

VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 11 commerce Sub. ACT Date 24.02.2021

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Depreciation, Provisions and Reserves

Question 2:

On July 01, 2010, Ashok Ltd. Purchased a Machine for Rs 1,08,000 and spent Rs 12,000 on its installation. At the time of purchase it was estimated that the effective commercial life of the machine will be 12 years and after 12 years its salvage value will be Rs 12,000.

Prepare machine account and depreciation Account in the books of Ashok Ltd. For first three years, if depreciation is written off according to straight line method. The account are closed on December 31st, every year.

ANSWER:

Books of Ashok Ltd.

Machinery Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2010 Jul.01	Bank		1,20,000	2010 Dec.31	Depreciation		4,500
				Dec.31	Balance c/d		1,15,500
			1,20,000				1,20,000
2011 Jan.01	Balance b/d		1,15,500	2011 Dec.31	Depreciation		9,000
				Dec.31	Balance c/d		1,06,500
			1,15,000				1,15,500
2012 Jan.01	Balance b/d		1,06,500	2012 Dec.31	Depreciation		9,000
				Dec.31	Balance c/d		97,500
			1,06,500				1,06,500
2013 Jan.01	Balance b/d		97,500				

Depreciation Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2010 Dec.31	Machinery		4,500	2010 Dec.31	Profit and Loss		4,500
			4,500				4,500
2011 Dec.31	Machinery		9,000	2011 Dec.31	Profit and Loss		9,000
			9,000				9,000
2012 Dec.31	Machinery		9,000	2012 Dec.31	Profit and Loss		9,000
			9,000				9,000

Working Note:

Calculation of annual depreciation

$$\begin{aligned}
 \text{Depreciation (p.a.)} &= \frac{(1,08,000 + 12,000 - 12,000)}{12 \text{ years}} \\
 &= \text{Rs } 9,000 \text{ per annum}
 \end{aligned}$$

Question 3:

Reliance Ltd. Purchased a second hand machine for Rs 56,000 on October 01, 2011 and spent Rs 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for Rs 6,000 at the end of its useful life of 15 years. Moreover an estimated cost of Rs 1,000 is expected to be incurred to recover the salvage value of Rs 6,000. Prepare machine account and Provision for depreciation account for the first three years

charging depreciation by fixed Instalment Method. Accounts are closed on March 31, every year.

ANSWER:

**Books of Reliance Ltd.
Machinery Account**

Dr.				Cr.				
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs	
2011 Oct.01	Bank		84,000	2011 Dec.31	Balance c/d		84,000	
			84,000					84,000
			84,000					84,000
2012 Jan.01	Balance b/d		84,000	2012 Dec.31	Balance c/d		84,000	
			84,000					84,000
			84,000					84,000
2013 Jan.01	Balance b/d		84,000	2013 Dec.31	Balance c/d		84,000	
			84,000					84,000
			84,000					84,000

Provision for Depreciation Account

Dr.				Cr.				
Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs	
2011 Dec.31	Balance c/d		1,316	2011 Dec.31	Depreciation		1,316	
			1,316					1,316
				1,316				
2012 Jan.01	Balance b/d		1,316	2012 Dec.31	Depreciation		5,267	
								5,267

Dec.31	Balance c/d		6,583				
			6,583				6,583
				2013			
2013				Jan.01	Balance b/d		6,583
Dec.31	Balance c/d		11,850	Dec.31	Depreciation		5,267
			11,850				11,850
				2014			
				Jan.01	Balance b/d		11,850

Working Note:

Calculation of annual depreciation

$$\text{Depreciation (p.a.)} = \frac{(56,000 + 28,000 - 6,000 + 1,000)}{15 \text{ years}}$$

= Rs 5,267 per annum

Note: As per the solution, the balance of provision for depreciation account, as on March.31, 2015 is Rs 11,850; whereas, as per the book, it is Rs 18,200.

However, if we ignore the scrap value and prepare provision for depreciation for 4 years, the answer would match to that of the book.