

CBSE Test Paper 01
Ch-6 Depreciation Provisions and Reserves

1. Which method is approved by income tax authorities for charging depreciation?
2. Name the method that assumes that an asset should be depreciated more in the earlier years and less in later years of use.
3. Charging the whole cost of asset in the first year itself is not correct. Why?
4. Although, written down value method is based upon a more realistic assumption, it suffers from some limitations. Give any three such limitations.
5. Name and explain different type of reserves in details.
6. On 1st April 2014, merchant purchased furniture costing Rs.55,000. It is estimated that its life is 10 years at the end of which it will be sold Rs.5,000. Additions are made on 1st April 2015 and 1st October 2017 to the value of Rs.9,500 and Rs.8,400 (Residual values Rs.500 and Rs.400 respectively). Show the Furniture Account for the first four years, if Depreciation is written off according to the Straight Line Method.
7. From the following transactions of concern, prepare the Machinery Account for the year ending 31 st March, 2017 :

1.4.17	Purchased a second - hand machinery for Rs.40,000
1.4.17	Spent Rs.10,000 on repairs for making it serviceable.
30.9.17	Purchased additional new machinery for Rs.20,000
31.12.17	Repairs and renewals of machinery Rs.3,000.
31.3.18	Depreciate the machinery at 10% per annum.

8. A firm purchased on 1st January, 2010 a second-hand machinery for Rs.36,000 and spent Rs.4,000 on its installation.
On 1st July in the same year, another machinery costing Rs.20,000 was purchased. On 1st July, 2012 machinery brought on 1st January, 2010 was sold for Rs.12,000 and a new machine purchased for Rs.64,000 on the same date. Depreciation is provided

annually on 31st December @ 10% per annum on the written down value method.
Show the machinery account from 2010 to 2012.

9. A Company purchased a machine for Rs. 40,000 on April 1, 2014. On October 1, 2015 it was sold for Rs. 13,000. The company charges depreciation @ 10% p.a. on straight-line method. Show Machinery Account, Provision for Depreciation Account and Machinery Disposal account if books are closed on March 31 each year.
10. A firm purchased on 1st April 2015 certain machinery for Rs.5,82,000 and spent Rs.18,000 on its installation. On 1st October 2015, additional machinery costing Rs.2,00,000 was purchased. On 1st October 2017, the machinery purchased on 1st April 2015 was auctioned for Rs.2,86,000 plus CGST and SGST @ 6% each and new machinery for Rs.4,00,000, plus IGST @ 12% was purchased on the same date. Depreciation was provided annually on 31st March at the rate of 10% on the Written Down Value Method. Prepare the Machinery Account for the three years ended 31st March 2018.

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Answer

1. Written Down value method. Written-down value is the value of an asset after accounting for depreciation or amortization.
2. Written down value method. It is also known as Reducing Balance or Reducing the Installment Method or Diminishing Balance Method. Under this method, the depreciation is calculated at a certain fixed percentage each year on the decreasing book value commonly known as WDV of the asset (book value less depreciation).
3. Since this is not in conformity with the matching principle which requires revenues for a given period to be matched against expenses for the said period. The asset is used for more than one year. So the expenses of the depreciation also has to be charged for all those years, during which the asset is used.
4. **Limitations of the Written Down Value Method**
Although this method is based upon a more realistic assumption it suffers from the following limitations
 - i. It does not take into consideration the interest on capital invested in the asset.
 - ii. It does not provide for the replacement of the asset on the expiry of its useful life.
 - iii. The formula to obtain the rate of depreciation can be applied only when there is a residual value of the asset.
5. **Type of Reserves**
 - i. **Revenue Reserves:-** The reserves created from revenue profits which arise out of the normal operating activities of the business and are otherwise freely available for distribution as dividend are known as revenue reserves.
Revenue reserves can be classified into the following two types of reserves:-
 - a. **General Reserve:-** As suggested by the name the reserves which are not created for a specific purpose is general reserve. It strengthens the financial position of the business. It is also known as free reserve or contingency reserve.
 - b. **Specific Reserve:-** As suggested by the name, these are the reserves that are created for some specific purpose and can be utilized only for that purpose.

e.g., Debenture Redemption Reserve, Workmen Compensation Fund, Investment Fluctuation Fund etc.

- ii. **Capital Reserve:-** The reserves which are created out of capital profits and are not available for distribution as dividend are known as capital reserve. These reserves are kept to prepare the company for any unforeseen event like inflation, instability, need to expand the business. Capital reserves can be used for writing off capital losses or issue of bonus shares in case of a company. Capital profit treated as capital reserves e.g. Premium on issue of securities, Profit on redemption of debentures, Profit on reissue of forfeited shares etc.

6.

Dr.							Cr.
Date	Particulars	LF	Rs.	Date	Particulars	LF	Rs.
01.04.14	To Bank A/c - Cost		55,000	31.03.15	By Depreciation		5,000
					By Balance c/d		50,000
			55,000				55,000
01.04.15	To Balance b/d		50,000	31.03.16	By Depreciation A/c		
01.04.15	To Bank A/c (f ₂)		9,500		(5,000+900)		5,900
				31.03.16	By Balance c/d		53,600
			59,500				59,500
01.04.16	To Balance b/d		53,600	31.03.17	By Depreciation A/c		5,900
				31.03.17	By Balance c/d		47,700
			53,600				53,600
01.04.17	To Balance b/d		47,700	31.03.18	By Depreciation		

					A/c		
01.10.17	To Bank A/c (f ₃)		8,400		(5,900+400)		6,300
				31.03.18	By Balance c/d		49,800
			56,100				56,100
01.04.18	To Balance b/d		49,800				

Depreciation = Total cost - scarp value / life of assets Total cost = Amount paid for machinery at the time of purchase. Scarp value = Sale value of machine at the time of sale Depreciation on 1st Furniture = cost 55,000 & scarp value 5,000 so depreciation = $\frac{Rs.(55,000-5,000)}{10} = Rs.5,000$ per annum

Depreciation on 2nd Furniture = cost 9,500 & scarp value 500 so depreciation = $\frac{Rs.(9,500-500)}{10} = Rs.900$ per annum

Depreciation on 3rd Furniture = cost 8400 & scarp value 400 so depreciation = $\frac{Rs.(8,400-400)}{10} = Rs.800$ per annum

7.

MACHINERY ACCOUNT

Dr.							Cr.
Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
1.04.17	To Bank A/c - Cost		40,000	31.3.18	By Depreciation A/c		
	To Bank A/c - Repair		10,000		(5,000+1,000)		6,000
30.09.17	To Bank A/c - Cost		20,000		By Balance c/d		64,000
			70,000				70,000
1.4.18	To Balance b/d		64,000				

Amount of Dep on Machine 1 = (40,000+10,000)*10% = 5,000 Amount of Dep on Machine 2 = 20,000* 10%*6/12 = 1,000 Repairs made on purchase of machinery is capitalised while repairs made afterwards will be debited to repairs account.

8.

Dr	Machinery Account							Cr
Date	Particulars	J.F.	Amt (Rs.)	Date	Particulars		J.F.	Amt (Rs.)
2010				2010				
Jan 1	To Bank A/c (Machine I)		40,000	Dec 31	By Depreciation A/c			
	(Rs. 36,000 + Rs. 4,000)				Machine I	4,000		
Jul 1	To Bank A/c (Machine II)		20,000		Machine II [(20,000*10%*6)/12]	1,000		5,000
				Dec 31	By Balance c/d			
					Machine I (Rs. 40,000 -Rs.4,000)	36,000		
					Machine II (Rs. 20,000-Rs.1,000)	19,000		55,000
			60,000					60,000
2011				2011				
Jan 1	To Balance b/d			Dec 31	By Depreciation A/c			
	Machine I 36,000				Machine I	3,600		
	Machine II 19,000		55,000		Machine II	1,900		5,500

				Dec 31	By Balance c/d			
					Machine I (Rs.36,000-Rs.3,600)	32,400		
					Machine II(Rs.19,000- Rs.1,900)	17,100		49,500
			55,000					55,000
2012				2012				
Jan 1	To Balance b/d			Jul 1	By Depreciation A/c (Machine I)			1,620
	Machine I 32,400				By Bank A/c			12,000
	Machine II 17,100		49,500		By Profit and Loss A/c (Loss) Rs. (32,400-1,620- 12,000)			18,780
Jul 1	To Bank A/c (Machine III)		64,000					
				Dec 31	By Depreciation A/c			
					Machine II	1,710		
					Machine III	3,200		4,910
				Dec 31	By Balance c/d			
					Machine II (Rs.	15,390		

					17,100-Rs. 1,710)			
					Machine III(Rs.64,000- Rs.3,200)	60,800		76,190
			1,13,500					1,13,500
2013								
Jan 1	To Balance b/d							
	(Machine II)		15,390					
	(Machine III)		60,800					

Working Notes:-

- Calculation of Depreciation on July 1,2012 on Machine I = $(32,400 \times 10\%) \times 6/12 = 1,620$
- Calculation of Depreciation on Dec 31,2012 on Machine III = $(64,000 \times 10\%) \times 6/12 = 3,200$
- Depreciation is calculated on Balance or Book Value of the Machine because the firm has adopted the Written Down Value of the Depreciation.

9.

Machinery Account

Date	Particulars	J.F	Amt(Rs.)	Date	Particulars	J.F.	Amt(Rs.)
2014				2015			
Apr 1	To Bank A/c		40,000	Mar 31	By Balance c/d		40,000
			40,000				40,000
2015				2015			
Apr 1	To Balance b/d		40,000	Oct 1	By Machinery Disposal A/c		40,000

			40,000				40,000
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Provision for Depreciation Account

Date	Particulars	J.F	Amt(Rs.)	Date	Particulars	J.F.	Amt(Rs.)
2015				2015			
Mar 31	To Balance c/d		4,000	Mar 31	By Depreciation A/c		4,000
			4,000				4,000
2015				2015			
Oct 1	To Machinery Disposal A/c		6,000	Apr 1	By Balance b/d		4,000
				Oct 1	By Depreciation A/c		2,000
			6,000				6,000

Machinery Disposal Account

Date	Particulars	J.F	Amt(Rs.)	Date	Particulars	J.F.	Amt(Rs.)
2015				2015			
Oct 1	To Machinery A/c		40,000	Oct 1	By Provision for Dep. A/c		6,000
					By Cash A/c (sale value)		13,000
					By Profit & Loss A/c		21,000
			40,000				40,000

Note : When provision for depreciation account is maintained the amount of depreciation to be provided in a particular year is debited to Profit & Loss A/c and

corresponding credited is given to Provision for Depreciation A/c. The Asset A/c appears in books at its original value and Provision for Depreciation appears on the Liability side of the balance sheet.

10.

MACHINERY ACCOUNT

Dr.				Cr.			
Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
01.04.15	To Bank A/c - cost (M ₁)		6,00,000	31.03.16	By Depreciation A/c		70,000
01.10.15	To Bank A/c (M ₂)		2,00,000		By Balance c/d		7,30,000
			8,00,000				8,00,000
01.04.16	To Balance b/d		7,30,000	31.03.17	By Depreciation A/c		73,000
					By Balance c/d		6,57,000
			7,30,000				7,30,000
01.04.17	To Balance b/d		6,57,000	01.10.17	By Cash A/c		2,86,000
01.10.17	To Bank A/c (M ₃)		4,48,000		By Profit & Loss A/c		1,75,700
				31.03.18	By Depreciation A/c		63,800
					By Balance c/d		5,79,500
			11,05,000				11,05,000
01.04.18	To Balance		5,79,500				

	b/d						
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Working Notes:

Particulars	Machine I	Machine II	Machine III	Total
Cost (5,82,000+18,000)	6,00,000	2,00,000	4,48,000	
Less: Depreciation for 2015-16 @ 10%	-60,000	-10,000	0	70,000
W.D.V.	5,40,000	1,90,000	4,48,000	
Less: Depreciation for 2016-17 @ 10%	-54,000	-19,000	0	73,000
W.D.V.	4,86,000	1,71,000	4,48,000	
Less : Depreciation for 2017-18 @ 10%	-24,300	-17,100	-22,400	63,800
W.D.V.	4,61,700	1,53,900	4,25,600	
Less: Sale value	-2,86,000			
Loss on sale	1,75,700			

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. GST paid on purchase of asset increase the cost of the asset.