45,000. On 1st July, 2010, additional machinery was purchased for ₹ 16,000. On 31st December, 2010, the machinery which was purchased on 1st October, 2007, was sold for ₹ 24,500. On 31st March every year depreciation is charged @ 10% p.a. on original cost.
Prepare Machinery Account and Depreciation Account for the year 2010-11.

Q.8. Prakash Trading Company purchased a machine worth ₹ 77,600 and installed at a cost ₹ 2,400 on 1st October 2006. On 1st April 2007, an additional machine costing ₹ 40,000 was purchased. The machine purchased on 1st April 2007 having become obsolete and was sold for ₹ 22,000 on 1st October 2009, and a new machine worth ₹ 60,000 was purchased on 1st November 2009.
The depreciation was provided annually on 31st March @ 10% p.a. on Original Cost of machine.
Show Machinery Account for the year 2006–07, 2007–08, 2008–09 and 2009–10.

Written Down Value Method: Sale of asset

Q.9. Butterfly Ltd., purchased a second-hand machine for ₹ 58,000 and immediately spent ₹ 2,000 on its erection on 1st Jan, 2011. On 1st Oct, 2013, the machine was sold for ₹ 28,600. The depreciation was charged at 10% p.a. on Written Down Value Method.
The Company closes its accounts on 31st March every year.
Prepare Machinery Account and Depreciation Account for the years 2010-11, 2011-12, 2012-13 and 2013-14.

Written Down Value Method: Purchase of new asset

Q.10. M/s Harmeet Enterprises furnishes you with the following information:
i. Opening Balance in Furniture Account ₹ 1,00,000 on 1st Apr, 2007.
ii. On 1st July, 2007, purchased furniture worth ₹ 50,000.
iii. On 31th Dec, 2008 purchased additional furniture worth ₹ 80,000.
Depreciate furniture @ 10% p.a. on W.D.V. basis. The company closes its books on 31st March every year.
Prepare Furniture Account and Depreciation Account for the years 2007 - 08 and 2008 - 09.

Written Down Value Method: Sale of old asset and Purchase of new asset

Q.11. M/s Sagar Limited purchased a machinery for ₹ 3,00,000 on 1st April, 2008. Additional machinery was acquired for ₹ 3,00,000 on 30th September, 2009 and ₹ 50,000 on 1st April, 2011.
Machinery which was purchased on 30th September, 2009 was sold for ₹ 2,25,000 on 30th September, 2011.
You are required to give Machinery Account and Depreciation Account for the year ended 31st March, 2009, 31st March, 2010, 31st March, 2011 and 31st March, 2012, taking into account depreciation @ 10% p.a. on Written Down Value Method.

Q.12. Atul Traders, Ratnagiri purchased machinery for ₹ 1,47,000 on 1st April, 2008 and spent ₹ 3,000 on its fixation and erection. In the same year on 1st October, additional machinery costing ₹ 50,000 was purchased. On 1st October, 2010, the machinery purchased on 1st October, 2008 was sold for ₹ 35,000. On the same day Machinery was purchased for ₹ 1,00,000.
Depreciation was provided annually on 31st March @ 10% p.a. on Reducing Balance Method.
Prepare Machinery Account and Depreciation Account for 3 years.

Q.13. A second hand boiler was purchased on 1st Jan, 2015 from abroad worth ₹ 50,000 [Shipping and forwarding charges: ₹ 7,000, Import duty: ₹ 15,000, Installation and repair expenses: ₹ 3,000]. On 1st April, 2017 one more boiler was purchased for ₹ 1,00,000. On 31st Dec, 2017, boiler purchased on 1st Jan, 2015 was sold for ₹ 38,500. The company provides depreciation @ 10% p.a on Written Down Value Method.
The books of accounts are closed on 31st March every year.
Prepare Boiler Account and Depreciation Account for the years 2014-15, 2015-16, 2016-17, 2017-18.

Q.14. B. B. M. Ltd. purchased a machine costing ₹ 20,000 on 1st Jul, 2003 and spent ₹ 3,000 on its installation. On 1st Jan, 2004, the company purchased new machinery worth ₹ 12,000. On 30th Jun, 2005, the machinery purchased on 1st Jan, 2004 was sold for ₹ 8,000. On same day, another machine was purchased for ₹ 15,000. The company writes off depreciation @ 10% p.a. on W.D.V. basis.
Prepare Machinery Account and Depreciation Account for the years 2003-04, 2004-05 and 2005-06.

Written Down Value Method: Part sale of old asset and Purchase of new asset

Q.15. Sachin Associates purchased furniture for ₹ 40,000 on 1st April, 2008. On 1st July, 2010, a part of furniture was sold out for ₹ 4,000; the original cost of which on 1st April, 2008 was ₹ 8,000. It was decided to provide depreciation by Diminishing Balance Method @ 10% p.a. on 31st March every year.
You are required to prepare Furniture Account for first three years and also pass the journal entries.

Q.16. XYZ & Company, Jalgaon purchased a Building for ₹ 8,00,000 on 1st July 2007. On 1st April 2008 an extension was made to the above Building by spending ₹ 4,00,000. On 1st October 2009, half of the building was sold for ₹ 5,60,000 and brokerage at 2% of the selling price was paid. Depreciation is charged on 31st March every year @ 10% p.a. under Diminishing Balance Method.
Prepare Building Account and Depreciation Account for 2007–08, 2008–09 and 2009–10.

Q.17. Akshay purchased machinery worth ₹ 20,000 on 1st April, 2006. He charges depreciation @ 10% on Written Down Value Method on 31st March every year. On 1st July, 2008, he sold a part of the Machinery for ₹ 2,000, the original cost of which on 1st April, 2006 was ₹ 4,000.
Prepare Machinery Account for first four years and pass Journal entries for 3rd year i.e. 2008–09.

Q.18. Sinha Ltd., bought a machinery for ₹ 30,000 on 1st Apr, 2007. One more machinery was purchased on 1st Oct, 2007 costing ₹ 20,000. On 1st Jul, 2008, a new machinery for ₹ 10,000 was added to the existing machinery. On 1st Jan, 2009, 1/3rd of the machinery which was installed on 1st Apr, 2007 was sold for ₹ 8,000. Show the Machinery Account and Depreciation Account in the books of Sinha Ltd. for 2 years i.e. 2007-08 and 2008-09. The rate of depreciation is 10% p.a. on Reducing Balance Method on 31st March every year.

Q.19. On 1st Apr, 2000, Manoj Ltd., purchased machinery for ₹ 12,00,000 and on 1st Oct, 2001, one more machine worth ₹ 2,00,000. On 1st Jul, 2002 one of the part of the machine which had cost ₹ 50,000 on 1st Apr, 2000 was found to have become obsolete and sold for ₹ 27,000. Another machinery costing ₹ 80,000 was purchased on the same day.
Depreciation provided @ 15% p.a. on Written Down Value Method every years on 31st March.
Show Machinery Account and Depreciation Account for 2000-01, 2001-02, and 2002-03.

HOTS Problems

Q.1. M/s Rajesh agency showed a debit balance of ₹ 25,000 to Machinery A/c on 1st April, 2014. An additional machinery costing ₹ 30,000 was purchased by the agency on 1st October in the same year. One more machinery was purchased for ₹ 50,000 by the agency on 1st January 2016. On 1st July, 2016, a part of the machinery costing ₹ 15,000 on 1st April, 2014 was sold for ₹ 13,000 through a broker and 2.5 % brokerage on selling price was paid. On 31st March, 2017 agency sold out the machinery purchased on 1st October, 2014. for ₹ 28,000. Agency charges depreciation @ 15% on reducing balance method.
You are required to prepare Machinery A/c and Depreciation A/c for the period of 3 years from 1st April, 2014 to 31st March 2017, presuming that accounting year closes on 31st March year.

Q.2. M/s Ashok agency showed a debit balance of ₹ 66,000 to the Machinery A/c on 1st April, 2014. The original cost of machinery was ₹ 80,000. On 1st April 2015, Ashok agency bought an additional machinery of ₹ 58,000 and spent ₹ 2,000 for its installation. One more machinery costing ₹ 45,000 was purchased on 1st October, 2016. On 1st November, 2017 a part of machinery acquired on 1st April, 2015 was sold for ₹ 5,500, the original cost of which was ₹ 10,000. On 31st March, 2018 the agency sold out the machinery for ₹ 40,000 which was purchased on 1st Oct, 2016. Agency charged depreciation @ 20% p.a. on original cost.
Prepare Machinery A/c and Depreciation A/c for 2014-15, 2015-16, 2016-17, 2017-18, presuming that accounting year closes on 31st March year.

Objective Type Questions

(A) Answer in one sentence only.

1. What is depreciation? (T)

Ans: Depreciation refers to continuous, gradual and permanent reduction in the value of a fixed asset due to various factors such as wear and tear, passage of time etc.

2. Why depreciation is charged? (T)

Ans: Depreciation is charged as the true amount of profit or loss cannot be calculated without considering the depreciation, to record the correct value of asset in the books and to provide for funds at the time of replacement of asset.

3. Why depreciation is charged even in the year of loss? (T)

Ans: Depreciation is charged even though there is loss to the business as the reduction in the value of the asset pertaining to that year needs to be taken into account and true amount of profit or loss cannot be calculated without considering the same.

4. What factors are to be considered while charging depreciation?

Ans: Cost of Asset, estimated economic life of asset and estimated terminal value are the factors that are considered while charging depreciation.

5. What is a 'Scrap Value' of an asset? (T)

Ans: Scrap value refers to the residual value of an asset which can be realised after the expiry of the useful working life of the asset.

6. What is Fixed Installment Method? (T)

Ans: Fixed Installment Method is the method of charging depreciation in which the annual charge of depreciation remains constant from year to year over the useful life of the asset.

7. What is the formula to calculate depreciation by Straight Line Method? (T)

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

8. Why straight line method is also called as original cost method?

Ans: Straight Line Method is also called Original Cost Method as the depreciation is charged on original cost every year.

9. Which account is debited when expenses are paid on installation of Machinery? (T)

Ans: Machinery account is debited when the expenses are paid on installation of Machinery.

10. Which account is credited when depreciation is charged? (T)

Ans: The account of the relevant asset is credited when depreciation is charged.

11. To which account balance on Depreciation A/c is transferred? (T)

Ans: The balance on depreciation account is transferred to Profit & Loss Account at the end of every financial year.

12. Where is the profit or loss on sale of asset transferred? (T)

Ans: The profit or loss on sale of assets is transferred to the Profit and Loss Account.

(B) Write the Word / Term / Phrase which can substitute each of the following statements.

1.	A continuous, gradual and permanent reduction in the value of a fixed asset. **(T)**	Depreciation
2.	The type of asset on which depreciation is charged. **(T)**	Fixed Asset
3.	Expenses incurred for fixation of the new asset to bring it in working condition. **(T)**	Installation Charges
4.	The expenditure incurred for purchase, installation charges etc. of an asset. **(T)**	Cost of Asset
5.	The period for which the asset remains in working condition. **(T)**	Life period of asset
6.	The amount that a fixed asset is expected to realise on its disposal. **(T)**	Scrap Value
7.	The method of depreciation in which the total depreciation is equally spread over the life of the asset. **(T)**	Fixed Installment Method
8.	The method of depreciation in which the rate of depreciation is fixed but the amount of depreciation reduces every year. **(T)**	Reducing Balance Method
9.	The method of depreciation in which the value of asset can reach zero.	Fixed Installment Method
10.	Method of depreciation in which the value of asset cannot reach to zero value. **(T)** [Note: This question has been modified.]	Diminishing Balance Method
11.	Excess of Selling price of fixed asset over its Written Down Value. **(T)**	Profit on sale of Asset
12.	The method of depreciation which is not recognised by Tax/Law.	Fixed Installment Method

(C) Select most appropriate answer from the alternatives given below and rewrite the sentences.

1. Decrease in the value of fixed assets is known as ________. **(T)**
   a. Depreciation b. Appreciation
   c. Combination d. None of these

   Depreciation

2. Depreciation is charged only on ________ assets. **(T)**
   a. Fixed b. Current
   c. Non-performing d. Fictitious

   Fixed

3. The amount spent on installation of new machinery is a ________ expenditure. **(T)**
   a. Revenue b. Capital
   c. Deferred Revenue d. Income

   Capital

4. Depreciation arises because of ________.
   a. wear and tear b. inflation
   c. rise in the market price d. profit

   wear and tear

5. The amount that a fixed asset is expected to realise on its disposal is known as ________. **(T)**
   a. Book value b. Scrap value
   c. Market value d. Original value

   Scrap value

6. The amount of depreciation remains constant every year under________. **(T)**
   a. Straight Line Method b. Diminishing Balance Method
   c. Revaluation Method d. Insurance Policy Method

   Straight Line Method

7. The amount of depreciation reduces year after year under ________. **(T)**
   a. Fixed Installment Method b. Written Down Value Method
   c. Depreciation Fund Method d. Revaluation Method

   Written Down Value Method

8. Straight Line Method is also known as ________.
   a. Fixed Installment Method b. Fixed Investment Method
   c. Flexible Installment Method d. Flexible Investment Method

   Fixed Installment Method

9. The balance of depreciation account is transferred to ________. **(T)**
   a. Manufacturing A/c b. Trading A/c
   c. Profit & Loss A/c d. Balance sheet

   Profit & Loss A/c

(D) State whether the following statements are True or False with reasons.

1. Depreciation is charged on fixed assets. (T)

Ans: True

Reason:

The fixed assets possess long life and they lose value due to actual usage or wear and tear year after year. Hence to record this reduction in the value of asset and to provide for funds to replace the asset at the end of its life depreciation is charged.

2. Depreciation is charged on Current Assets only. (T)

Ans: False

Reason:

Depreciation is charged on Fixed Assets and not on current assets. Fixed assets have a long life and their value goes on reducing year after year due to wear and tear and passage of time which needs to be recorded in the books. Hence depreciation is required to be charged on Fixed Assets. Current assets usually last for short duration and hence there is no need to charge depreciation.

3. Depreciation is charged on Land.

Ans: False

Reason:

The value of land never goes down. In fact, many times it appreciates. Besides, area of land never increases or decreases. Hence depreciation is not charged on Land.

4. Depreciation increases the value of the asset. (T)

Ans: False

Reason:

Depreciation refers to continuous, gradual and permanent reduction in the value of a fixed asset due to various factors such as wear and tear, passage of time etc. Hence it does not increase the value of the asset. In fact it decreases the value of the asset.

5. It is not necessary to depreciate an asset if it is not in use. (T)

Ans: False

Reason:

Even if a Fixed Asset is not being put to use it gets depreciated due to passage of time. Hence even if it is not in use it is necessary to charge depreciation on it.

6. Depreciation need not be charged when business is making losses. (T)

Ans: False

Reason:

Depreciation is the reduction in the value of the Fixed assets which happens year on year. If it is not charged to the profit and loss account then the real profit or loss for that year cannot be ascertained. Hence it is charged even when a business is making losses so that the real figure of loss is ascertained.

7. Wages paid for installation of Machinery are debited to Wages A/c. (T)

Ans: False

Reason:

Wages paid for installation are the expenses which are required to bring the asset into usable condition. Hence, they are considered as a part of the cost of that asset and debited to the Asset's account. They are treated as capital expenditure and hence not debited to the wages account.

8. Balance of depreciation account is transferred to Profit & Loss A/c. (T)

Ans: True

Reason:

Depreciation is an expense pertaining to the particular year and hence it is transferred to the Profit and Loss account so that the real profit for that year can be calculated.

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

Ans: True

Reason:

For calculating the profit or loss on the sale of the asset, the written down value of the asset needs to be ascertained. The written down value can be ascertained only after the depreciation is charged. Hence, Profit or Loss on sale of fixed asset is ascertained only after charging depreciation.

(E) Complete the sentences.

1.	Depreciation is derived from a Latin word ________ **(T)**	Depretium
2.	Gradual and permanent decrease in the value of asset is known as ________ **(T)**	Depreciation
3.	Depreciation is charged on ________ asset. **(T)**	Fixed
4.	Wages paid for Installation / fixation of Machinery is debited to ________ account. **(T)**	Machinery
5.	The amount spent on installation of Machinery is a ________ expenditure. **(T)**	Capital
6.	________ is the value which an asset realises at the end of its useful life. **(T)**	Scrap Value
7.	Depreciation = $\frac{\text{Cost of asset Less\_\_\_\_\_\_\_\_}}{\text{Estimated Working Life of the Asset.}}$ **(T)**	Scrap Value
8.	In Fixed Installment System, the amount of depreciation is ________ every year. **(T)**	Constant
9.	In ________ method depreciation is charged every year on original cost of the asset.	Original Cost
10.	Under ________ system, the amount of depreciation changes every year. **(T)**	Diminishing Balance
11.	Depreciation Account is a ________ account. **(T)**	Nominal

(F) Do you agree or disagree with the following statements?

1.	Depreciation is non-cash expense. **(T)**	Agree
2.	Depreciation is a capital expenditure.	Disagree
3.	By charging depreciation on fixed assets, ascertainment of true and fair financial position is possible. **(T)**	Agree
4.	The rate of depreciation depends upon the life of fixed asset. **(T)**	Agree
5.	The terminal value of asset never affects the annual amount of depreciation. **(T)**	Disagree
6.	Under written down value method, the amount of depreciation goes on increasing.	Disagree
7.	Under written down value method, the Depreciation curve slopes parallel to 'X' axis. **(T)**	Disagree

(G) Correct and rewrite the following statements.

1. Depreciation is calculated on all assets. (T)

Ans: Depreciation is calculated on Fixed assets except Land.

2. Land is never appreciated, many a times it depreciates

Ans: Land is never depreciated, many a times it appreciates.

3. Residual value of an asset increases the amount of annual depreciation. (T)

Ans: Residual value of an asset decreases the amount of annual depreciation.

4. Under written down value method, depreciation is calculated on original cost of an asset. (T)

Ans: Under written down value method, depreciation is calculated on written down value of an asset.

5. Depreciation provided on asset is debited to asset account. (T)

Ans: Depreciation provided on asset is debited to depreciation account.

OR

Depreciation provided on asset is credited to asset account.

6. Profit on sale of asset is credited to asset account. (T)

Ans: Profit on sale of asset is credited to profit and loss account.

OR

Profit on sale of asset is debited to profit and loss account.

7. Under Written Down value method the curve slopes upwards from left to right.

Ans: Under Written Down value method the curve slopes downward from left to right.

(H) Find the odd one.

1. Cost of Asset, Profit on sale of asset, Estimated economic life of asset, Estimated terminal value

Ans: Profit on sale of asset

Reason:

Profit on sale of asset is not considered while charging depreciation whereas the others are the factors to be considered for charging depreciation.

(I) Calculate the following. (T)

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

Find out the amount of depreciation p.a.

Ans: Cost of machine = ₹ 23,000; Estimated life = 7 years; Scrap Value = ₹ 2,000

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

$$\therefore \quad \text{Depreciation} = \frac{23000 - 2000}{7000}$$

$$= ₹\ 3{,}000 \text{ p.a.}$$

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

Ans: Cost of computer = ₹ 40,000
Rate of depreciation = 8% p.a.

∴ Depreciation = Cost of computer × Rate of depreciation
= 40,000 × 8%
= 3,200 p.a.

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

Ans: Cost of Furniture = ₹ 2,80,000
Installation Cost = ₹ 20,000
Rate of depreciation = 6%
Calculation of Total Cost
Cost of Asset = Purchase Price + Installation cost
= 2,80,000 + 20,000 = 3,00,000
Depreciation (p.a.) = Cost of Asset × Rate of depreciation
= 3,00,000 × 6% = ₹ 18000
The asset was purchased on 1st October 2015.

∴ Depreciation for 6 months = $\frac{18,000}{2}$ = ₹ 9,000

∴ Depreciation on 31st March 2016 = ₹ 9,000

4. M/s Sitaram and Co. purchased a Machinery on 1st Jan, 2016 for ₹ 2,00,000. Company provides depreciation @ 10% p.a. on Reducing Balance Method on 31st March every year. Calculate written down value of Machinery as on 31st March, 2017.

Ans: Cost of Machinery = ₹ 2,00,000
Rate of depreciation = 10% p.a.

Particulars	Amount ₹
Cost on 1st Jan 2016	2,00,000
Less: 10% Depreciation for 2015-16 (3 months)	5,000
WDV on 31st March 2016	1,95,000
Less: 10% depreciation for 2016-17	19,500
WDV on 31st March 2017	1,75,500

∴ Written Down Value of Machinery on 31st March 2017 is (₹) 1,75,500

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

Ans: Cost of Machinery on 1st April 2015 = (₹) 10,000
Sales Value on 1st July 2016 = (₹) 3,000
Rate of Depreciation = 10% p.a. on original cost

Particulars	Amount ₹
Cost on 1st April 2015	10,000
Less: 10% depreciation for 2015-16	1,000
WDV on 1st April 2016	9,000
Less: 10% Depreciation upto sale (3 months)	250
WDV on date of sale	8750
Selling price	7000
Loss on Sale of Machinery	1750

∴ Loss on Sale of Machinery = ₹ 1,750

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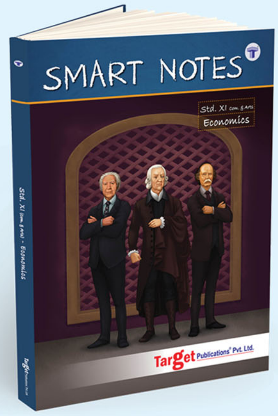

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