

Depreciation Provisions and Reserves

Example: A machine is purchase for Rs. 2,00,000 on April 1,2009. It is decided to charge depreciation on this machine @ 10% p.a. The amounts of depreciation for first four years by using both the methods (Straight line method and Diminishing balance method) are shown as under:

Solution:

	Straight Line Method		Diminishing Balance Method	
Year	Book Value	Dep. @ 10%	Book Value	Dep. @ 10%
2009-10	20,000	2,000	20,000	2,000
2010-11	18,000 (20,000 – 2,000)	2,000	18,000 (20,000 – 2,000)	1,800
2011-12	16,000 (18,000 – 2,000)	2,000	16,200 (18,000 – 1,800)	1,620
2012-13	14,000 (16,000 – 2,000)	2,000	14,580 (16,200 – 1,620)	1,458

Illustration 1: On January 1, 2013, a firm bought a machine for Rs. 90,000 and spend Rs. 6,000 on its installation and Rs. 4,000 on its carriage. It is decided to charge depreciation @ 10% on straight @ 10% on straight line method. Books are closed on December 31st each year. Show Machinery Account for the year 2013 to 2015.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2013							
Jan 1	To Bank A/c		90,000	Dec 31	By Depreciation A/c		10,000
Jan 1	To Cash A/c		6,000	Dec 31	By Balance c/d		90,000

Jan 1	To Cash A/c		4,000				
			1,00,000				1,00,000
2014				2014			
Jan 1	To Balance b/d		90,000	Dec 31	By Depreciation A/c		10,000
				Dec 31	By Balance c/d		80,000
			90,000				90,000
2015				2015			
Jan 1	To Balance b/d		80,000	Dec 31	By Depreciation A/c		10,000
					By Balance c/d		70,000
			80,000				80,000

Illustration 2: On the basis of information given in Illustration I, Show Machinery Account for the year 2013 to 2015 if depreciation is charged @ 10% on diminishing balance method.

Solution :

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2013							
Jan 1	To Bank A/c		90,000	Dec 31	By Depreciation A/c		10,000
Jan 1	To Cash A/c		6,000	Dec 31	By Balance c/d		90,000
Jan 1	To Cash A/c		4,000				
			1,00,000				1,00,000
2014				2014			
Jan 1	To Balance b/d		90,000	Dec 31	By Depreciation A/c		9,000
				Dec 31	By Balance c/d		81,000
			90,000				90,000
2015				2015			

Jan 1	To Balance b/d		81,000	Dec 31	By Depreciation A/c		8,100
					By Balance c/d		72,900
			81,000				81,000

Illustration 3: On April 1, 2013 Kannu bought Machinery costing Rs. 80,000. On July 1, 2015 Machinery was sold for Rs. 40,000. Prepare Machinery Account from April, 1 2013 till July 1, 2015 assuming depreciation was charged @ 10% per annum on March 31, every year on the basis of Original cost method.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2013							
Apr 1	To Bank A/c		80,000	Mar 31	By Depreciation A/c		8,000
				Mar 31	By Balance c/d		72,000
			80,000				80,000
2014				2014			
Apr 1	To Balance b/d		72,000	Mar 31	By Depreciation A/c		8,000
				Mar 31	By Balance c/d		64,000
			72,000				72,000
2015				2015			
Apr 1	To Balance b/d		64,000	Jul 1	By Bank A/c		40,000
				Jul 1	By Depreciation A/c		2,000
				Jul 1	By Loss on sale of March A/c		22,000
			64,000				64,000

Illustration 4: On the basis of information given in Illustration 3, prepare Machinery Account assuming depreciation was charged @ 15% per annum on reducing installment method.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2013							
Apr 1	To Bank A/c		80,000	Mar 31	By Depreciation A/c		12,000
				Mar 31	By Balance c/d		68,000
			80,000				80,000
2014				2014			
Apr 1	To Balance b/d		68,000	Mar 31	By Depreciation A/c		10,200
				Mar 31	By Balance c/d		57,800
			68,000				68,000
2015				2015			
Apr 1	To Balance b/d		57,800	Jul 1	By Bank A/c		40,000
				Jul 1	By Depreciation A/c		2,168
				Jul 1	By Loss on sale of March A/c		15,632
			57,800				57,800

There is another treatment for charging Depreciation. In this treatment, Provision for Depreciation Account is opened and depreciation is charged in this account instead of Asset Account.

In this treatment the balance of Asset Account remains same throughout its useful life. Provision for Depreciation is shown in the liabilities side of Balance Sheet.

Illustration 5: Vinod limited purchased a machine for Rs. 2,50,000 including installation cost on January 1, 2012. On October 1, 2014, machine was sold for Rs. 1,50,000.

Depreciation was provided @ 10% p.a. on Fixed Installment method and accounts are closed on December 31, each year.

Show the Machinery Account and Provision for Depreciation Account for the year, 2012 to 2014.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2012			
Jan 1	To Bank A/c		2,50,000	Dec 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2013				2013			
Jan1	To Balance b/d		2,50,000	Dec 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2014				2014			
Apr 1	To Balance b/d		2,50,000	Oct 1	By Provision for Dep. A/c		68,750
				Oct 1	By Bank A/c		1,50,000
				Oct1	By Profit & Loss A/c		31,250
			2,50,000				2,50,000

Provision for Depreciation Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2012			
Dec 31	To Balance c/d		25,000	Dec 31	By Depreciation A/c		25,000

			25,000				25,000
2013				2013			
Dec 31	To Balance c/d		50,000	Jan 1	By Balance b/d		25,000
				Dec 31	By Depreciation A/c		25,000
			50,000				50,000
2014				2014			
Apr 1	To Machinery		68,750	Jan 1	By Balance b/d		50,000
				Oct 1	By Depreciation A/c		18,000
			68,750				68,750

Important Point : Total Depreciation charged on Machinery from Jan 1, 2011 to Oct. 1, 2013 :
Rs. 25,000 + Rs. 25,000 + Rs. 18,750 = Rs. 68,750.

Illustration 6: On the basis of information given in Illustration 5, show the Machinery Account and Provision for Depreciation is provided @ 20 % p.a. on Written Down Value Method.

Solution :

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2012			
Jan 1	To Bank A/c		2,50,000	Dec 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2013				2013			
Jan 1	To Balance b/d		2,50,000	Dec 31	By Balance c/d		2,50,000
			2,50,000				2,50,000
2014				2014			
Jan 1	To Balance b/d		2,50,000	Oct 1	By Provision for Dep. A/c		1,14,000

Oct 1	To Profit & Loss A/c		14,000	Oct 1	By Bank A/c		1,50,000
			2,64,000				2,64,000

Provision for Depreciation Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2012			
Dec 31	To Balance c/d		50,000	Dec 31	By Depreciation A/c		50,000
			50,000				50,000
2013				2013			
Dec 31	To Balance c/d		90,000	Jan 1	By Balance b/d		50,000
				Dec 31	By Depreciation A/c		40,000
			90,000				90,000
2014				2014			
Oct 1	To Machinery		1,14,000	Jan 1	By Balance b/d		90,000
				Oct 1	By Depreciation A/c		24,000
			1,14,000				1,14,000

Important Point : Total Depreciation charged on Machinery from Jan. 1, 2012 to Oct. 1, 2014 :
Rs. 50,000+Rs. 40,000 + 24,000 = Rs. 1,14,000.

Illustration 7: 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.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2012			
Apr 1	To Bank A/c		40,000	Mar 31	By Balance c/d		40,000
			40,000				40,000
2013				2013			
Apr 1	To Balance b/d		40,000	Oct 1	By Machinery Disposal A/c		40,000
			40,000				40,000

Provision for Depreciation Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(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 31	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 Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2015				2015			
					By Balance c/d		

Oct 1	To Machinery A/c		40,000	Oct 1			6,000
					By Cash A/c		13,000
					By Profit & Loss A/c		21,000
			40,000				40,000

Important Point: Total Depreciation charged on Machine: Rs. 4,000 + Rs. 2,000 = Rs. 6,000

Illustration 8: On Oct. 1, 2012, Arora Auto Limited Purchased Furniture for Rs. 1,00,000 and spent Rs. 4,000 towards its installation. On July 1, 2013, the Furniture was disposed off Rs. 59,820 and on the same day furniture costing Rs. 1,60,000 were purchased. Show the Furniture Account, Provision for Depreciation Account and Furniture Disposal Account for the year 2012, 2013 and 2014 if the rate of Depreciation is 15% per annum by Diminishing Balance method if accounts are closed on 31st march of every year.

Solution:

Furniture Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2013			
Oct 1	To Bank A/c		1,00,000	Mar 31	By Balance c/d		1,04,000
Oct 1	To Bank A/c		4,000				
			1,04,000				40,000
2013				2013			
Apr 1	To Balance b/d		1,04,000	Jul 1	By Furniture Disposal A/c		1,04,000
				2014			
Jul 1	To Bank A/c		1,60,000	Mar 31	By Balance c/d		1,60,000
			2,64,000				2,64,000
2014				2014			
Apr 1	To Balance b/d		1,60,000	Mar 31	By Balance c/d		1,60,000
			1,60,000				1,60,000

Provision for Depreciation Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2013				2013			
Mar 31	To Balance c/d		7,800	Mar 31	By Depreciation A/c		7,800
			7,800				7,800
2013				2013			
Jul 1	To Furniture Disposal A/c		11,408	Apr 1	By Balance b/d		7,800
					By Depreciation A/c		3,608
2014				2014			
Mar 31	To Balance c/d		18,000	Mar 31	By Depreciation A/c		18,000
			29,408				29,408
				2014			
				Mar 31	By Depreciation A/c		18,000
2015				2015			
Mar 31	To Balance c/d		39,300	Mar 31	By Depreciation A/c		21,300
			39,300				39,300

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2013				2013			
Jul 1	To Machinery		1,04,000	Jul 1	By Prov. For Dep.		11,408

	A/c				A/c		
					By Cash A/c		59,820
					By Profit & Loss A/c		32,772
			1,04,000				1,04,000

Important Point: Total Depreciation charged on Machinery sold : Rs. 7,800 + Rs. 3,608 = Rs. 11,408.

Illustration 9: A firm purchased on 1st January, 2012 certain Machinery for Rs. 5,82,000 and spent Rs. 18, 000 on its erection. On 1st July, 2012, additional machinery costing Rs. 2,00,000 was purchased. On 1st July, 2014, the machinery purchased on 1st January, 2012 was auctioned for Rs. 2,86,000 and a fresh machinery for Rs. 4,00,000 was purchased on same date. Depreciation was provided annually on 31st December at the rate of 10% on written down value method. Prepare Machinery account from 2012 to 2014.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2012				2012			
Jan 1	To Bank A/c (i)		6,00,000	Dec 31	By Depreciation A/c		11,408
Jul 1	To Bank A/c (ii)		2,00,000		(i) (600,000x10/ 100) 60,000		
					(ii) (200,000x10/ 100) 10,000		70,000
				Dec 31	By Balance c/d (5,40,000+1,90,000)		7,30,000
			8,00,000				8,00,000
2013				2013			
					By Depreciation A/c		

Jan 1	To Balance b/d (5,40,000+1,90,000)		7,30,000	Dec 31	(i) (5,40,000x10/ 100) 54,000		
					(ii) (200,000x10/ 100) 10,000		73,000
				Dec 31	By Balance c/d (4,86,000+1,71,000)		6,57,000
			7,30,000				7,30,000
2014				2014			
Jan 1	To Balance b/d (4,86,000+1,71,000)		6,57,000	Jul 1	By Bank A/c (s ale)		2,85,000
Jul 1	To Bank A/c (iii)		4,00,000	Jul 1	By Dep. A/c (i) (4,86,000x10/ 100x6/12)		24,300
					By P&L A/c (loss)		1,75,700
				Dec 31	By Dep. A/c		
					(ii) (1,71,000x10/ 100)17,100		
					(iii) (4,00,000x10/ 100x6/12) 20,000		37,100
					By Balance c/d		5,33,900
			10,57,000		By P&L A/c (loss)		10,57,000

Illustration 10: The following balances appear in the books of Sankalp on 01-01-2015

Machinery A/c Rs. 8,00,000, Provision for Depreciation a/c Rs. 3,18,000.

On 01-01-2015 they decided to sell a machine for Rs. 34,500. This machine was purchased for Rs. 1,20,000 on 01-01-2011.

Show the machinery A/c, Provision for Depreciation A/c for the year ended Dec 31, 2015 assuming that depreciation was charged at 10% p.a. on Written Down value method.

Solution:

Machinery Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2015				2015			
Jan 1	To Balance b/d		8,00,000	Jan 1	By Bank A/c		34,500
				Jan 1	By Provision for Depreciation A/c		41,268
				Jan 1	By Profit & Loss A/c		44,232
				Dec 31	By Balance c/d		6,80,000
			8,00,000				8,00,000

Provision for Depreciation Account

Date	Particulars	J.F	(Rs.)	Date	Particulars	J.F.	(Rs.)
2015				2015			
Jan 1	To Machinery A/c		41,268	Jan 1	By Balance b/d		3,18,000
Dec 31	To Balance c/d		3,17,095	Dec 31	By Depreciation A/c		40,363
			3,58,363				3,58,363