CHAPTER – 7

DEPRECIATION – PROVISION AND RESERVE

Page No 270:

Question 1: What is Depreciation?

ANSWER:

Every business acquires fixed assets for its use in the business over a period of time. As the benefits of these assets can be availed over a long period of time, thus, due to their regular use, there occurs continuous wear and tear and consequently fall in their value. This fall in the value of fixed assets, due to their regular use or expiry of time is termed as depreciation.

A machinery costing Rs 1,00,000 and its useful life is 10 years; so, depreciation is calculated as:

Annual Depreciation (p.a.) = $\frac{\text{Cost of Assets}}{\text{Expected or Estimated Life of Assets}}$

or, Annual Depreciation (p.a) = $\frac{100000}{10}$ = Rs 10000

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Question 2: State briefly the need for providing depreciation.

ANSWER:

The needs for providing depreciation are given below.

1. **To ascertain true net profit or net loss−** Correct profit or loss can be ascertained when all the expenses and losses incurred for earning revenues are charged to Profit and Loss Account. Assets are used for earning revenues and its cost is charged in form of depreciation from Profit and Loss Account.

2. **To show true and fair view of financial statements−** If depreciation is **not** charged, assets are shown at higher value than their actual value in the Balance Sheet; consequently, the Balance Sheet does **not** reflect true and fair view of financial statements.
3. **For ascertaining the accurate cost of production−** Depreciation on plant and machinery and other assets, which are engaged in production, is included in the cost of production. If depreciation is **not** included, cost of production is underestimated, which will lead to low sale price and thus leads to low profit.
4. **Distribution of dividend out of profit−** If depreciation is **not** charged, which leads to overestimating of profit and consequently more profit is distributed as dividend, out of capital instead of the profit. This leads to the flight of scarce capital out of the business.
5. **To provide funds for replacement of assets−** Unlike other expenses, depreciation is **not** a cash expense. So, the amount of depreciation charged will be retained in the business and will be used for replacement of fixed assets after its useful life.
6. **Consideration of tax−** If depreciation is charged, then Profit and Loss Account will disclose lesser profit as to when the depreciation is **not** charged. This depicts reduced profit and thus the business will be liable for lesser tax amount.

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Question 3: What are the causes of depreciation?

ANSWER:

Causes of Depreciation

- Constant Use
- Expiry of Time
- Obsolescence
- Expiry of Legal Right
- Accident
- Permanent Fall in Value

1. **Constant use−** Due to constant use of the fixed assets there exists normal wear and tear that leads to fall in the value of fixed assets.
2. **Expiry of time−** With the passage of time, whether assets are used or **not**, its effective life decreases. The natural forces like rain, weather, etc. lead to deterioration of the fixed assets.
3. **Obsolescence−** Due to the fast technological innovations and inventions today's assets may be outdated by tomorrow's sophisticated assets. This leads to the obsolescence of fixed assets.
4. **Expiry of legal rights−** If an asset is acquired for a specific period of time, then, whether the asset is put to use or **not**, its value becomes zero at the end of its useful life. For example, if a land is acquired for Rs 1,00,000 for 25 years on lease, then each year its value depreciates by $\frac{1}{25}^{\text{th}}$ of its gross value. At the end of the 25^{th} year, the value of the lease will be zero.
5. **Accident−** An asset may lose its value and damage may happen to it due to mishaps such as a fire accident, theft or a natural calamity. The loss due to accident is permanent in nature.
6. **Permanent fall in value−** Generally, we do **not** record fluctuations in the market price of the fixed assets in the books. However, if the fall in market price is permanent, it is accounted, which leads to a fall in the value of fixed assets in the books.

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Question 4: Explain basic factors affecting the amount of depreciation.

ANSWER:

Factor affecting amount of depreciation

- Total cost of asset
- Estimated useful life of assets
- Estimated scrape value

1. **Total cost of asset–** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The expenses incurred in acquiring, installing and constructing asset and bringing the asset to its usable condition are included in the total cost of asset.
2. **Estimated useful life–** Every asset has its useful life other than its physical life (in terms of number of years, units, etc.), used by a business. The useful life of an asset is considered to estimate the effective life of a fixed asset. For example, land has indefinite life; however, if business acquiress a piece of land on lease for 25 years, then the useful life of the piece of land is considered to be 25 years.
3. **Estimated scrap value–** It is estimated as the net realisable value or sale value of an asset at the end of its effective life. It is deducted from the total cost of an asset. For example, furniture is acquired at Rs 50,000 and its effective life is 10 years.

   After 10 years, the furniture will be sold at Rs 10,000. So, depreciation is charged as:

   Depreciation (p.a.) = $\frac{(50,000-10,000)}{10} = \frac{40,000}{100} =$ Rs. 4,000

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Question 5: Distinguish between straight line method and written down value method of calculating depreciation.

ANSWER:

Basis of Difference	Straight Line Method	Written Down Value Method
Basis for calculation	Depreciation is calculated on the original cost of an asset.	Depreciation is calculated on the reducing balance, i.e., the book value of an asset.
Amount of depreciation	Equal amount is charged each year over the effective life of the asset.	Diminishing amount of depreciation (on the written down value of asset) is charged each year over the effective life of the asset.
Book value of asset	Book value of the asset becomes zero at the end of its effective life.	Book value of the asset can never be zero.
Suitability	It is suitable for the assets like patents, copyright, land and buildings, etc., which have lesser possibility of obsolescence and lesser repair charges.	It is suitable for assets that needs more repair in the later years like, plant and machinery, car, etc.
Effect of depreciation and repair on profit and loss account	Unequal effect over the life of the asset, as depreciation remains same over the years but repair cost increases in the later years.	Equal effect over the life of the asset, as depreciation cost is high and repairs are less in the initial years but in the latter years the repair costs increase and depreciation cost decreases.
Recognition under Income Tax Act	It is **not** recognised under the income tax act.	It is recognised under the income tax act.

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Question 6: In case of a long term asset, repair and maintenance expenses are expected to rise in later years than in earlier year. Which method is suitable for charging depreciation if the management does not want to increase burden on profits and loss account on account of depreciation and repair.

ANSWER:

If the management does **not** want to exert undue burden on the profits due to high depreciation and repair costs in the latter years of the assets, then 'written down method' should be a preferred method to provide depreciation. This is because the cost of depreciation reduces; whereas, repair and maintenance expenses increase in the latter years. However, on the whole, it does **not** exert increasing burden on profits.

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Question 7: What are the effects of depreciation on profit and loss account and balance sheet?

ANSWER:

The effects of depreciation on Profit and Loss Account are given below.

1. Depreciation increases the debit side of profit and loss account and hence reduces net profit.
2. Depreciation increases the total expenses, leading to an excess of debit over credit balance.

The effects of depreciation on Balance Sheet are given below.

1. It reduces the original cost or book value of the concerned asset.
2. It reduces the overall balance of asset's column in the balance sheet.

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Question 8: Distinguish between provision and reserve.

ANSWER:

Basis of Difference	Provision	Reserve
Meaning	It is created to meet the known liability.	It is created to meet unknown liability.
Nature	Provision is charged against profit.	Reserve is appropriation of the profit.
Purpose	It is created for a specific liability.	It is created for strengthening the financial position.
Mode of creation	It is created by debiting the profit and loss account.	It is created by debiting the profit and loss appropriation account.
Use for payment of dividend	It **cannot** be used for payment of dividends.	It can be used for payment of dividends.
Creation	Creation of provision is compulsory. It is created even if there is **no** profit.	Creation of reserve depends on the discretion of the management. It is created only when there is profit.

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Question 9: Give four examples each of provision and reserves.

ANSWER:

Four examples of provision are given below.

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

Four examples of reserve are given below.

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

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Question 10: Distinguish between revenue reserve and capital reserve.

ANSWER:

Basis of Difference	**Revenue Reserve**	**Capital Reserve**
Source	It is created out of revenue profit, i.e., revenue earned from normal activities of business operations.	It is created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed assets, etc.
Dividend	It can be used for dividend.	It **cannot** be used for dividend.
Purpose	It is created for strengthening the financial position of the business.	It is created for the purpose laid down in the Companies Act.

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Question 11: Give four examples each of revenue reserve and capital reserves.

ANSWER:

1. Four examples of revenue reserve are given below.
    1. General Reserve
    2. Retained Earnings
    3. Dividend Equalisation Reserve
    4. Debenture Redemption Reserve
2. Four examples of capital reserve are given below.
    1. Issues of shares at premium
    2. Profit or issue of shares
    3. Sale of fixed assets
    4. Profit on redemption of debentures

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Question 12: Distinguish between general reserve and specific reserve.

ANSWER:

Basis of Difference	General Reserve	Specific Reserve
Meaning	When the reserve is created without any specified purpose, the reserve is called general reserve.	When reserve is created for some specific purpose, the reserve is called specific reserve.
Usage	It can be used for any purpose.	It **cannot** be used for any purpose other than the specified purpose for which it is created.
Examples	Retained earnings, reserve funds, etc.	Debenture redemption reserve, dividend equalisation reserve, etc.

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Question 13: Explain the concept of secret reserve.

ANSWER:

Reserves that are created by overstating liabilities or understating assets are known as secret reserves. They are **not** shown in the balance sheet. These reduce tax liabilities, as the liabilities are overstated. It is created by management to avoid competition by reducing profit. Creation of secret reserve is **not** allowed by Companies Act, 1956 that requires full disclosure of all material facts and accounting policies while preparing final statements.

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Question 1: Explain the concept of depreciation. What is the need for charging depreciation and what are the causes of depreciation?

ANSWER:

Every business acquires fixed assets for its use in the business over a period of time. As the benefits of these assets can be availed over a long period of time (due to their regular use), there exists continuous wear and tear and consequently fall in their value. This fall in the value of fixed assets (due to regular use or expiry of time) is termed as depreciation.

A machinery that costs Rs 1,00,000 and its useful life of 10 years, its depreciation will be calculated as:

Annual Depreciation (p.a.) = $\frac{\text{Cost of Asset}}{\text{Expected or Estimated Life of Asset}}$

or, Annual Depreciation (p.a.) = $\frac{100000}{10}$ = Rs. 10000

1. **To ascertain true net profit or net loss–** Correct profit or loss can be ascertained when all the expenses and losses incurred for earning revenues are charged to profit and loss account. Assets are used for earning revenues and its cost is charged in form of depreciation from profit and loss account.
2. **To show true and fair view of financial statements–** If depreciation is **not** charged, assets are shown at higher value than their actual value in the balance sheet; consequently, the balance sheet does **not** reflect true and fair view of financial statements.
3. **For ascertaining the accurate cost of production–** Depreciation on plant and machinery and other assets, which are engaged in production, is included in the cost of production. If depreciation is **not** included, cost of production is underestimated, which will lead to low sale price and thus leads to low profit.
4. **Distribution of dividend out of profit–** If depreciation is **not** charged, which leads to overestimating of profit and consequently more profit is distributed as dividend, out of capital instead of the profit. This leads to the flight of scarce capital out of the business.

5. **To provide funds for replacement of assets–** Unlike other expenses, depreciation is **not** a cash expense. So, the amount of depreciation charged will be retained in the business and will be used for replacement of fixed assets after its useful life.
6. **Consideration of tax–** If depreciation is charged, then profit and loss account will disclose lesser profit as to when the depreciation is **not** charged. This depicts reduced profit and thus the business will be liable for lesser tax amount.

Below are given the causes for depreciation.

Causes of Depreciation

- Constant Use
- Expiry of Time
- Obsolescence
- Expiry of Legal Right
- Accident
- Permanent Fall in Value

1. **Constant use–** Due to constant use of the fixed assets there exists normal wear and tear that leads to fall in the value of fixed assets.
2. **Expiry of time–** With the passage of time, whether assets are used or **not**, its effective life decreases. The natural forces like rain, weather, etc. lead to deterioration of the fixed assets.
3. **Obsolescence–** Due to the fast technological innovations and inventions today's assets may be outdated by tomorrow's sophisticated assets. This leads to the obsolescence of fixed assets.
4. **Expiry of legal rights–** If an asset is acquired for a specific period of time, then, whether the asset is put to use or **not**, its value becomes zero at the end of its useful life. For example, if a land is acquired for Rs 1,00,000 for 25 years on lease, then each year its value depreciates by $\frac{1}{25}^{th}$ of its gross value. At the end of the 25^{th} year, the value of the lease will be zero.

5. **Accident−** An asset may lose its value and damage may happen to it due to mishaps such as a fire accident, theft or a natural calamity. The loss due to accident is permanent in nature.
6. **Permanent fall in value−** Generally, we do **not** record fluctuations in the market price of the fixed assets in the books. However, if the fall in market price is permanent, it is accounted, which leads to a fall in the value of fixed assets in the books.

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Question 2: Discuss in detail the straight line method and written down value method of depreciation. Distinguish between the two and also give situations where they are useful.

ANSWER:

Straight Line method

It is a simple method of charging depreciation. Under this method, depreciation is charged on the original cost of an asset, at a fixed rate of percentage. In this method, amount of depreciation remains same from year to year and asset's value becomes zero at the end of its useful life.

Amount of depreciation is calculated as under:

$$\text{Annual Depreciation (p.a.)} = \frac{\text{Original cost} - \text{Estimated scrap value}}{\text{Estimated useful life of an asset}}$$

Advantages of Straight Line Method

1. It is simple to calculate.
2. Asset can be completely written off, i.e., asset can be depreciated until the net scrap value is zero.
3. Same amount of depreciation is charged every year. Therefore, it helps in easy comparison of Profit and Loss Account for different years.

4. It is used for assets that have low repairs and maintenance expenses and are continuously used over a period of time.

Limitations of Straight Line Method

1. Burden of deprecation is more on profit and loss account in the later years, when repair and maintenance costs increase, as asset becomes older.
2. Value of asset becomes zero in the books even if asset is still in usable condition in business.

Uses of Straight Line Method

1. This method is useful where repairs and maintenance expenses on asset are low.
2. It is also useful when an asset is continuously used from one year to another.
3. It is useful when the value of assets, such as patent, copyright, goodwill, etc., becomes zero

Written Down Value Method

This method is applicable where depreciation is charged on the diminishing balance, i.e., book value of the asset. In this method, asset's value goes on diminishing year after year and the amount of depreciation declines.

Rate of depreciation is calculated as follows:

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

Where,

R represents rate of depreciation

n represents expected useful life of the asset *s* represents the scrap value

c represents the cost of the asset

Advantages of Written Down Value Method

1. It is based on the logical assumption that asset is used more in the earlier years, so more cost is charged in form of depreciation.
2. It is suitable for the assets where repairs are more in the later years, as depreciation is lesser and on a whole the combined burden of depreciation and repairs exerts equal pressure on the net profit over years.
3. This method is accepted by the income tax authorities.
4. As more depreciation is charged in the earlier years, so the loss due to obsolescence of the asset is reduced.

Limitations of Written Down Value Method

1. It is difficult to calculate and is a time consuming process.
2. The value of an asset **cannot** be zero, thus the asset cannot be completely written off.
3. There arises shortage of funds for replacement of new asset. This happens due to the fact that the amount of depreciation is retained and used in the business. Consequently, at the end of the useful life of an old asset, business finds it difficult to arrange funds for its replacement.

Uses of Written Down Value Method

1. It is useful when assets have long life.
2. It is useful for those assets that require more repair and maintenance costs in the later years.
3. It provides easy calculation to provide depreciation of additional asset purchased during a year.

Difference between Straight Line Method and Written Down Value Method

Basis of Difference	Straight Line Method	Written Down Method
Basis for calculation	Depreciation is calculated on the original cost of an asset.	Depreciation is calculated on the reducing balance, i.e., the book value of an asset.
Amount of depreciation	Equal amount is charged each year over the effective life of the asset.	Diminishing amount of depreciation (on the written down value of asset) is charged each year over the effective life of the asset.
Book value of asset	Book value of the asset becomes zero at the end of its effective life.	Book value of the asset can never be zero.
Suitability	It is suitable for the assets like, patents, copyrights, land and buildings, etc., which have lesser possibility of obsolescence and lesser repair charges.	It is suitable for assets that needs more repairs and maintenance costs in the later years like, plant and machinery, car, etc.
Effect of depreciation and repair on profit and loss account	Unequal effect over the life of the asset, as depreciation remains same over the years but repair cost increases in the later years.	Equal effect over the life of the asset, as depreciation is high and repairs are less in the initial years but in the latter years the repair cost increases and depreciation cost decreases.
Recognition under Income Tax Act	It is **not** recognised under the Income Tax Act.	It is recognised under the Income Tax Act.

Question 3: Describe in detail two methods of recording depreciation. Also give the necessary journal entries.

ANSWER:

The two methods of recording depreciation are diagrammatically presented below.

Method of Recording of Depreciation

Charging Depreciation to Assets Accounts

Creating Provision for Depreciation

1. **Charging depreciation to Asset Account**− Under this method, depreciation is directly credited to the asset account and **no** separate account is prepared for provision of depreciation. Under this method, the original cost of an asset and the total amount of depreciation **cannot** be determined from the Balance Sheet, as the Asset Account appears at its written down value.

Journal entries for depreciation are given below.

When depreciation is charged to Assets Account

Depreciation A/c Dr.

To Assets A/c

(Depreciation charged to Assets Account)

Closing of Depreciation Account

Profit and Loss A/c Dr.

To Depreciation A/c

(Depreciation transferred to Profit and Loss Account)

2. **Creating Provision for Depreciation Account−** Under this method, depreciation is **not** credited to the Assets Account; in fact, it is credited to the provision for Depreciation Account. At the year end, asset is shown at the original cost in the Balance Sheet and total depreciation up to the date of Balance Sheet is shown as Provision for Depreciation Account.

Journal entries for depreciation are:

Charging Depreciation

Depreciation A/c Dr.

To Provision for Depreciation A/c

(Depreciation charged)

Closing of Depreciation Account

Profit and Loss A/c Dr.

To Depreciation A/c

(Depreciation account is transferred to Profit and Loss Account)

When the asset is sold, the accumulated depreciation on that asset is credited to the Asset Account by passing the following Journal entry:

Provision for Depreciation A/c Dr.

To Asset A/c

(Accumulated depreciation transferred to Assets Account)

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Question 4: Explain determinants of the amount of depreciation.

ANSWER:

Factor Affecting Amount of Depreciation

Total Cost of Asset

Estimated Useful Life of Assets

Estimated Scrape Value

1. **Total cost of asset−** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The expenses incurred in acquiring, installing and constructing of assets and bringing the assets to their usable condition are included in the total cost of asset.
2. **Estimated useful life−** Every asset having its useful life other than its physical life, in terms of number of years, units, etc. are considered to estimate the effective life of a fixed asset. For example, land has indefinite life; however, if business acquires a piece of land on lease for 25 years, it's useful life is considered to be 25 years.
3. **Estimated scrap value−** It is estimated as the net realisable value or sale value of an asset at the end of its effective life. It is deducted from the total cost of an asset. For example, furniture is acquired at Rs 50,000 with its effective life of 10 years.

   After 10 years, furniture will be sold at Rs 10,000. So, depreciation is charged as:

   $$\text{Depreciation (p.a)} = \frac{(50{,}000-10{,}000)}{10} = \frac{40{,}000}{100} = \text{Rs. } 4{,}000$$

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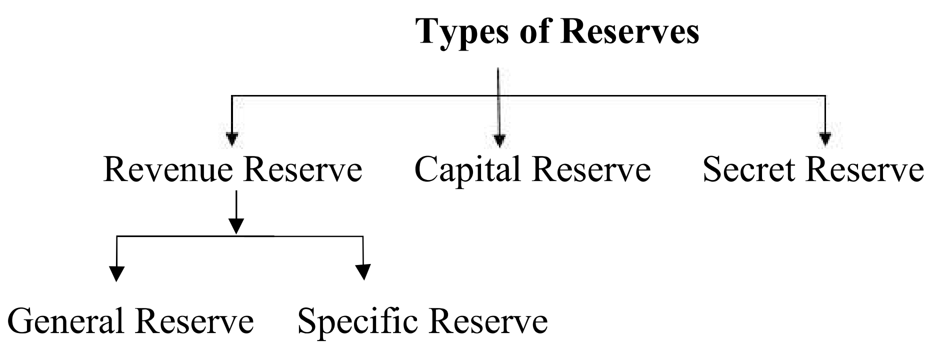
Question 5: Name and explain different types of reserves in details.

ANSWER:

Reserves– Reserves are created for strengthening the financial positions and future growth. It is created out of profit earned by business.

The broad classification of reserve is diagrammatically presented below.



1. **Revenue Reserve–** It is created out of revenue profit, i.e., revenue earned from normal activities of the business. It can be used for either general purpose or specific purpose. It is of two types:
   a. **General Reserve–** When the reserve is created **without** any specified purpose, then the reserve is called general reserve. It is a free reserve and so can be used for any purpose. It can also be used for future growth and expansion. For example, reserve funds, retained earnings, contingencies reserves, etc.
   b. **Specific Reserve–** When reserve is created for some specific purpose, then the reserve is called specific reserve.
   Examples of specific reserve are given below.
      i. Debenture Redemption Reserve
      ii. Investment Fluctuation Reserve
      iii. Dividend Equalisation Reserve
      iv. Workmen Compensation Fund

2. **Capital Reserve−** It is created out of capital profit, i.e., gain from other than normal activities of business operations, such as sale of fixed asset, etc. It is created to meet the capital loss. It **cannot** be distributed as dividend. The example of capital reserves is given below.
    i. Premium on issue of shares
    ii. Premium on issue of debentures
    iii. Profit on redemption of debentures
    iv. Profit on sale of fixed assets
    v. Profit on reissue of forfeited shares
    vi. Profit prior to incorporation
3. **Secret Reserves−** Reserves that are created by overstating liabilities or understating assets are known as secret reserves. They are **not** shown in the Balance Sheet. These reduce tax liabilities, as the liabilities are overstated. It is created by management to avoid competition by reducing profit. Creation of secret reserve is **not** allowed by Companies Act, 1956, which requires full disclosure of all materials facts and accounting policies, while preparing final statements.

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Question 6: What are provisions? How are they created? Give accounting treatment in case of provision for doubtful Debts.

ANSWER:

Provisions are the amount that is created against profit to meet the known liability; however, the amount of liability is uncertain. It is created for specific liability. Creation of provision is compulsory even if, there is **no** profit. The underlying principle behind creation of provision is *conservatism*, *viz*., to prepare for future loss. The main rationale for making provisions is to provide cushion to the future business performance against the uncertain and unforeseen losses that may arise from the past transactions. A few examples of provisions are given below.

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

Provisions are made by debiting the Profit and Loss Account on estimate basis. The provisions are created on the basis of past experiences. Every year, a business may experience common losses, such as depreciation of fixed assets, taxation, etc., which are although known; however, their exact amount of future period is unknown. Thus, business creates provision of certain percentage every year, which is truly based on the intuitions and past experiences. These unascertained liabilities in form of provisions are kept aside, which help future business activities, undisturbed from the future losses.

Accounting treatment for provision for doubtful debts is:

Profit and Loss A/c Dr.

To Provision for Doubtful Debts

(Provision for doubtful debt made)

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Question 1: On April 01, 2010, Bajrang Marbles purchased a Machine for Rs 1,80,000 and spent Rs 10,000 on its carriage and Rs 10,000 on its installation. It is estimated that its working life is 10 years and after 10 years its scrap value will be Rs 20,000.

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

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

ANSWER:

(a)

Books of Bajrang Marbles

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2010				2011			
Apr.01	Bank		2,00,000	Mar.31	Depreciation		18,000
	(1,80,0000 + 20,000)				Balance c/d		1,82,000
			2,00,000				2,00,000
2011				2012			
Apr.01	Balance b/d		1,82,000	Mar.31	Depreciation		18,000
				Mar.31	Balance c/d		1,64,000
			1,82,000				1,82,000
2012				2013			
Apr.01	Balance b/d		1,64,000	Mar.31	Depreciation		18,000
				Mar.31	Balance c/d		1,46,000
			1,64,000				1,64,000
2013				2014			
Apr.01	Balance b/d		1,46,000	Mar.31	Depreciation		18,000
				Mar.31	Balance c/d		1,28,000
			1,46,000				1,46,000

Working notes: Calculation of annual depreciation

$$\text{Depreciation (p.a.)} = \frac{(\text{Original cost} - \text{Scrap Value})}{\text{Estimated Life of Asset (years)}}$$

$$= \frac{(1{,}80{,}000+10{,}000+10{,}000-20{,}00)}{10}$$

$$= ₹18{,}000 \text{ per annum}$$

Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2011				2011			
Mar.31	Machinery		18,000	Mar.31	Profit and Loss		18,000
			18,000				18,000
2012				2012			
Mar.31	Machinery		18,000	Mar.31	Profit and Loss		18,000
			18,000				18,000
2013				2013			
Mar.31	Machinery		18,000	Mar.31	Profit and Loss		18,000
			18,000				18,000
2014				2014			
Mar.31	Machinery		18,000	Mar.31	Profit and Loss		18,000
			18,000				18,000

(b)

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2010				2011			
Apr.01	Bank		2,00,000	Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000
2011				2012			
Apr.01	Balance b/d		2,00,000	Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000
2012				2013			
Apr.01	Balance b/d		2,00,000	Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000
2013				2014			
Apr.01	Balance b/d		2,00,000	Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000

(b)

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2010 Apr.01	Bank		2,00,000	2011 Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000
2011 Apr.01	Balance b/d		2,00,000	2012 Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000
2012 Apr.01	Balance b/d		2,00,000	2013 Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000
2013 Apr.01	Balance b/d		2,00,000	2014 Mar.31	Balance c/d		2,00,000
			2,00,000				2,00,000

Provision for Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2011 Mar.31	Balance c/d		18,000	2011 Mar.31	Depreciation		18,000
			18,000				18,000
				2011 Apr.01	Balance b/d		18,000
2012 Mar.31	Balance c/d		36,000	2012 Mar.31	Depreciation		18,000
			36,000				36,000
				2012 Apr.01	Balance b/d		36,000
2013 Mar.31	Balance c/d		54,000	2013 Mar.31	Depreciation		18,000
			54,000				54,000
				2003 Apr.01	Balance b/d		54,000
2014 Mar.31	Balance c/d		72,000	2014 Mar.31	Depreciation		18,000
			72,000				72,000

Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011 Mar.31	Provision for Depreciation		18,000	2011 Mar.31	Profit and Loss		18,000
			18,000				18,000
2012 Mar.31	Provision for Depreciation		18,000	2012 Mar.31	Profit and Loss		18,000
			18,000				18,000
2013 Mar.31	Provision for Depreciation		18,000	2013 Mar.31	Profit and Loss		18,000
			18,000				18,000
2014 Mar.31	Provision for Depreciation		18,000	2014 Mar.31	Profit and Loss		18,000
			18,000				18,000

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Question 2: On July 01, 2010, Ashok Ltd. Purchased a Machine for Rs 1,08,000 and spent Rs 12,000 on its installation. At the time of purchase it was estimated that the effective commercial life of the machine will be 12 years and after 12 years its salvage value will be Rs 12,000.

Prepare machine account and depreciation Account in the books of Ashok Ltd. For first three years, if depreciation is written off according to straight line method. The account is closed on December 31st, every year.

ANSWER:

Books of Ashok Ltd.

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2010				2010			
Jul.01	Bank		1,20,000	Dec.31	Depreciation		4,500
				Dec.31	Balance c/d		1,15,500
			1,20,000				1,20,000
2011				2011			
Jan.01	Balance b/d		1,15,500	Dec.31	Depreciation		9,000
				Dec.31	Balance c/d		1,06,500
			1,15,000				1,15,500
2012				2012			
Jan.01	Balance b/d		1,06,500	Dec.31	Depreciation		9,000
				Dec.31	Balance c/d		97,500
			1,06,500				1,06,500
2013							
Jan.01	Balance b/d		97,500				

Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2010				2010			
Dec.31	Machinery		4,500	Dec.31	Profit and Loss		4,500
			4,500				4,500
2011				2011			
Dec.31	Machinery		9,000	Dec.31	Profit and Loss		9,000
			9,000				9,000
2012				2012			
Dec.31	Machinery		9,000	Dec.31	Profit and Loss		9,000
			9,000				9,000

Working Note:

Calculation of annual depreciation

$$\text{Depreciation (p.a.)} = \frac{(1{,}08{,}000 + 12{,}000 - 12{,}000)}{12 \text{ years}}$$

$$= \text{Rs } 9{,}000 \text{ per annum}$$

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Question 3: Reliance Ltd. Purchased a second hand machine for Rs 56,000 on October 01, 2011 and spent Rs 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for Rs 6,000 at the end of its useful life of 15 years. Moreover, an estimated cost of Rs 1,000 is expected to be incurred to recover the salvage value of Rs 6,000. Prepare machine account and Provision for depreciation account for the first three years charging depreciation by fixed Instalment Method. Accounts are closed on March 31, every year.

ANSWER:

Books of Reliance Ltd.
Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Oct.01	Bank		84,000				
				Dec.31	Balance c/d		84,000
			84,000				84,000
2012				2012			
Jan.01	Balance b/d		84,000				
				Dec.31	Balance c/d		84,000
			84,000				84,000
2013				2013			
Jan.01	Balance b/d		84,000				
				Dec.31	Balance c/d		84,000
			84,000				84,000

Provision for Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
				2011 Dec.31	Depreciation		1,316
2011 Dec.31	Balance c/d		1,316				
			1,316				1,316
				2012 Jan.01	Balance b/d		1,316
				Dec.31	Depreciation		5,267
2012 Dec.31	Balance c/d		6,583				
			6,583				6,583
				2013 Jan.01	Balance b/d		6,583
				Dec.31	Depreciation		5,267
2013 Dec.31	Balance c/d		11,850				
			11,850				11,850
				2014 Jan.01	Balance b/d		11,850

Working Note:

Calculation of annual depreciation

$$\text{Depreciation (p.a.)} = \frac{(56{,}000 + 28{,}000 - 6{,}000 + 1{,}000)}{15 \text{ years}}$$

$$= \text{Rs } 5{,}267 \text{ per annum}$$

Note: As per the solution, the balance of provision for depreciation account, as on March.31, 2015 is Rs 11,850; whereas, as per the book, it is Rs 18,200. However, if we ignore the scrap value and prepare provision for depreciation for 4 years, the answer would match to that of the book.

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Question 4: Berlia Ltd. Purchased a second hand machine for Rs 56,000 on July 01, 2015 and spent Rs 24,000 on its repair and installation and Rs 5,000 for its carriage. On September 01, 2016, it purchased another machine for Rs 2,50,000 and spent Rs 10,000 on its installation.

(a) Depreciation is provided on machinery @10% p.a on original cost method annually on December 31. Prepare machinery account and depreciation account from the year 2015 to 2018.

(b) Prepare machinery account and depreciation account from the year 2015 to 20018, if depreciation is provided on machinery @10% p.a. on written down value method annually on December 31.

ANSWER:

Books of Berlia Ltd.

(a)

Machinery Account (Original Cost Method)

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Jul.01	Bank (i) (5,600 + 24,000 + 5,000)		85,000	Dec.31	Depreciation		4,250
				Dec.31	Balance c/d		80,750
			85,000				85,000
2016				2016			
Jan.01	Balance b/d (i)		80,750	Dec.31	Depreciation (i) 8,500, (ii) 8,667		17,167
Sep.01	Bank (ii) (2,50,000 + 10,000)		2,60,000	Dec.31	Balance c/d (i) 72,250, (ii) 2,51,333		3,23,583
			3,40,750				3,40,750
2017				2017			
Jan.01	Balance b/d (i) 72,250, (ii) 2,51,333		3,23,583	Dec.31	Depreciation (i) 8,500, (ii) 26,000		34,500
				Dec.31	Balance c/d (i) 63,750, (ii) 2,25,333		2,89,083
			3,23,583				3,23,583
2018				2018			
Jan.01	Balance b/d (i) 63,750, (ii) 2,25,333		2,89,083	Dec.31	Depreciation (i) 8,500, (ii) 26,000		34,500
				Dec.31	Balance c/d (i) 55,250, (ii) 1,99,333		2,54,583
			2,89,083				2,89,083

Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015 Dec.31	Machinery		4,250	2015 Dec.31	Profit and Loss		4,250
			4,250				4,250
2016 Dec.31	Machinery (i) 8,500 (ii) 8,667		17,167	2016 Dec.31	Profit and Loss		17,167
			17,167				17,167
2017 Dec.31	Machinery (i) 8,500 (ii) 26,000		34,500	2017 Dec.31	Profit and Loss		34,500
			34,500				34,500
2018 Dec.31	Machinery (i) 8,500 (ii) 26,000		34,500	2018 Dec.31	Profit and Loss		34,500
			34,500				34,500

Working notes: Calculation of annual depreciation

(i) Depreciation (p.a.) on Machinery Purchased on July 01,2015

$$= (56{,}000 + 24{,}000 + 5{,}000) \times \frac{10}{100}$$

= Rs 8,500 per annum

(ii) Depreciation (p.a.) on Machinery purchased on September 01, 2016.

$$= (2{,}50{,}000 + 10{,}000) \times \frac{10}{100}$$

= Rs 26,000 per annum

(b)

Machinery Account (Written Down Value method)

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Jul.01	Bank (i) (5,600 + 24,000 + 5,000)		85,000	Dec.31	Depreciation		4,250
				Dec.31	Balance c/d		80,750
			85,000				85,000
2016				2016			
Jan.01	Balance b/d (i)		80,750	Dec.31	Depreciation (i) 8,075, (ii) 8,667		16,742
Sep.01	Bank (ii) (2,50,000 + 10,000)		2,60,000	Dec.31	Balance c/d (i) 72,675, (ii) 2,51,333		3,24,008
			3,40,750				3,40,750
2017				2017			
Jan.01	Balance b/d (i) 72,675, (ii) 2,51,333		3,24,008	Dec.31	Depreciation (i) 7,268, (ii) 25,133		32,401
				Dec.31	Balance c/d (i) 65,407, (ii) 2,26,200		2,91,607
			3,24,008				3,24,008
2018				2018			
Jan.01	Balance b/d (i) 65,407, (ii) 2,26,200		2,91,607	Dec.31	Depreciation (i) 6,540, (ii) 22,620		29,160
				Dec.31	Balance c/d (i) 58,867, (ii) 2,03,580		2,62,447
			2,91,607				2,91,607

Depreciation Account

Dr. | **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015 Dec.31	Machinery		4,250	2015 Dec.31	Profit and Loss		4,250
			4,250				4,250
2016 Dec.31	Machinery (i) 8,075, (ii) 8,667		16,742	2016 Dec.31	Profit and Loss		16,742
			16,742				16,742
2017 Dec.31	Machinery (i) 7,268, (ii) 25,133		32,401	2017 Dec.31	Profit and Loss		32,401
			32,401				32,401
2018 Dec.31	Machinery (i) 6,540, (ii) 22,620		29,160	2018 Dec.31	Profit and Loss		29,160
			29,160				29,160

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Question 5: Ganga Ltd. purchased a machinery on January 01, 2014 for Rs 5,50,000 and spent Rs 50,000 on its installation. On September 01, 2014 it purchased another machine for Rs 3,70,000. On May 01, 2015 it purchased another machine for Rs 8,40,000 (including installation expenses). Depreciation was provided on machinery @10% p.a. on original cost method annually on December 31. Prepare:

(a) Machinery account and depreciation account for the years 2014, 2015, 2016 and 2017.

(b) If depreciation is accumulated in provision for Depreciation account then prepare machine account and provision for depreciation account for the years 2014, 2015, 2016 and 2017.

ANSWER:

(a)

Books of Ganga Ltd.
Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2014				2014			
Jan.01	Bank (i) (5,50,000 + 50,000)		6,00,000	Dec.31	Depreciation (i) 60,000 (ii) 12,333		72,333
Sep.01	Bank (ii)		3,70,000	Dec.31	Balance c/d (i) 5,40,000, (ii) 3,57,667		8,97,667
			9,70,000				9,70,000
2015				2015			
Jan.01	Balance b/d (i) 5,40,000, (ii) 3,57,667		8,97,667	Dec.31	Depreciation (i) 60,000, (ii) 37,000, (iii) 56,000		1,53,000
May.01	Bank (iii)		8,40,000	Dec.31	Balance c/d (i) 4,80,000 (ii) 3,20,667, (iii) 7,84,000		15,84,667
			17,37,667				17,37,667
2016				2016			
Jan.01	Balance b/d (i) 4,80,000, (ii) 3,20,667 (iii) 7,84,000		15,84,667	Dec.31	Depreciation (i) 60,000, (ii) 37,000, (iii) 84,000		1,81,000
				Dec.31	Balance c/d (i) 4,20,000, (ii) 2,83,667,		

					(iii) 7,00,000		14,03,667
			15,84,667				15,84,667
2017 Jan.01	Balance b/d (i) 4,20,000, (ii) 2,83,667, (iii) 7,00,000		14,03,667	2017 Dec.31	Depreciation (i) 60,000, (ii) 37,000, (iii) 84,000		1,81,000
				Dec.31	Balance c/d (i) 3,60,000, (ii) 2,46,667, (iii) 6,16,000		12,22,667
			14,03,667				14,03,667

Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2014 Dec.31	Machinery		72,333	2014 Dec.31	Profit and Loss		72,333
			72,333				72,333
2015 Dec.31	Machinery		1,53,000	2015 Dec.31	Profit and Loss		1,53,000
			1,53,000				1,53,000
2016 Dec.31	Machinery		1,81,000	2016 Dec.31	Profit and Loss		1,81,000
			1,81,000				1,81,000
2017 Dec.31	Machinery		1,81,000	2017 Dec.31	Profit and Loss		1,81,000
			1,81,000				1,81,000

(b)

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2014				2014			
Jan.01	Bank (i) (5,50,000 + 50,000)		6,00,000	Dec.31	Balance c/d		
Sep.01	Bank (ii)		3,70,000				9,70,000
			9,70,000				9,70,000
2015				2015			
Jan.01	Balance b/d (i) 6,00,000 (ii) 3,70,000		9,70,000				
May.01	Bank (iii)		8,40,000	Dec.31	Balance c/d		18,10,000
			18,10,000				18,10,000
2016				2016			
Jan.01	Balance b/d (i) 6,00,000 (ii) 3,70,000 (iii) 8,40,000		18,10,000	Dec.31	Balance c/d		18,10,000
			18,10,000				18,10,000
2017				2017			
Jan.01	Balance b/d (i) 6,00,000 (ii) 3,70,000 (iii) 8,40,000		18,10,000	Dec.31	Balance c/d		18,10,000
			18,10,000				18,10,000

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Question 6: Azad Ltd. purchased furniture on October 01, 2014 for Rs 4,50,000. On March 01, 2015 it purchased another furniture for Rs 3,00,000. On July 01, 2016 it sold off the first furniture purchased in 2014 for Rs 2,25,000. Depreciation is provided at 15% p.a. on written down value method each year. Accounts are closed each year on March 31. Prepare furniture account, and accumulated depreciation account for the years ended on March 31, 2015, March 31, 2016 and March 31, 2017. Also give the above two accounts if furniture disposal account is opened.

ANSWER:

Books of Azad Ltd.
Furniture Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2014				2015			
Oct.01	Bank (i)		4,50,000				
2015				Mar.31	Balance c/d		7,50,000
Mar.01	Bank (ii)		3,00,000				
			7,50,000				7,50,000
2015				2016			
Apr.01	Balance b/d (i) 4,50,000, (ii) 3,00,000		7,50,000	Mar.31	Balance c/d		7,50,000
			7,50,000				7,50,000
2016				2016			
Apr.01	Balance b/d (i) 4,50,000, (ii) 3,50,000		7,50,000	July 01	Furniture Disposal		4,50,000
				2005			
				Mar.31	Balance c/d		3,00,000
			7,50,000				7,50,000

Accumulated Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015 Mar.31	Balance c/d		37,500	2015 Mar.31	Depreciation (i) 33,750, (ii) 3,750		37,500
			37,500				37,500
2016 Mar.31	Balance c/d		1,44,376	2015 Apr.01	Balance b/d		37,500
				2016 Mar.31	Depreciation (i) 62,438, (ii) 44,378		1,06,876
			1,44,376				1,44,376
2016 July.01	Furniture Disposal		1,09,456	2016 Apr.01	Balance b/d		1,44,376
2017 Mar.31	Balance c/d		85,960	July.01	Depreciation (i)		13,268
				2017 Mar.31	Depreciation (ii)		37,772
			1,95,416				1,95,416

Furniture Disposal Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Jul.01	Furniture		4,50,000	Jul.01	Accumulated Dep.		1,09,456
				Jul.01	Bank		2,25,000
				Jul.01	Profit and Loss (Loss)		1,15,544
			4,50,000				4,50,000

Working Note:

Furniture (i)

Years	Opening Balance		Depreciation			Closing Balance
2014 – 2015	4,50,000	–	33,750		=	4,16,250
2015 – 2016	4,16,250	–	62,438		=	3,53,812
2016	3,53,812	–	13,268	(3 months)	=	3,40,544
			1,09,456			

Balance on July 01, 2016	3,40,544
Less: Sale on July 01, 2016	(2,25,000)
Loss on sale of furniture	1,15,544

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Question 7: M/s Lokesh Fabrics purchased a Textile Machine on April 01, 2011 for Rs 1,00,000. On July 01, 2012 another machine costing Rs 2,50,000 was purchased. The machine purchased on April 01, 2011 was sold for Rs 25,000 on October 01, 2015. The company charges depreciation @15% p.a. on straight line method. Prepare machinery account and machinery disposal account for the year ended March 31, 2016.

ANSWER:

Books of M/s. Lokesh Fabrics
Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2012			
Apr.01	Bank (i)		1,00,000	Mar.31	Depreciation		15,000
				Mar.31	Balance c/d		85,000
			1,00,000				1,00,000
2012				2013			
Apr.01	Balance b/d		85,000	Mar.31	Depreciation		
July.01	Bank (ii)		2,50,000		(i) 15,000 + 28,125		43,125
				Mar.31	Balance c/d (i) 70,000, (ii) 2,21,875		2,91,875
			3,35,000				3,35,000
2013				2014			
Apr.01	Balance b/d (i) 70,000, (ii) 2,21,875		2,91,875	Mar.31	Depreciation (i) 15,000, (ii) 37,500		52,500
				Mar.31	Balance c/d (i) 55,000, (ii) 1,84,375		2,39,375
			2,91,875				2,91,875
2014				2015			
Apr.01	Balance b/d (i) 5,500, (ii) 1,84,375		2,39,375	Mar.31	Depreciation (i) 15,000, (ii) 37,500		52,500
				Mar.31	Balance c/d (i) 40,000, (ii) 1,46,875		1,86,875
			2,39,375				2,39,375
2015				2015			
Apr.01	Balance b/d			Oct.01	Depreciation		7,500
	(i) 40,000, (ii) 1,46,875		1,86,875	Oct.01	Machinery Disposal		32,500

				2016			
				Mar.31	Depreciation (ii)		37,500
				Mar.31	Balance c/d		1,09,375
			1,86,875				1,86,875

Machinery Disposal Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Oct.01	Machinery		32,500	Oct.01	Bank		25,000
				Oct.01	Profit and Loss		7,500
			32,500				32,500

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Question 8: The following balances appear in the books of Crystal Ltd, on Jan 01, 2015

	Rs
Machinery account on	15,00,000
Provision for depreciation account	5,50,000

On April 01, 2015 a machinery which was purchased on January 01, 2012 for Rs 2,00,000 was sold for Rs 75,000. A new machine was purchased on July 01, 2015 for Rs 6,00,000. Depreciation is provided on machinery at 20% p.a. on Straight line method and books are closed on December 31 every year. Prepare the machinery account and provision for depreciation account for the year ending December 31, 2015.

ANSWER:

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Jan.01	Balance b/d (13,00,000 + 2,00,000)		15,00,000	Apr.01	Machinery Disposal		2,00,000
Jul.01	Bank		6,00,000	Dec.31	Balance c/d		19,00,000
			21,00,000				21,00,000

Provision for Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Apr.01	Machinery Disposal		1,30,000	Jan.01	Balance b/d		5,50,000
Apr.01	Balance c/d		7,50,000	Apr.01	Depreciation		10,000
				Dec.31	Depreciation (i) 2,60,000, (ii) 60,000		3,20,000
			8,80,000				8,80,000

Working Note:

Machine Sold on July 01, 2015

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

Value on April 01, 2015	=	(70,000)
Less: Sale	=	75,000
Profit on sale of Machinery		5,000

Machinery Disposal Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Apr.01	Machinery		2,00,000	Apr.01	Provision for Depreciation		1,30,000
Apr.01	Profit and Loss (Profit)		5,000	Apr.01	Bank		75,000
			2,05,000				2,05,000

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Question 9: M/s. Excel Computers has a debit balance of Rs 50,000 (original cost Rs 1,20,000) in computers account on April 01, 2010. On July 01, 2010 it purchased another computer costing Rs 2,50,000. One more computer was purchased on January 01, 2011 for Rs 30,000. On April 01, 2014 the computer which has purchased on July 01, 2010 became obsolete and was sold for Rs 20,000. A new version of the IBM computer was purchased on August 01, 2014 for Rs 80,000. Show Computers account in the books of Excel Computers for the years ended on March 31 2011, 2012, 2013, 2014 and 2015. The computer is depreciated @10 p.a. on straight line method basis.

ANSWER:

Books of M/s Excel Computers

Computer Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2010				2011			
Apr.01	Balance b/d (i)		50,000	Mar.31	Depreciation		
Jul.01	Bank (ii)		2,50,000		(i) 12,000, (ii) 18,750,		
2011					(iii) 750		31,500
Jan.01	Bank (iii)		30,000	Mar.31	Balance c/d		
					(i) 38,000, (ii) 2,31,250, (iii) 29,250		2,98,500
			3,30,000				3,30,000
2011				2012			
Apr.01	Balance b/d			Mar.31	Depreciation		
	(i) 38,000, (ii) 2,31,250, (iii) 29,250		2,98,500		(i) 12,000 (ii) 25,000, (iii) 3,000		40,000
				Mar.31	Balance c/d		
					(i) 26,000 (ii) 2,06,250, (iii) 26,250		2,58,500
			2,98,500				2,98,500
2012				2013			
Apr.01	Balance b/d			Mar.31	Depreciation		
	(i) 26,000 (ii) 2,06,250, (iii) 26,250		2,58,500		(i) 12,000, (ii) 25,000, (iii) 3,000		40,000
				Mar.31	Balance c/d		
					(i) 14,000, (ii) 1,81,250,		

					(iii) 23,250		2,18,500
			2,58,500				2,58,500
2013 Apr.01	Balance b/d (i) 14,000, (ii) 1,81,250, (iii) 23,250		2,18,500	2014 Mar.31	Depreciation (i) 12,000, (ii) 25,000, (iii) 3,000		40,000
				Mar.31	Balance c/d (i) 2,000, (ii) 1,56,250, (iii) 20,250		1,78,500
			2,18,500				2,18,500
2014 Apr.01	Balance c/d (i) 2,000, (ii) 1,56,250, (iii) 20,250		1,78,500	2014 Apr.01	Bank (ii)		20,000
				Apr.01	Profit and Loss (Loss)		1,36,250
Aug.01	Bank (iv)		80,000	2015 Mar.31	Depreciation (i) 2,000, (iii) 3,000, (iv) 5,333		10,333
				Mar.31	Balance c/d (iii) 17,250, (iv) 74,667		91,917
			2,58,500				2,58,500

Note: As per the solution, the closing balance, as on 31st March, 2005 is Rs 91,917; however, as per the book it is Rs 83,917.

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Question 11: Saraswati Ltd. purchased a machinery costing Rs 10,00,000 on January 01, 2011. A new machinery was purchased on 01 May, 2012 for Rs 15,00,000 and another on July 01, 2014 for Rs 12,00,000. A part of the machinery which originally cost Rs 2,00,000 in 2011 was sold for Rs 75,000 on April 30, 2014. Show the machinery account, provision for depreciation account and machinery disposal account from 2011 to 2015 if depreciation is provided at 10% p.a. on original cost and account are closed on December 31, every year.

ANSWER:

Books of Saraswati Ltd.

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2011				2011			
Jan.01	Bank (i) (8,00,000 + 2,00,000)		10,00,000	Dec.31	Balance c/d		10,00,000
			10,00,000				10,00,000
2012				2012			
Jan.01	Balance b/d		10,00,000	Dec.31	Balance c/d		25,00,000
May.01	Bank (ii)		15,00,000				
			25,00,000				25,00,000
2013				2013			
Jan.01	Balance b/d		25,00,000	Dec.31	Balance c/d		25,00,000
			25,00,000				25,00,000
2014				2014			
Jan.01	Balance b/d		25,00,000	Apr. 30	Machinery Disposal		2,00,000
Jul.01	Bank (ii)		12,00,000	Dec.31	Balance c/d (i) 8,00,000 (ii) 15,00,000 (iii) 12,00,000		35,00,000
			37,00,000				37,00,000
2015				2015			
Jan.01	Balance c/d		35,00,000	Dec.31	Balance c/d		35,00,000
			35,00,000				35,00,000

Provision for Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2011				2011			
Dec.31	Balance c/d		1,00,000				
				Dec.31	Depreciation (i)		1,00,000
			1,00,000				1,00,000
2012				2012			
Dec.31	Balance c/d		3,00,000	Jan.01	Balance c/d		1,00,000
				Dec.31	Depreciation		
					(i) 1,00,000 (ii) 1,00,000 (8 months)		2,00,000
			3,00,000				3,00,000
2013				2013			
Dec.31	Balance b/d		5,50,000	Jan.01	Balance c/d		3,00,000
				Dec.31	Depreciation		2,50,000
			5,50,000		(i) 1,00,000 (ii) 1,50,000,		5,50,000
2014				2014			
Apr. 30	Machinery Disposal		66,667	Jan.01	Balance b/d		5,50,000
Dec.31	Balance c/d		7,80,000	Apr. 30	Depreciation		6,667
				Dec.31	Depreciation		
					(i) 80,000, (ii) 1,50,000, (iii) 60,000		2,90,000
			8,46,667				8,46,667
2015				2015			
Dec.31	Balance c/d		11,30,000	Jan.01	Balance c/d		7,80,000
				Dec.31	Depreciation		
					(i) 80,000, (ii) 1,50,000, (iii) 1,20,000		3,50,000
			11,30,000				11,30,000

Machinery Disposal Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount (₹)	Date	Particulars	J.F.	Amount (₹)
2014				2014			
Apr. 30	Machinery		2,00,000	Apr. 30	Provision for Depreciation		66,667
				Apr. 30	Bank		75,000
				Apr. 30	Profit and Loss (Loss)		58,333
			2,00,000				2,00,000

Working Note:

	Opening Balance		Depreciation		Closing Balance
2011	2,00,000	–	20,000	=	1,80,000
2012	1,80,000	–	20,000	=	1,60,000
2013	1,60,000	–	20,000	=	1,40,000
2014	1,40,000	–	6,667	=	1,33,333
	Accumulated Depreciation		66,667		

Value on Apr. 30, 2014	1,33,333
Sale on Apr. 30, 2014	– 75,000
Loss on sale	₹ 58,333

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Question 10: Carriage Transport Company purchased 5 trucks at the cost of Rs 2,00,000 each on April 01, 2011. The company writes off depreciation @ 20% p.a. on original cost and closes its books on December 31, every year. On October 01, 2013, one of the trucks is involved in an accident and is completely destroyed. Insurance company has agreed to pay Rs 70,000 in full settlement of the claim. On the same date the company purchased a second hand truck for Rs 1,00,000 and spent Rs 20,000 on its overhauling. Prepare truck account and provision for depreciation account for the three years ended on December 31, 2013. Also give truck account if truck disposal account is prepared.

ANSWER:

Books of Carriage Transport Company

Truck Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Apr.01	Bank		10,00,000	Dec.31	Balance c/d		10,00,000
			10,00,000				10,00,000
2012				2012			
Jan.01	Balance b/d		10,00,000	Dec.31	Balance c/d		10,00,000
			10,00,000				10,00,000
2013				2013			
Jan.01	Balance b/d		10,00,000	Oct.01	Truck Disposal		2,00,000
Oct.01	Bank		1,20,000	Dec.31	Balance c/d		9,20,000
			11,20,000				11,20,000

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Dec.31	Balance c/d		1,50,000	Dec.31	Depreciation		1,50,000
			1,50,000				1,50,000
2012				2012			
Dec.31	Balance c/d		3,50,000	Jan.01	Balance c/d		1,50,000
				Dec.31	Depreciation		2,00,000
			3,50,000				3,50,000
2013				2013			
Oct.01	Truck Disposal		1,00,000	Jan.01	Balance b/d		3,50,000
Oct.01	Balance c/d		4,46,000	Oct.01	Depreciation (9 Months)		30,000
				Dec.31	Depreciation (1,60,000 + 6,000)		1,66,000
			5,46,000				5,46,000

Truck Disposal Account

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2013				2013			
Oct.01	Truck		2,00,000	Oct.01	Provision for Depreciation		1,00,000
				Oct.01	Insurance Co. (Insurance Claim)		70,000
				Oct.01	Profit and Loss (Loss)		30,000
			2,00,000				2,00,000

Working Note:

Truck involved in accident

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

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

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Question 12: On July 01, 2011 Ashwani purchased a machine for Rs 2,00,000 on credit. Installation expenses Rs 25,000 are paid by cheque. The estimated life is 5 years and its scrap value after 5 years will be Rs 20,000. Depreciation is to be charged on straight line basis. Show the journal entry for the year 2011 and prepare necessary ledger accounts for first three years.

ANSWER:

Books of Ashwani
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2011 Jul.01	Machinery A/c Dr.		2,25,000	
	To Creditors for Machinery A/c			2,00,000
	To Bank A/c			25,000
	(Machinery bought on credit and Rs 25,000 paid for installation through cheque)			
2011 Dec.31	Depreciation A/c Dr.		20,500	
	To Machinery A/c			20,500
	(Depreciation charged on Machinery)			
2011 Dec.31	Profit and Loss A/c Dr.		20,500	
	To Depreciation A/c			20,500
	(Depreciation transferred to Profit and Loss Account)			
2012 Dec.31	Depreciation A/c Dr.		41,000	
	To Machinery A/c			41,000
	(Depreciation charged on Machinery)			
2012 Dec.31	Profit and Loss A/c Dr.		41,000	
	To Depreciation A/c			41,000
	(Depreciation transferred to Profit and Loss Account)			
2013 Dec.31	Depreciation A/c Dr.		41,000	
	To Machinery A/c			41,000
	(Depreciation charged on Machinery)			
2013 Dec.31	Profit and Loss A/c Dr.		41,000	
	To Depreciation A/c			41,000
	(Depreciation transferred to Profit and Loss Account)			

Ledger

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Jul.01	Creditors for Machinery		2,00,000	Dec.31	Depreciation		20,500
Jul.01	Bank		25,000	Dec.31	Balance c/d		2,04,500
			2,25,000				2,25,000
2012				2012			
Jan.01	Balance b/d		2,04,500	Dec.31	Depreciation		41,000
				Dec.31	Balance c/d		1,63,500
			2,04,500				2,04,500
2013				2013			
Jan.01	Balance c/d		1,63,500	Dec.31	Depreciation		41,000
				Dec.31	Balance c/d		1,22,500
			1,63,500				1,63,500

Working Note:

Calculation of annual depreciation

$$\text{Depreciation (p.a.)} = \frac{(2{,}00{,}000 + 25{,}000 - 20{,}000)}{5}$$

$$= \text{Rs } 41{,}000 \text{ per annum}$$

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Question 13: On October 01, 2010, a Truck was purchased for Rs 8,00,000 by Laxmi Transport Ltd. Depreciation was provided at 15% p.a. on the diminishing balance basis on this truck. On December 31, 2013 this Truck was sold for Rs 5,00,000. Accounts are closed on 31st March every year. Prepare a Truck Account for the four years

ANSWER:

Books of Laxmi Transport Ltd.

Truck Account

Dr. **Cr.**

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

Note: As per the solution, the profit on the sale of truck, as on December 31, 2013 is Rs 25,498; however, the answer given in the book is Rs 58,237.

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Question 14: Kapil Ltd. purchased a machinery on July 01, 2011 for Rs 3,50,000. It purchased two additional machines, on April 01, 2012 costing Rs 1,50,000 and on October 01, 2012 costing Rs 1,00,000. Depreciation is provided @10% p.a. on straight line basis. On January 01, 2013, first machinery become useless due to technical changes. This machinery was sold for Rs 1,00,000, prepare machinery account for 4 years on the basis of calendar year.

ANSWER:

Books of Kapil Ltd.

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Jul.01	Bank (i)		3,50,000	Dec.31	Depreciation (6 months)		17,500
				Dec.31	Balance c/d		3,32,500
			3,50,000				3,50,000
2012				2012			
Jan.01	Balance c/d		3,32,500	Dec.31	Depreciation		
					(i) 35,000 (ii) 11,250 (9		
Apr.01	Bank (ii)		1,50,000		months),		
Oct.01	Bank (iii)		1,00,000		(iii) 2,500 (3 months)		48,750
				Dec.31	Balance c/d		
					(i) 2,97,500, (ii) 1,38,750,		
					(iii) 97,500		5,33,750
			5,82,500				5,82,500
2013				2013			

Jan.01	(i) 2,97,500, (ii) 1,38,750, (iii) 97,500		5,33,750	Jan.01	Bank (i)		1,00,000
				Jan.01	Profit and Loss (Loss)		1,97,500
				Dec.31	Depreciation (ii) 15,000 (iii) 10,000		25,000
				Dec.31	Balance c/d (ii) 1,23,750, (iii) 87,500		2,11,250
			5,33,750				4,33,750
2014				2014			
Jan.01	Balance c/d (ii) 1,23,750, (iii) 87,500		2,11,250	Dec.31	Depreciation (ii) 15,000, (iii) 10,000		25,000
				Dec.31	Balance c/d (ii) 1,08,750, (iii) 77,500		1,86,250
			2,11,250				2,11,250
2015							
Jan.01	Balance b/d		1,86,250				

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

ANSWER:

Books of Satkar Transport Ltd.

Bus Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2011			
Jan.01	Bank		30,00,000	Dec.31	Depreciation		4,50,000
				Dec.31	Balance c/d		25,50,000
			30,00,000				30,00,000
2012				2012			
Jan.01	Balance b/d		25,50,000	Dec.31	Depreciation		3,82,500
				Dec.31	Balance c/d		21,67,500
			25,50,000				25,50,000
2013				2013			
Jan.01	Balance b/d		21,67,500	July.01	Depreciation (6 months)		54,187
July.01	Profit and Loss (Profit)		31,687	July.01	Insurance Co. (Insurance claim)		7,00,000
				Dec.31	Depreciation		2,16,750
				Dec.31	Balance c/d		12,28,250
			21,99,187				21,99,187
2014				2014			
Jan.01	Balance c/d		12,28,250	Dec.31	Depreciation		1,84,237
				Dec.31	Balance c/d		10,44,013
			12,28,250				12,28,250

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Question 16: On October 01, 2011 Juneja Transport Company purchased 2 Trucks for Rs 10,00,000 each. On July 01, 2013, One Truck was involved in an accident and was completely destroyed and Rs 6,00,000 were received from the insurance company in full settlement. On December 31, 2013 another truck was involved in an accident and destroyed partially, which was not insured. It was sold off for Rs 1,50,000. On January 31, 2014 company purchased a fresh truck for Rs 12,00,000. Depreciation is to be provided at 10% p.a. on the written down value every year. The books are closed every year on March 31. Give the truck account from 2011 to 2014.

ANSWER:

Books of Juneja Transport Company

Truck Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2011				2012			
Oct.01	Bank		20,00,000	Mar.31	Depreciation		1,00,000
				Mar.31	Balance c/d		19,00,000
			20,00,000				20,00,000
2012				2013			
Apr.01	Balance b/d		19,00,000	Mar.31	Depreciation		1,90,000
				Mar.31	Balance c/d		17,10,000
			19,00,000				19,00,000
2013				2013			
Apr.01	Balance b/d		17,10,000	Jul.01	Depreciation (3 Month on one Truck)		21,375
				Jul.01	Bank (Insurance Claim)		6,00,000
2014				Jul.01	Profit and Loss (loss)		2,33,625
Jan.31	Bank		12,00,000				
				Dec.31	Depreciation (9 Month on II Truck)		64,125
				Dec.31	Bank		1,50,000
				Dec.31	Profit and Loss (Loss)		6,40,875
				2014			
				Mar.31	Depreciation (2 Months)		20,000
				Mar.31	Balance c/d		11,80,000
			29,10,000				29,10,000

Note: As per solution, loss on truck one is as Rs 2,33,625; however, as per NCERT book, loss is of Rs 3,26,250.

<u>Truck – 1</u>

	Opening Balance	–	Depreciation	=	Closing Balance
Oct.01, 2011	10,00,000	–	50,000 (6 Months)	=	9,50,000
Apr.01, 2012	9,50,000	–	95,000	=	8,55,000
Apr.01, 2013	8,55,000	–	21,375 (3 Months)	=	8,33,625

Value on July 01, 2013	=	8,33,625
Insurance Claim	=	– 6,00,000
Loss on Truck – 1	=	Rs 2,33,625

<u>Truck – 2</u>

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

Value on Dec.31, 2013	=	7,90,875
Sale of Truck	=	– 1,50,000
Loss on Truck – 2	=	Rs 6,40,875

Cranes Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2017				2017			
Apr. 01	Machinery (35,00,000 + 5,00,000)		40,00,000	Oct. 01	Depreciation		25,000
Oct. 01	Profit and Loss (Profit)		47,500	Oct. 01	Bank		5,22,500
Oct. 01	Bank		9,00,000	Dec. 31	Depreciation $35,00,000 \times \frac{10}{100} \times \frac{9}{12} =$ 2,62,500 $9,00,000 \times \frac{10}{100} \times \frac{6}{12} =$ 22,500		2,85,000
				Dec.31	Balance c/d 32,37,500 + 8,77,500		41,15,000
			49,47,500				49,47,500

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Question 18: Shri Krishan Manufacturing Company purchased 10 machines for Rs 75,000 each on July 01, 2014. On October 01, 2016, one of the machines got destroyed by fire and an insurance claim of Rs 45,000 was admitted by the company. On the same date another machine is purchased by the company for Rs 1,25,000.

The company writes off 15% p.a. depreciation on written down value basis. The company maintains the calendar year as its financial year. Prepare the machinery account from 2014 to 2017.

ANSWER:

Books of Shri Krishna Manufacturing Company

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2014				2014			
Jul.01	Bank		7,50,000	Dec.31	Depreciation		56,250
				Dec.31	Balance c/d		6,93,750
			7,50,000				7,50,000
2015				2015			
Jan.01	Balance b/d		6,93,750	Dec.31	Depreciation		1,04,063
				Dec.31	Balance c/d		5,89,687
			6,93,750				6,93,750
2016				2016			
Jan.01	Balance b/d		5,89,687	Oct.01	Depreciation (9 months for one machine)		6,634
Oct.01	Bank		1,25,000	Oct.01	Insurance Co.		45,000
				Oct.01	Profit and Loss (Loss)		7,335
				Dec.31	Depreciation (i) 79,608, (ii) 4,688		84,296
				Dec.31	Balance c/d (i) 4,51,110, (ii) 1,20,312		5,71,422
			7,14,687				7,14,687
2017				2017			
Jan.01	Balance b/d (i) 4,51,110, (ii) 1,20,312		5,71,422	Dec.31	Depreciation (i) 67,667, (ii) 18,047		85,714
				Dec.31	Balance c/d (i) 3,83,443, (ii) 1,02,265		4,85,708
			5,71,422				5,71,422

Working Note:

Machine Costing Rs 75,000 sold on Oct.01, 2002

	Opening Balance	–	Depreciation	=	Closing Balance
Jul.01, 2014	75,000	–	5,625 (6 months)	=	69,375
Jan.01, 2015	69,375	–	10,406	=	58,969
Jan.01, 2016	58,969	–	6,634 (9 months)	=	52,335

Value on Oct.01, 2016	52,335
Insurance Claim	– 45,000
Loss	Rs 7,335

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Question 19: On January 01, 2014, a Limited Company purchased machinery for Rs 20,00,000. Depreciation is provided @15% p.a. on diminishing balance method. On March 01, 2016, one fourth of machinery was damaged by fire and Rs 40,000 were received from the insurance company in full settlement. On September 01, 2016 another machinery was purchased by the company for Rs 15,00,000.

Write up the machinery account from 2016 to 2017. Books are closed on December 31, every year.

ANSWER:

Machinery Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2016				2016			
Jan.01	Balance b/d (i) (10,83,750 + 3,61,250)		14,45,000	Mar.01	Depreciation (1/4 Machine for 2 Months)		9,031
Sep.01	Bank (ii)		15,00,000	Mar.01	Bank		40,000
				Mar.01	Profit and Loss		3,12,219
				Dec.31	Depreciation (i) (i) 1,62,563 (3/4th of machine), (ii) 75,000		2,37,563
				Dec.31	Balance c/d (i) 9,21,187, (ii) 14,25,000		23,46,187
			29,45,000				29,45,000
2017				2017			
Jan.01	Balance b/d (i) 9,21,187, (ii) 14,25,000		23,46,187	Dec.31	Depreciation (i) 1,38,177, (ii) 2,13,750		3,51,927
				Dec.31	Balance c/d (i) 7,83,009, (ii) 12,11,250		19,94,260
			23,46,187				23,46,187

Working Note:

Machine (i)

Years	January 01		Depreciation (15% p.a.)	=	Closing Balance
2014	20,00,000	–	3,00,000	=	17,00,000
2015	17,00,000	–	2,55,000	=	14,45,000
2016	14,45,000				

1/4th of Machine (i)

Years	Opening Balance		Depreciation (15% p.a.)	=	Closing Balance
2014	5,00,000	–	75,000	=	4,25,000
2015	4,25,000	–	63,750	=	3,61,250
2016	3,61,250	–	9,031 (2 months)	=	3,52,219

Value on 1 Mar. 2016	=	3,52,219
Insurance Claim	=	40,000
Loss		Rs 3,12,219

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Question 20: A Plant was purchased on 1st July, 2015 at a cost of Rs 3,00,000 and Rs 50,000 were spent on its installation. The depreciation is written off at 15% p.a. on the straight line method. The plant was sold for Rs 1,50,000 on October 01, 2017 and on the same date a new Plant was installed at the cost of Rs 4,00,000 including purchasing value. The accounts are closed on December 31 every year.

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

ANSWER:

Plant Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
July.01	Bank		3,50,000	Dec.31	Balance c/d		3,50,000
			3,50,000				3,50,000
2016				2016			
Jan.01	Balance b/d		3,50,000				
				Dec.31	Balance c/d		3,50,000
			3,50,000				3,50,000
2017				2017			
Jan.01	Balance b/d		3,50,000	Oct.01	Provision for Depreciation		1,18,125
Oct.01	Bank		4,00,000	Oct.01	Bank		1,50,000
				Oct.01	Profit and Loss		81,875
				Dec.31	Balance c/d		4,00,000
			7,50,000				7,50,000

Provision for Depreciation Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015				2015			
Dec.31	Balance c/d		26,250	Dec.31	Depreciation		26,250
			26,250				26,250
2016				2016			
Dec.31	Balance b/d		78,750	Jan.01	Balance c/d		26,250
				Dec.31	Depreciation		52,500
			78,750				78,750
2017				2017			
Oct.01	Plant		1,18,125	Jan.01	Balance b/d		78,750
Dec.31	Balance c/d		15,000	Oct.01	Depreciation (i) (9 months)		39,375
				Dec.31	Depreciation (ii) (3 months)		15,000
			1,33,125				1,33,125

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Question 21: An extract of Trial balance from the books of Tahiliani and Sons Enterprises on Marc 31 2017 is given below:

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

Additional Information:

- Bad Debts proved bad; however, **not** recorded amounted to Rs 2,000.
- Provision is to be maintained at 8% of debtors

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

ANSWER:

Date	**Particulars**	**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Bad Debt A/c Dr. To Debtors A/c (Further bad debt charged from Debtors Account)		2,000	 2,000
	Provision for Doubtful Debt A/c Dr. To Bad Debt A/c (Amount of bad debt transferred to Provision for Doubtful Debt Account)		8,000	 8,000
	Profit and Loss A/c Dr. To Provision for Doubtful Debt A/c (Amount of Provision for Doubtful Debt transferred to Profit and Loss Account)		7,840	 7,840

Bad Debt Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Mar.31	Balance b/d		6,000	Mar.31	Provision for Doubtful Debt		8,000
Mar.31	Debtors		2,000				
			8,000				8,000

Debtors Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Mar.31	Balance b/d		50,000	Mar.31	Bad Debt		2,000
				Mar.31	Balance c/d		48,000
			50,000				50,000

Provision for Doubtful Debts Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
31 Mar.	Bad Debt (6,000 + 2,000)		8,000	Apr.01	Balance b/d		4,000
31 Mar.	Balance c/d		3,840	Mar.31	Profit and Loss		7,840
			11,840				11,840

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Question 22: The following information is extracted from the Trial Balance of M/s Nisha Traders on 31 March 2017.

Sundry Debtors	80,500
Bad Debts	1,000
Provision for Bad Debts	5,000

Additional Information

Bad Debts Rs 500

Provision is to be maintained at 2% of Debtors

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

ANSWER:

Bad Debt Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Mar.31	Balance b/d		1,000	Mar.31	Provision for Bad Debts		1,500
Mar.31	Debtors		500				
			1,500				1,500

Provision for Bad debt Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Mar.31	Bad Debt		1,500	Mar.31	Balance b/d		5,000
Mar.31	Profit and Loss		1,900				
Mar.31	Balance c/d		1,600				
			5,000				5,000

Profit and Loss Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
				2017 Mar.31	Provision for Bad Debts		1,900