CBSE Test Paper 03

Ch-6 Depreciation Provisions and Reserves

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1. For which type of assets is the written down value method considered suitable?

2. Give four examples each of' provision' and 'reserves'.

3. State whether depreciation is a non-cash expenditure or cash expenditure like other normal expenses.

4. Depreciation is a non-cash expense which should not be provided for in the profit and loss account. Comment.

5. In which of the method, of charging depreciation, the cost of the asset written-off in equal proportion, during its useful economic life?

6. Parul Ltd purchased a machinery on 1st January, 2010 for Rs.11,00,000 and spent Rs.1,00,000 on its installation. On 1st September, 2010 it purchased another machine for Rs.7,40,000. On 1st May, 2011 it purchased another machine for Rs.16,80,000 (including installation expenses).
   Depreciation was provided on machinery @ 10% per annum on original cost method annually on 31st December. Prepare machine account and provision for depreciation account for the years 2010, 2011,2012 and 2013.

7. Adhikari Ltd purchased on 1st January, 2012 a machine for Rs.1,20,000. On 1st July, 2012 he also purchased another machine for Rs.1,00,000 On 1st July, 2013 he sold the machine purchased on 1st January, 2012 for Rs.80,000
   It was decided that depreciation @ 10% was to be written-off every year under diminishing balance method.
   Assuming the accounts were closed on 31st December every year, show the machine account for the years 2012 and 2013.

8. On 1 st April, 2011, X Ltd purchased a machinery for Rs.12,00,000. On 1st October 2013. apart of the machinery purchased on 1st April 2011 for Rs.80,000 was sold for Rs.45,000 and new machinery at the cost of Rs.1,58,000 was purchased and installed

on the same date. The company has adopted the method of providing 10% per annum depreciation on the diminishing balance of the machinery.

Show the necessary ledger accounts assuming that

i. Provision for depreciation account is not maintained,
ii. Provision for depreciation account and machinery disposal account is maintained. The accounting year ends on 31st March.

9. A company whose accounting year is the calendar year, purchased on 1st April, 2010 machinery costing Rs.30,000. It purchased further machinery on 1st October, 2010 costing Rs.20,000 and on 1st July, 2011 costing Rs.10,000.
   On 1st January, 2012 one third of the machinery which was installed on 1st April, 2010 become obsolete and was sold for Rs.3,000.
   Show how the machine account would appear in the books of the company, it being given that machinery was depreciated by fixed instalment at 10 % per annum.

10. On 1st October 2011, X Ltd. purchased machinery for Rs.2,50,000. A part of machinery which was purchased for Rs.20,000 on 1st October 2011 became obsolete and was disposed off on 1st January, 2014 (having a book value Rs.17,100 on 1st April 2013) for Rs.2,000. Depreciation is charged @ 10% annually on written down value. Prepare machinery disposal account and also show your workings. The books being closed on 31st March of every year.

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Answer

1. This method is suitable for those assets in relation to which

    i. The amount of repairs and renewals goes on increasing as the asset grows older and management don't want to increase the burden on profit and loss account in the later years

    ii. The possibilities of obsolescences of the asset are more.

    iii. There is no fix expected working life of the asset.

2. **Following are the four Examples of provisions**

    i. Provision for Doubtful Debts

    ii. Provision for Taxation

    iii. Provision for Repairs and Renewals

    iv. Provision for Depreciation

    Following are the four Examples of reserves:

    i. General **R**eserve

    ii. Workmen Compensation Fund

    iii. Investment Fluctuation Fund

    iv. Capital Reserve

3. Non-cash expenditure. Depreciation is an accounting method of allocating the cost of a tangible asset over its useful life and is used to account for declines in value.

4. The value of fixed assets reduce after years because of usage and passage of time. It is well known that fixed assets are used for earning revenue. Therefore, decrease in their value is considered as an expense or loss incurred in earning revenue and like other expenses or losses, is charged to the Profit & Loss Account. Otherwise, profit will be overstated.

5. " Under Straight line method of Depreciation, the cost of asset is written off in equal

proportions. It is the default method used to recognize the carrying amount of a fixed asset evenly over its useful life. It is employed when there is no particular pattern to the manner in which an asset is to be utilized over time. Use of the straight-line method is highly recommended, since it is the easiest depreciation method to calculate, and so results in few calculation errors.

6. **Machinery A/c**

Date	particulars	Amount (Rs)	Date	particulars	Amount (Rs)
2010 Jan 1	To Bank (11,00,000+1,00,000)	12,00,000	Dec 31	By Balance c/d	19,40,000
Sep 1	To Bank	7,40,000			
		19,40,000 =======			**19,40,000** =======
2011 Jan 1	To Balance b/d	19,40,000	Dec 31	By Balance c/d	36,20,000
May 1	To Bank	16,80,000			
		36,20,000 ========			**36,20,000** ========
2012 Jan1	To Balance b/d	36,20,000	Dec 31	By Balance c/d	36,20,000
		36,20,000 =========			**36,20,000** ========
2013 Jan 1	To Balance b/d	36,20,000	Dec 31	By Balance c/d	36,20,000
		36,20,000 =======			**36,20,000** ========

Provision for Depreciation A/c

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2010 Dec 31	To Balance c/d	1,44,667	2010 Dec 31	By Depreciation (1,20,000+24,667)	1,44,667
		1,44,667 ========			**1,44,667** ========
2011 Dec 31	To Balance c/d	4,50,667	2011 Jan 1	By Balance b/d	1,44,667
			Dec 31	By Depreciation (1,20,000+74,000+1,12,000)	3,06,000
		4,50,667 ========			**4,50,667** ========
2012 Dec 31	To Balance c/d	8,12,667	2012 Jan 1	By Balance b/d	4,50,667
			Dec 31	By Depreciation (1,20,000+74,000+1,68,000)	3,62,000
		8,12,667 ========			**8,12,667** ========
2013 Dec 31	To Balance c/d	11,74,667	2013 Jan 1	By Balance b/d	8,12,667
			Dec 31	By Depreciation (1,20,000+74,000+1,68,000)	3,62,000
		11,74,667 =======			**11,74,667** ========

7. **Machinery Account**

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2012 Jan1	To Bank	1,20,000	2012 Dec 31	By Depreciation (12,000+5,000)	17,000
July 1	To bank	1,00,000	"	By Balance c/d	

				M1 1,08,000	
				M2 95,000	2,03,000
		2,20,000 =======			**2,20,000** =======
2013 Jan 1	To Balance b/d		2013 July 1	By Bank	80,000
	M1 1,08,000			By Depreciation	5,400
	M2 95,000	2,03,000		By P&L A/c	22,600
			Dec 31	By Depreciation	9,500
			Dec 31	By Balance c/d	85,500
		2,03,000 =======			**2,03,000** ======

8. Case i. When the Provision for Depreciation A/c is not maintained.

Dr	**Machine Account**						**Cr**
Date	**Particulars**	**JF**	**Amt (Rs.)**	**Date**	**Particulars**	**JF**	**Amt (Rs.)**
01/04/2011	To Bank A/c		12,00,000	31/03/2012	By Depreciation A/c		1,20,000
					By Balance c/d		10,80,000
	Total		**12,00,000**		Total		**12,00,000**
01/04/2012	To Balancce b/d		10,80,000	31/03/2013	By Depreciation A/c		1,08,000
				31/03/2013	By Balance c/d		9,72,000
	Total		**10,80,000**		Total		**10,80,000**
01/04/2013	To Balance b/d		9,72,000	01/10/2013	By Bank A/c		45,000
01/10/2013	To Bank A/c		1,58,000	01/10/2013	By Profit and Loss A/c (WoN 1)		16,560
				01/10/2013	By Depreciation A/c (WN1)		3,240
				31/03/2014	By Depreciation A/c (WN2)		98,620

				31/03/2014	By Balance c/d		9,66,580
	Total		**11,30,000**		Total		**11,30,000**

Case II. When Provision for Depreciation A/c is Maintained

Dr			Machine Account (At Original cost)				Cr
Date	**Particulars**	**JF**	**Amt (Rs.)**	**Date**	**Particulars**	**JF**	**Amt (Rs.)**
01/04/2011	To Bank A/c		**12,00,000**	31/03/2012	By Balance c/d		**12,00,000**
	Total		12,00,000		Total		12,00,000
01/04/2012	To Balance b/d		**12,00,000**	31/03/2012	By Balance c/d		**12,00,000**
	Total		12,00,000		Total		12,00,000
01/04/2013	To Balance b/d		12,00,000	01/10/2013	By Machinery Disposal A/c		80,000
01/10/2031	To Bank A/c		1,58,000	31/03/2014	By Balance c/d		12,78,000
	Total		**13,58,000**		Total		**13,58,000**

Dr	**Provision for Depreciation Account**						**Cr**
Date	**Particulars**	**JF**	**Amt (Rs.)**	**Date**	**Particulars**	**JF**	**Amt (Rs.)**
31/03/2012	To Balance c/d		1,20,000	31/03/2012	By Depreciation A/c		1,20,000
	Total		1,20,000		Total		1,20,000
31/03/2013	To Balance c/d		2,28,000	01/04/2012	By Balance b/d		1,20,000
				31/03/2013	By Depreciation A/c		1,08,000
	Total		**2,28,000**		Total		**2,28,000**
Oct 1	To Machinery Disposal A/c		18,440	01/04/2013	By Balance b/d		2,28,000
	(Rs.8,000+Rs.7,200+Rs.3,240)			01/10/2013	By Depreciation A/c		3,240
01/04/2014	To Balance c/d		3,11,420	01/04/2014	By Depreciation A/c		98,620
	Total		3,29,860		Total		3,29,860

Dr			Machinery Disposal Account				Cr
Date	**Particulars**	**JF**	**Amt (Rs.)**	**Date**	**Particulars**	**JF**	**Amt (Rs.)**

01/10/2013	To Machinery A/c		80,000	01/10/2013	By Provision for Depreciation A/c		18,440
				01/10/2013	By Bank A/c		45,000
				01/10/2013	By Profit and Loss A/c (WN1)		16,560
	Total		80,000		Total		80,000

Working Note

i. **Calculation of Profit/Loss on Sale of Machinery**

Original cost as on 1st April, 200	80,000
(-) Depreciation @ 10% per annum for 2011-12	8,000
Book value as on 1st April, 2012	72,000
(-)Depreciation @ 10% per annum for 2012-13	7,200
Book value as on 1st April, 2013	64,800
(-)Depreciation @ 10% per annum upto date of sale (Rs.64,800 × 10/100 × 6/12)	3,240
Book value as on 1st October, 2013	61,560
(-)Sale proceeds	45,000
Loss on sale of machinery	16,560

Calculation of Depreciation for 2013-2014 on Machines (other than sold)

(a) On sold machine 10% of (Rs.9,72,000-Rs.64,800)	90,720
(b) On new machine (Rs.1,58,000 × 10/100 × 6/12)	7,900
	98,620

9.

Dr	Machinery Account								Cr
Date	**Particulars**		**J.F.**	**Amt (Rs.)**	**Date**	**Particulars**		**J.F.**	**Amt (Rs.)**
2010					2010				

Apr 1	To Bank A/c (i)			30,000	Dec 31	By Depreciation A/c			
Oct 1	To Bank A/c (ii)			20,000		(i) $\left(30,000 \times 10\% \times \frac{9}{12}\right)$	2,250		
						(ii) $\left(20,000 \times 10\% \times \frac{3}{12}\right)$	500		2,750
					Dec 31	By Balance c/d			
						(i)	27,750		
						(ii)	19,500		47,250
				50,000					**50,000**
2011					2011				
Jan 1	To Balance b/d				Dec 31	By Depreciation A/c			
	(i)	27,750				(i) (30,000*10%)	3,000		
	(ii)	19,500		47,250		(ii) (20,000*10%)	2,000		
Jul 1	To Bank A/c (iii)			10,000		(iii) $\left(10,000 \times 10\% \times \frac{6}{12}\right)$	500		5,500
					Dec 31	By Balance c/d			
						(i)	24,750		
						(ii)	17,500		
						(iii)	9,500		51,750
				57,250					**57,250**
2012					2012				
Jan 1	To Balance b/d				Jan 1	By Bank A/c [sale price]			3,000
	(i)	24,750			Jan 1	By Profit and Loss A/c (W.N.1)			5,250
	(ii)	17,500			Dec 31	By Depreciation A/c			
	(iii)	9,500		51,750		(i) (10% on Rs.20,000) [Balance Machine 2/3]	2,000		
						(ii)	2,000		
						(iii)	1,000		5,000

					Dec 31	By Balance c/d			
						(i)	14,500(W.N. 2)		
						(ii)	15,500		
						(iii)	8,500		38,500
				51,750					**51,750**
2013									
Jan 1	To Balance b/d			38,500					

Working Notes :-

i. Calculation of loss on sale of one-third machinery

Particulars	Amount
Balance of 1st machinery on 1st January, 2012	Rs.24,750
Therefore, balance of one-third machinery on 1st January, 2012	$Rs.24,750 \times \frac{1}{3} = 8,250$
(-) Selling price	3,000
Loss on sale	5,250

ii. Calculation of value of Machine (i) on Dec,2012 after sale of 1/3rd Machine = (24750-8250) - 2000(depreciation during the year) = 14,500

iii. Depreciation is calculated as per fixed installment method so it is always computed on cost.

iv. Obsolescence of asset means that the asset become useless due to new technology comes in the market even if it is in the position to run.

10. **Books of X Ltd.**

MACHINERY ACCOUNT

Dr.							Cr.
Date	**Particulars**	**J.F.**	**Rs.**	**Date**	**Particulars**	**J.F.**	**Rs.**
1.10.2011	To Bank A/c		2,50,000	31.3.12	By Depreciation A/c		12,500
					By Balance c/d		2,37,500
			2,50,000				**2,50,000**
1.4.2012	To Balance b/d		2,37,500	31.3.13	By Depreciation A/c		23,750
					By Balance c/d		2,13,750
			2,37,500				**2,37,500**
1.4.2013	To Balance b/d		2,13,750	1.1.14	By Cash A/c		2,000
				1.1.14	By Depreciation		1,283
				1.1.14	By Profit & Loss A/c - Loss		13,817
				31.3.14	By Depreciation		19,665
				31.03.14	By Balance c/d		1,76,985
			2,13,750				**2,13,750**
1.4.2014	To Balance b/d		1,76,985				

Working Notes:

Particulars	**1.10.2011**		**Total Depreciation**
Cost	20,000	2,30,000	
Less: Depreciation for 2011-12 @ 10% for 6 months	(-) 1,000	(-) 11,500	12,50 (on 31.03.2012)
W.D.V.	19,000	2,18,500	
Less: Depreciation for 2012-13 @ 10%	1,900	21,850	23,750 (on 31.03.2013)
W.D.V.	17,100	1,96,650	
Less: Depreciation for machine			

sold 1st January, 2014 @ 10% (Rounded off near of rupee) for 9 months	1,283		
W.D.V.	15,817		
Less: Depreciation for 2013-14 @ 10%		19,665	
W.D.V.		1,76,985	
Less: Sale value	(-) 2,000		
Loss on Sale of Machinery	13,817		

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 or the book value of the asset sold to the amount of depreciation decreases year after year in spite of rate of depreciation is fixed.