

CBSE Test Paper 02
Ch-6 Depreciation Provisions and Reserves

1. Give four examples each of 'revenue reserve' and 'capital reserve'.
2. Enumerate any two examples of assets for which the written down value method is considered suitable.
3. What is the portion of the acquisition cost of the asset, yet to be allocated known as?
4. A company bought a machine for Rs.90,000 on credit. Another Rs.10,000 is spent on its installation. If the estimated useful life is 5 years and scrap value at the end was Rs.5,000. Calculate the amount and rate of deprecation.
5. What are the effects of depreciation on profit and loss account and the balance sheet?
6. RS Ltd purchased a vehicle for Rs.4,00,000. After 4 years its salvage value is estimated at Rs.40,000. To find out the amount of depreciation to be charged every year based on straight-line basis and show as to how the vehicle account would appear for 4 years assuming, it is sold for Rs.50,000 at the end, when
 - i. Depreciation is charged to asset account.
 - ii. Provision for depreciation account is maintained.

Consider the following entries in the books of account of RS Ltd.

7. In Mr Hayat's ledger, the written down value of a machine as on 1st April, 2013 is Rs.70,000. The rate of depreciation is 15% per annum on the written down value method. The machine is under an annual repairs and maintenance contract with Mr Swami who charge Rs.1,250 per quarter.
A new machine was bought and the cheque issued for Rs.97,500 and the cash paid Rs.2,500 for its immediate erection and subsequent use on 1st July, 2013.
The annual maintenance contract of the new machine bought was to be signed after the one year guarantee period was over. Show the machinery account, as it would appear in the ledger for the year ended 31st March, 2014.

8. A Limited has the following balances on 1st April 2017

| | |
|------------------------------------|-------------|
| Machinery Account | Rs.2,00,000 |
| Provision for Depreciation Account | Rs.90,000 |

The company charged depreciation @ 10% p.a. on Straight Line Method. Accounts are closed on 31st March every year. On 1st October, 2017, a part of machinery purchased on 1st July, 2014 for Rs.40,000 was sold for Rs.18,400, charging CGST and SGST @ 6% each and on the same date a new plant was purchased for Rs.1,00,000 plus IGST @ 12%.

Prepare 'Machinery Account' and 'Provision for Depreciation Account' for the year ended 31st March 2018.

9. On 1st January, 2011, Satkar Transport Ltd purchased 3 buses for Rs.10,00,000 each. On 1st July, 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 written-off @ 15% per annum on the diminishing balance method. Prepare bus account from 2011 to 2014. Books are closed on 31st December, every year.

10. A Company purchased on 1st July 2015 machinery costing Rs.30,000. It further purchased machinery on 1st January 2016 costing Rs.20,000 and on 1st October 2016 costing Rs.10,000.

On 1st April, 2017 one third of the machinery installed on 1st July 2015 became obsolete and was sold for Rs.3,000.

The company follows a financial year as the accounting year.

Show how the Machinery Account would appear in the books of company if depreciation is charged 10% p.a. on Written Down Value Method.

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Answer

1. **I. Following are the four Examples of revenue reserves:**

- i. General Reserve.
- ii. Investment fluctuation Reserve.
- iii. Dividend equalization Reserve
- iv. Debenture Redemption Reserve.

Following are the four examples of capital reserve

- i. **Security** premium Reserve.
- ii. Capital Reserve.
- iii. Debenture Redemption Reserve.
- iv. Workmen compensation Reserve.

2. The two assets on which written down value method of depreciation is suitable are :

- i. Plant and machinery.
- ii. Building.

3. **Written down value.** Acquisition cost can describe the costs accrued by a business in relation to the efforts involved in acquiring a new customer.

4. **Depreciation** is the method of calculating the cost of an asset over its lifespan.

Calculation of amount of depreciation

$$= \frac{\text{Cost} - \text{Estimated Scrap Value}}{\text{Expected useful Life}} = \frac{(90,000 + 10,000) - 5,000}{5} = \text{Rs. } 19,000$$

Rate of Depreciation

$$= \frac{\text{Annual Depreciation}}{\text{Cost of Assets}} \times 100 = \frac{19,000}{1,00,000} \times 100 = 19\% \text{ per annum}$$

5. Depreciation in profit and loss account refers to the amount that was charged to expense only in that reporting period and the depreciation figure is deducted from the value of the concerned asset on the asset side of the balance sheet because the value of the asset decreases when the asset is being used. In that case on one hand, it reduces the profit of the concern, on the other hand, it reduces the assets side in the balance sheet. Here, it is worth mentioning that depreciation is non-cash expenditure.

6. Amount of Depreciation = $\frac{\text{cost of Asset} - \text{NRV}}{\text{Life of Asset}} = \frac{4,00,000 - 40,000}{4} = 90,000$

i. When depreciation is charged to assets account :

| Dr | | | | Vehicle Account | | | | Cr | |
|----------|----------------|------|-----------|-----------------|---------------------|------|-----------|----|--|
| Date | Particulars | J.F. | Amt (Rs.) | Date | Particulars | J.F. | Amt (Rs.) | | |
| I year | To Bank A/c | | 4,00,000 | End of the year | By Depreciation A/c | | 90,000 | | |
| | | | | | By Balance c/d | | 3,10,000 | | |
| | | | 4,00,000 | | | | 4,00,000 | | |
| II year | To Balance b/d | | 3,10,000 | End of the year | By Depreciation A/c | | 90,000 | | |
| | | | | | By Balance c/d | | 2,20,000 | | |
| | | | 3,10,000 | | | | 3,10,000 | | |
| III year | To Balance b/d | | 2,20,000 | End of the year | By Depreciation A/c | | 90,000 | | |

| | | | | | | | |
|---------|-----------------------------------------------------------------|--|-----------------|--------------------------|---------------------------|--|-----------------|
| | | | | | By Balance c/d | | 1,30,000 |
| | | | 2,20,000 | | | | 2,20,000 |
| IV year | To Balance b/d | | 1,30,000 | End of the year | By Depreciation A/c | | 90,000 |
| | To Profit and Loss (Profit on sale of vehicle)[Bal. fig.] | | 10,000 | | By Bank A/c | | 50,000 |
| | | | 1,40,000 | | | | 1,40,000 |

ii. When Provision for Depreciation Account is maintained :

| Dr | | Vehicle Account | | | | | Cr |
|----------|-----------------|-----------------|-----------------|--------------------------|-------------------|------|-----------------|
| Date | Particulars | J.F. | Amt (Rs.) | Date | Particulars | J.F. | Amt (Rs.) |
| I year | To Bank A/c | | 4,00,000 | End of the year | By Balance c/d | | 4,00,000 |
| | | | 4,00,000 | | | | 4,00,000 |
| II year | To Balanced b/d | | 4,00,000 | End of the year | By Balance c/d | | 4,00,000 |
| | | | 4,00,000 | | | | 4,00,000 |
| III year | To Balance b/d | | 4,00,000 | End of the | By Balance c/d | | 4,00,000 |

| | | | | | | | |
|-------------|-----------------------------------------------------------------|-------------|------------------|-----------------|-----------------------------------|-------------|------------------|
| | | | | year | | | |
| | | | 4,00,000 | | | | 4,00,000 |
| IV year | To Balance b/d | | 4,00,000 | End of the year | By Provision for Depreciation A/c | | 3,60,000 |
| | To Profit and Loss A/c (Profit and Sale of Vehicle) [Bal. Fig.] | | 10,000 | | By Bank A/c | | 50,000 |
| | | | 4,10,000 | | | | 4,10,000 |
| Dr | Provision for Depreciation Account | | | | | | Cr |
| Date | Particulars | J.F. | Amt (Rs.) | Date | Particulars | J.F. | Amt (Rs.) |
| I year | To Balance c/d | | 90,000 | End of the year | By Depreciation A/c | | 90,000 |
| | | | 90,000 | | | | 90,000 |
| II year | To Balanced c/d | | 1,80,000 | End of the year | By Balance b/d | | 90,000 |
| | | | | | By Depreciation A/c | | 90,000 |
| | | | 1,80,000 | | | | 1,80,000 |
| | | | | End of | By Balance | | |

| | | | | | | | |
|----------|------------------|--|----------|-----------------|-----------------------------------|--|----------|
| III year | To Balance c/d | | 2,70,000 | the year | b/d | | 1,80,000 |
| | | | | | By Depreciation A/c | | 90,000 |
| | | | 2,70,000 | | | | 2,70,000 |
| IV year | To Machinery A/c | | 3,60,000 | End of the year | By Balance b/d | | 2,70,000 |
| | | | | | By provision for Depreciation A/c | | 90,000 |
| | | | 3,60,000 | | | | 3,60,000 |

Note :

Depreciation A/c (Dr.)

To Provision for Depreciation A/c

(Being Dep. charged)

- When depreciation is charged to Provision for depreciation account/ Accumulated depreciation account, Depreciation is not directly charged to the respective asset account. The amount of depreciation to be provided for the period is debited to Depreciation Account and credited to Provision for Depreciation Account or Accumulated Depreciation Account. Thus, entry will be passed as follows :

7.

Machinery A/c

| | | | | | | | |
|--|--|--|--|--|--|--|--|
| | | | | | | | |
|--|--|--|--|--|--|--|--|

| Date | Particulars | J.F. | Amt (Rs.) | Date | Particulars | J.F. | Amt (Rs.) |
|-------|---------------------------|------|-----------------|--------|--------------------------------------|------|-----------------|
| 2013 | | | | 2014 | | | |
| Apr 1 | To Balance b/d | | 70,000 | Mar 31 | By Depreciation A/c (W.N. 1) | | 21,750 |
| Jul 1 | To Bank A/c (Purchase) | | 97,500 | Mar 31 | By Balance c/d (Balancing Figure) | | 1,48,250 |
| Jul 1 | To Cash A/c (Expenses) | | 2,500 | | | | |
| | | | 1,70,000 | | | | 1,70,000 |

Working Note :-

i. Calculation of Depreciation

| Particulars | Amount |
|--------------------------------------------------------------------------------------------------------|------------------|
| On old machine @ 15% on Rs.70,000 for 1 year ($70,000 \times 15/100$) | 10,500 |
| On new machine @ 15% on Rs.1,00,000 for 9 months ($\text{Rs.1,00,000} \times 15/100 \times 9/12$) | 11,250 |
| | Rs.21,750 |

- ii. Repairs and maintenance charges are revenue expenses so they are charged to the Profit and Loss Account.
- iii. Depreciation is charged as per Written Down Value Method so in subsequent year Depreciation will be calculated on Book Value of Machine.
- iv. All the capital expenditure incurred in connection with the asset are included in the cost of the asset. So Original Value of New Machine = $97,500 + 2,500 = 1,00,000$

8.

MACHINERY ACCOUNT

| Dr. | | | | | | | Cr. |
|------|-------------|------|-----|------|-------------|------|-----|
| Date | Particulars | J..F | Rs. | Date | Particulars | J.F. | Rs. |
| | | | | | | | |

| | | | | | | | |
|----------|-------------------|--|----------|----------|-----------------------|--|----------|
| 01.04.17 | To Balance b/d | | 2,00,000 | 01.10.17 | By Prov. for Dep. A/c | | 13,000 |
| 01.10.17 | To Bank A/c | | 1,12,000 | | By Bank A/c (W.N. 2) | | 16,429 |
| | (1,00,000+12,000) | | | | By P & L A/c | | 10,571 |
| | | | | 31.03.18 | By Balance c/d | | 2,72,000 |
| | | | 3,12,000 | | | | 3,12,000 |
| 01.04.18 | To Balance b/d | | 2,72,000 | | | | |

PROVISION FOR DEPRECIATION ACCOUNT

| Dr. | | | | | | | Cr. |
|----------|------------------|------|----------|----------|------------------------------------|------|----------|
| Date | Particulars | J.F. | Rs. | Date | Particulars | J.F. | Rs. |
| 01.10.17 | To Machinery A/c | | 13,000 | 01.04.17 | By Balance b/d | | 90,000 |
| 31.03.18 | To Balance c/d | | 1,00,600 | 01.10.17 | By Depreciation A/c | | 2,000 |
| | | | | 31.03.18 | By Depreciation A/c (16,000+5,600) | | 21,600 |
| | | | 1,13,600 | | | | 1,13,600 |
| | | | | 01.04.18 | By Balance b/d | | 1,00,600 |

Working Note : 1. Calculation of Depreciation of Machine sold :

| | |
|--------------|----------|
| 40,000 | 01-07-14 |
| <u>3,000</u> | 31-03-15 |
| 37,000 | 01-04-15 |
| <u>4,000</u> | 31-03-16 |

| | |
|---------------|-----------------------------------|
| 33,000 | 01-04-16 |
| <u>4,000</u> | 31-03-17 |
| 29,000 | 01-04-17 |
| 2,000 | 01-10-17 |
| <u>27,000</u> | amount of machine on date of sale |

Total Depreciation = $3,000 + (4,000 \times 2) + 2,000 = 13,000$

2. Amount received on sale = 18,400

(-) CGST & SGST (to be deposited) = 1,971

Actual Amount received $(18,400/112\%) = 16,429$

When machine is purchased and GST is paid so the cost of machine will be increased and when machine is sold and GST is charged that will be deposited by the seller in government account.

9.

| Dr | Provision for Depreciation Account | | | | | | Cr |
|------------|------------------------------------|------|-----------|------------|---------------------------------------|------|-----------|
| Date | Particulars | J.F. | Amt (Rs.) | Date | Particulars | J.F. | Amt (Rs.) |
| 01/01/2011 | To Bank A/c (10,00,000 × 3) | | 30,00,000 | 31/12/2011 | By Depreciation A/c (@ 15%) | | 4,50,000 |
| | | | | 31/12/2011 | By Balance c/d | | 25,50,000 |
| | Total | | 30,00,000 | | Total | | 30,00,000 |
| 01/01/2012 | To Balance b/d | | 25,50,000 | 31/12/2012 | By Depreciation A/c @ 15% on | | 3,82,500 |

| | | | | | | | |
|------------|------------------------------------------|--|-----------|------------|----------------------------------------------------------------------|--|-----------|
| | | | | | 25,50,000) | | |
| | | | | 31/12/2012 | By Balance c/d | | 21,67,500 |
| | Total | | 25,50,000 | | Total | | 25,50,000 |
| 01/01/2013 | To Balance b/d | | 21,67,500 | 01/07/2013 | By Depreciation A/c (6 months on destroyed bus)[W.N.] | | 54,188 |
| 01/07/2013 | Profit and Loss A/c (Profit)[W.N.] | | 31,688 | 01/07/2013 | By Bank A/c (Insurance claim) | | 7,00,000 |
| | | | | 31/12/2013 | By Depreciation A/c (on rest buses) | | 2,16,750 |
| | | | | 31/12/2013 | By Balance c/d | | 12,28,250 |
| | Total | | 21,99,188 | | Total | | 21,99,188 |
| 01/01/2014 | To Balance b/d | | 12,28,250 | 31/12/2014 | By Depreciation A/c (@15%) | | 1,84,237 |
| | | | | 31/12/2014 | By Balance c/d | | 10,44,013 |
| | Total | | 12,28,250 | | Total | | 12,28,250 |

Working Note:-

- Cost of accidental bus on 1st January, 2013 == $\frac{21,67,500}{3} = Rs.7,22,500$

- Depreciation on accidental bus on 1st July, 2013 = 7,22,500 @15 % for 6 months =Rs.54,188
- Value of bus as on 1st July, 2013 =7,22,500-54,188 =Rs.6,68,312
- Profit on accidental bus =7,00,000-6,68,312 = Rs.31,688
- Depreciation on rest two buses = (21,67,500-7,22,500) =Rs.14,45,000
- Depreciation = 14,45,000 @15 % = Rs.2,16,750
- Depreciation is calculated on diminishing value method so amount is calculated on book value not on cost.

10.

MACHINERY ACCOUNT

| Dr. | | | | | | | Cr. |
|----------|----------------|------|--------|----------|-----------------------------|------|--------|
| Date | Particulars | J.F. | Rs. | Date | Particulars | J.F. | Rs. |
| 01.07.15 | To Bank A/c | | 30,000 | 31.03.16 | By Depreciation A/c (W.N.) | | 2,750 |
| 01.01.16 | To Bank A/c | | 20,000 | | By Balance c/d | | 47,250 |
| | | | 50,000 | | | | 50,000 |
| 01.04.16 | To Balance b/d | | 47,250 | 31.03.17 | By Depreciation A/c (W.N.) | | 5,225 |
| 01.10.16 | To Bank A/c | | 10,000 | | By Balance c/d | | 52,025 |
| | | | 57,250 | | | | 57,250 |
| 01.04.17 | To Balance b/d | | 52,025 | 01.04.17 | By Cash A/c - Sale | | 3,000 |
| | | | | | By Profit & Loss A/c - Loss | | 5,325 |
| | | | | 31.03.18 | By Depreciation A/c (W.N.) | | 4,370 |
| | | | | | By Balance c/d | | 39,330 |
| | | | 52,025 | | | | 52,025 |
| 01.04.18 | To Balance b/d | | 39,330 | | | | |

Working Notes :

| Particulars | Machine I(1/3) | Machine I(2/3) | Machine II | Machine III | Total |
|---------------------------------------|-------------------|-------------------|---------------|----------------|-------|
| Cost | 10,000 | 20,000 | 20,000 | 10,000 | |
| Less : Depreciation for 2015-16 @ 10% | <u>-750</u> | <u>-1,500</u> | <u>-500</u> | 0 | 2,750 |
| W.D.V. | 9,250 | 18,500 | 19,500 | 10,000 | |
| Less : Depreciation for 2016-17 @ 10% | <u>-925</u> | <u>-1,850</u> | <u>-1,950</u> | <u>-500</u> | 5,225 |
| W.D.V. | 8,325 | 16,650 | 17,550 | 9,500 | |
| Less : Depreciation for 2017-18 @ 10% | <u>0</u> | <u>-1,665</u> | <u>-1,755</u> | <u>-950</u> | 4,370 |
| W.D.V. | 8,325 | <u>14,985</u> | <u>15,795</u> | <u>8,550</u> | |
| Less: Sale Value | <u>-3,000</u> | | | | |
| Loss on sale | 5,325 | | | | |

Depreciation is calculated by Diminishing value method so it is calculated on balance value of an asset or written down value of asset not on the cost of the asset.

On Machine, I depreciation is calculated for 9 months in the first year and on second machine for 3 months in first year.

On Machine III depreciation is calculated for 6 months in the year of purchase.