CBSE Test Paper 04

Ch-6 Depreciation Provisions and Reserves

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1. A machinery for packing processed food products is claimed to have a useful life of 10 years by the manufacturer. But the buyer company fears that the machine will be obsolete in the next 5 years. What is the useful life of the asset for charging depreciation?

2. Name reserves which are generally not distributed as dividend are

3. Cost of a machine is Rs.4,20,000 with salvage value Rs.20,000. What is the depreciation amount for second year as per written down value method. Charge deprecation @ 10% per annum.

4. Although, straight line method is simple and easy to apply, it suffers from certain limitations. Give any three such limitations.

5. On 1st April, 2015, X Ltd. purchased a machine costing Rs.4,00,000 and spent Rs.50,000 on its erection. The estimated life of the machinery is 10 years, after which its residual value will be Rs.50,000 only. Find the amount of annual depreciation according to the Fixed Instalment Method and prepare Machinery Account for the first three years. The books are closed on 31st March every year.

6. A machine was purchased on 1st April, 2011 for Rs.10,00,000. On 1st October, 2011 another machine was purchased for Rs.6,00,000, Estimated scrap values were Rs.40,000 and Rs.20,000 respectively. Depreciation is to be provided @ 10% per annum on the machines under the reducing balance system.

   i. Show the machinery accounting for the year ended 31st March, 2012 and 2013.
   ii. Show how the machinery account will appear in the balance sheet as at 31st March, 2013.

7. M/s P and Q purchased machinery for Rs.40,000 on 1st July, 2011. Depreciation is provided @ 10% per annum on the diminishing balance on 31st October, 2013, one-fourth of the machinery was found unsuitable and disposed of for Rs.5,600. On the

same date new machinery at a cost of Rs.15,000 was purchased. Write up the machinery account from 2011 to 2013. The accounts are closed on 31st December.

8. On 1st April, 2010 Manas Ltd purchased 10 machines of Rs.30,000 each. On 30th June, 2011. 1 machine out of the 10 machines purchased on 1st April, 2010 was sold for Rs.24,000 and on 31st December, 2012 one more machine was sold for Rs.22,500. A new machine was purchased on 30th September, 2013 for Rs.32,000. The company has adopted the practice of providing depreciation at 10% per annum on original cost of machine. The company closes its books on 31st March, every year. You are required to prepare machinery account upto 31st March, 2014.

9. The following balance appear in the books of Crystal Ltd on 1st January, 2015.

Items	Amt (Rs.)
Machinery account	15,00,000
Provision for depreciation account	5,50,000

On 1st April, 2015, a machinery which was purchased on 1st January, 2012 for Rs.2,00,000 was sold for Rs.75,000. A new machine was purchased on 1st July, 2015 for Rs.6,00,000. Depreciation is provided on machinery at 20% per annum on the basis of straight-line method and books are closed on 31st December every year. Prepare the machinery account and provision for depreciation account for the year ending 31st December, 2015.

10. Following balance appear in the book of X Ltd as on 1st April 2017:

Machinery Account	Rs.5,00,000
Provision for depreciation	Rs.2,25,000

The machinery is depredated @ 10% p.a. on the Fixed Instalment method. The accounting year being April - March. On 1st October 2017, machinery which was purchased on 1st July 2014 for Rs.1,00,000 was sold for Rs.42,000 plus CGST and SGST © 6% each and on the same date a new machine was purchased for Rs.2,00,000 paying IGST © 12%. Prepare Machinery account and provision for depreciation account for the year ended 31st March 2018.

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Answer

1. The useful life of the asset will be taken as 5 years due to obsolescence, as the user of the machine thinks, that the machine can be used only for 5 years. The principle of conservatism is to be followed.

2. Capital reserve, Debenture Redemption Reserve are generally not distributed as dividend.

3. The Depreciation is calculated on the opening balance under Written Down Value Method. Hence, Depriciation for the 2nd year calculated as follows :

   Depreciation for Ist year$= 4,20,000 \times \frac{10}{100} = Rs.42000$
   Depreciation for IInd year$= (4,20,000 - 42,000) \times \frac{10}{100} = Rs.37,800$

4. **Limitations of Straight Line Method (**Write any three**)**
   Although, straight line method is simple and easy to apply, it suffers from certain limitations which are given below

   i. This method assumes that asset is utilized consistently over the life of asset which is practically not correct in most cases.
   ii. This method ignores the fact that with the passage of time, repair and maintenance expenses of an asset increases hence, the burden of depreciation and repairs together will increase in the later years.
   iii. It also ignores that in some cases, the asset continues to be used in the business even when its book value is reduced to zero.
   iv. Determination of scrap value on a future date is practically very difficult.
   v. As per this method the amount of depreciation charged every year is not invested outside the firm, so no interest is received. In certain methods of depreciation the amount of depreciation is invested outside the business in securities and interest is received.

5. Depreciation under Straight Line Method = Total cost - scarp value / life of assets

Total cost = Purchase price + Expenses of eraction

Purchase price = 4,00,000

Expenses = 50,000

Scarp value = 50,000

= i.e Rs. $\frac{Rs.(4,00,000+50,000-50,000)}{10}$

= Rs. 40,000 per annum

MACHINERY ACCOUNT

Dr.							Cr.
Date	**Particulars**	**LF**	**Rs.**	**Date**	**Particulars**	**LF**	**Rs.**
01.04.15	To Bank A/c (cost)		4,00,000	31.03.16	By Depreciation		40,000
01.04.15	To Bank A/c (erection)		50,000	31.03.16	By Balance c/d		4,10.000
			4,50,000				**4,50,000**
01.04.16	To Balance b/d		4,10,000	31.03.17	By Depreciation A/c		40,000
01.04.15				31.03.17	By Balance c/d		3,70,000
			4,10,000				**4,10,000**
01.04.17	To Balance b/d		3,70,000	31.03.18	By Depreciation A/c		40,000
				31.03.18	By Balance c/d		3,30,000
			3,70,000				**3,70,000**
01.04.18	To Balance b/d		3,30,000				

6. Working Note :

i.

Dr	Machinery Account						Cr
Date	**Particulars**	**J.F.**	**Amt(Rs.)**	**Date**	**Particulars**	**J.F.**	**Amt (Rs.)**
2011				2012			
Apr 1	To Bank A/c		10,00,000	Mar 31	By Depreciation A/c (W.N. 1)		1,30,000
Oct 1	To Bank A/c		6,00,000	Mar 31	By Balance c/d Machine I 9,00,000 Machine II 5,70,000		14,70,000
			16,00,000				**16,00,000**
2012				2013			
Apr 1	To Balance b/d		14,70,000	Mar 31	By Depreciation A/c (W.N. 2)		1,47,000
				Mar 31	By Balance c/d Machine I 8,10,000 Machine II 5,13,000		13,23,000
2013			**14,70,000**				**14,70,000**
2013							
Apr 1	To Balance b/d		13,23,000				

ii. **Balance Sheet (Extract)**

as at 31st March, 2013

Liabilities	Amt (Rs.)	Assets	Amt (Rs.)
		Machinery	13,23,000

i. Calculation of Depreciation on March 31,2012

   On Machine I = 10,00,000*10% = 1,00,000

   On Machine II (Purchased on Oct 1,2011) = (6,00,000*10%)*6/12 = 30,000

   Total = 1,30,000

ii. Calculation of Depreciation on March 31,2013

   On Machine I = 9,00,000*10% = 90,000

   On Machine II = 5,70,000*10% = 57,000

   Total = 1,47,000

7. **Machinery A/c**

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2011 July 1	To Bank	40,000	2011 Dec 31	By Depreciation	2,000
				By Balance c/d	38,000
		40,000 ======			**40,000** ======
2012 Jan 1	To Balance c/d	38,000	2012 Dec 31	By Depreciation	3,800
				By Balance c/d	34,200
		38,000 =======			**38,000** ======

2013 Jan 1	To Balance c/d	34,200	2013 Oct 31	By Bank	5,600
	To Bank	15,000	"	By Depreciation (34200/4*10%*10/12)	713
			"	By P&L A/c	2,237
			Dec 31	By Depreciation	2,565
				By Depreciation (15000*10%*2/12)	250
				By Balance c/d	37,835
		49,200 ======			**49,200** =====

8. **Books of Manas Ltd.**

Dr	**Machinery Account**						**Cr**
Date	**Particulars**	**J.F.**	**Amt (Rs.)**	**Date**	**Particulars**	**J.F.**	**Amt (Rs.)**
2010				2011			
Apr 1	To Bank A/c (Rs.30,000*10)		3,00,000	Mar 31	By Depreciation A/c (@ 10%)		30,000
				Mar 31	By Balance c/d		2,70,000
			3,00,000				**3,00,000**
2011				2011			
	To Balance			Jun	By		

Apr 1	b/d		2,70,000	30	Depreciation A/c		
					(On Rs.30,000 @ 10% for 3 month)		750
				Jun 30	By Bank A/c		24,000
				Jun 30	By Profit and Loss A/c (W.N.1)		2,250
				2012			
				Mar 31	By Depreciation A/c		
					(On Rs.30,000*9 @ 10%)		27,000
				Mar 31	By Balance c/d		2,16,000
			2,70,000				**2,70,000**
2012				2012			
Apr 1	To Balance b/d		2,16,000	Dec 31	By Depreciation A/c		2,250
Dec 31	To Profit and Loss A/c (W.N.2)		750		(On Rs.30,000 @ 10% for 9 month)		

				Dec 31	By Bank A/c		22,500
				2013			
				Mar 31	By Depreciation A/c		
					(On Rs.30,000*8 @ 10%)		24,000
				Mar 31	By Balance c/d		1,68,000
			2,16,750				**2,16,750**
2013				2014			
Apr 1	To Balance b/d		1,68,000	Mar 31	By Depreciation A/c (W.N.3)		25,600
Sep 30	To Bank A/c		32,000	Mar 31	By Balance c/d		1,74,400
			2,00,000				**2,00,000**

Working Note

iv. Company has adopted straight line method of charging depreciation so it is always calculated on cost of the asset and amount of depreciation remains same throughout the life of the asset.

v. When asset is used for the part of the year or purchased between the year then depreciation will be computed on time basis.

vi. Profit or Loss on sale of the asset will be transferred to P/L A/c.

i. **Calculation of Gain or Loss on Sale on 30th June, 2010**

Particulars		Amount
Original cost of machine sold		30,000
(-)Depreciation Provided up to date of sale		
On 31st March, 2011 (On Rs.30,000 @ 10% for 1 year)	3,000	
On 30th June, 2011 (On Rs.30,000 @ 10% for 3 Months)	750	3,750
Book value on date of sale		26,250
(-)Selling price		24,000
Loss on sale		**2,250**

ii. **Calculation of Gain or Loss on Sale on 31st December, 2012**

Particulars		Amount
Original cost of machine sold		30,000
(-) Depreciation provided up to date of sale		
On 31st March, 2011 (On Rs.30,000 @ 10% for 1 year)	3,000	
On 31st March, 2012 (On Rs.30,000 @ 10% for 1 year)	3,000	
On 31st Dec, 2012 (On Rs.30,000 @ 10% for 9 months)	2,250	8,250
Book value on date of sale		21,750
(-)Selling price		22,500
Profit on sale		**750**

iii. **Depreciation Provided on 31st March, 2014**

Particulars	**Amount**
Depreciation Provided on 31st March, 2014	
On Rs. 2,40,000 @ 10% for 1 year	24,000
On Rs.32,000 @ 10% for 6 months	1,600
Total Depreciation for the year	**25,600**

9.

Dr.	**Machinery Account**	**Cr.**

Date	Particulars	J.F.	Amt (Rs.)	Date	Particulars	J.F.	Amt (Rs.)
2015				2015			
Jan 1	To Balance b/d		15,00,000	Apr 1	By Machinery Disposal A/c		2,00,000
	(13,00,000+2,00,000)						
Jul 1	To Bank A/c		6,00,000	Dec 1	By Balance c/d		19,00,000
			21,00,000				**21,00,000**

Dr.	Provision for Depreciation Account						Cr.
Date	**Particulars**	**J.F.**	**Amt (Rs.)**	**Date**	**Particulars**	**J.F.**	**Amt (Rs.)**
2015				2015			
Apr 1	To Machinery Disposal A/c		1,30,000	Jan 1	By Balance b/d		5,50,000
				Apr 1	By Depreciation A/c		10,000
Dec 31	To Balance c/d		7,50,000	Dec 31	By depreciation A/c		
							3,20,000

			8,80,000				**8,80,000**

Dr.	**Machinery Disposal Account**						**Cr.**
Date	**Particulars**	**J.F.**	**Amt (Rs.)**	**Date**	**Particulars**	**J.F.**	**Amt (Rs.)**
2015				2015			
Apr 1	To Machinery A/c		2,00,000	Apr 1	By Provision for depreciation A/c		1,30,000
Apr 1	To Profit and Loss A/c						
	(Profit and sale of machine)		5,000	Apr 1	By Bank A/c		75,000
			2,05,000				**2,05,000**

Working Note

Depreciation charged on Rs.2,00,000 of machinery in past 3 year

2012 @ 20%=Rs.40,000

2013 @ 20%=Rs.40,000

2014 @ 20%=Rs.40,000

2015 @ 20%=Rs.10,000 (for 3 months)

Total Depreciation charged=Rs.1,30,000

Cost of machine of 1st April,2015=(2,00,000-1,30,000)=Rs.70,000

Profit on sale of machine=75,000-70,000=Rs.5,000

In the above **disposal account** it is a gain or loss account that appears in the income statement, and in which is recorded the difference between the disposal proceeds and the net carrying amount of the fixed asset being disposed of. **Provision for**

depreciation account is an account head created in accounting system, to accumulate all the depreciation amount of various assets.

10. **MACHINERY ACCOUNT**

Dr.							Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
01.04.17	To Balance b/d		5,00,000	01.10.17	By Provision for Dep A/c		32,500
01.10.17	To Bank A/c		2,00,000		By Bank A/c (Sale)		42,000
					By P & L A/c (Loss)		25,500
				31.03.18	By Balance c/d		6,00,000
			7,00,000				**7,00,000**
01.04.18	To Balance b/d		6,00,000				

PROVISION FOR DEPRECIATION ACCOUNT

Dr.							Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
01.10.17	To Mach. A/c (W.N.)		32,500	01.04.17	By Balance b/d		2,25,000
31.03.18	To Balance c/d		2,47,500	01.10.17	By Depreciation A/c		5,000
				31.03.18	By Depreciation A/c (40,000+10,000)		50,000
			2,80,000				**2,80,000**

				01.04.02	By Balance b/d		2,47,500

Working Note : Calculation of Depreciation of Machine sold:

1,00,000	01-07-14	Cost
7,500	31-03-15	Dep for 9 months
92,500	01-04--15	Written Down Value
10,000	31-03-16	Depreciation for full year
82,500	01-04-16	Written Down Value
10,000	31-03-17	Depreciation for the year
72,500	01-04-17	Written Down value

Total Depreciation = 7,500 + 10,000 + 10,000 = 27,500
Depreciation for 2017-18 = $1,00,000 \times \frac{10}{100} \times \frac{6}{12} = 5,000$

Total depreciation charged on the machine sold till the date of sale = 27,500+5000 = 32,500

Depreciation is charged by fixed instalment method so it is calculated on cost of the asset.