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शक्तिउत्थानआश्रमलखीसरायबिहार

Class 11 commerce Sub. ACT Date 21.02.2021

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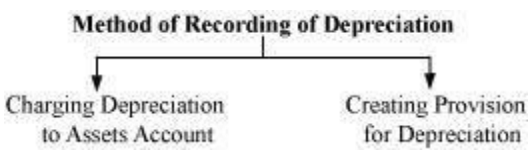
Depreciation, Provisions and Reserves

Question 3:

Describe in detail two methods of recording depreciation. Also give the necessary journal entries.

ANSWER:

The two methods of recording depreciation are diagrammatically presented below.



1. **Charging depreciation to Asset Account−** Under this method, depreciation is directly credited to the asset account and **no** separate account is prepared for provision of depreciation. Under this method, the original cost of an asset and the total amount of depreciation **cannot** be determined from the Balance Sheet, as the Asset Account appears at its written down value.

Journal entries for depreciation are given below.

When depreciation is charged to Assets Account

Depreciation A/c Dr.

To Assets A/c

(Depreciation charged to Assets Account)

Closing of Depreciation Account

Profit and Loss A/c Dr.

To Depreciation A/c

(Depreciation transferred to Profit and Loss Account)

2. **Creating Provision for Depreciation Account−** Under this method, depreciation is **not** credited to the Assets Account; in fact, it is credited to the provision for Depreciation Account. At the year end, asset is shown at the original cost in the Balance Sheet and total depreciation up to the date of Balance Sheet is shown as Provision for Depreciation Account.

Journal entries for depreciation are:

Charging Depreciation

Depreciation A/c Dr.

To Provision for Depreciation A/c

(Depreciation charged)

Closing of Depreciation Account

Profit and Loss A/c Dr.

To Depreciation A/c

(Depreciation account is transferred to Profit and Loss Account)

When the asset is sold, the accumulated depreciation on that asset is credited to the Asset Account by passing the following Journal entry:

Provision for Depreciation A/c Dr.

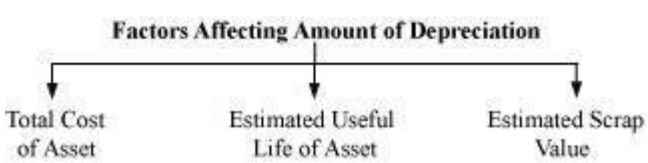
To Asset A/c

(Accumulated depreciation transferred to Assets Account)

Question 4:

Explain determinants of the amount of depreciation.

ANSWER:



1. **Total cost of asset−** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The expenses incurred in acquiring, installing and constructing of assets and bringing the assets to their usable condition are included in the total cost of asset.

2. **Estimated useful life−** Every asset having it's useful life other than it's physical life, in terms of number of years, units, etc. are considered to estimate the effective life of a fixed asset. For example, land has indefinite life; however, if business acquires a piece of land on lease for 25 years, it's useful life is considered to be 25 years.

3. **Estimated scrap value−** It is estimated as the net realisable value or sale value of an asset at the end of it's effective life. It is deducted from the total cost of an asset. For example, furniture is acquired at Rs 50,000 with it's effective life of 10 years.

After 10 years, furniture will be sold at Rs 10,000. So, depreciation is charged as:

$$\text{Depreciation (p.a.)} = \frac{(50,000 - 10,000)}{10} = \frac{40,000}{100} = \text{Rs } 4,000$$