

Theme:

ACT 201

Date: 02 / 12 / 2019

☐ Sat ☐ Sun ☒ Mon ☐ Tue ☐ Wed ☐ Thu ☐ Fri

Chapter-10 : Plant, property and Equipment

Machine = \$ 80,000
Import Duty = 2,000
Transportation = 1,000
Installation Cost = 500

83500

Machine Dr. 83,500
Cash Cr. 83,500

* Whatever cost you incur before using an asset, it is considered as the cost of that asset.

* Methods

- i) Straight line method
- ii) Unit of output method
- iii) Declining / Reducing Balance method

i) Straight line method

① Depreciation will be charged as 'Depreciation Value'

② Depreciation Value = Cost - Salvage value

③ Depreciation will be same for each year

$$A) \text{ Dep} = \frac{\text{Depreciable Value}}{\text{Useful life}}$$

$$= \text{Depreciable Value} \times \text{Straight line Dep. Rate}$$

$$= \text{Straight line Dep. Rate} \times \frac{1}{\text{Useful life}}$$

Q

Machine = \$ 83500

Useful life = 5 years

Salvage Value = \$3500

/ Residual Value

/ Scrap Value

Solution:

$$\begin{aligned}\text{Depreciable Value} &= \text{Cost} - \text{Salvage value} \\ &= \$ 83,500 - \$ 3500 \\ &= \$ 80,000\end{aligned}$$

$$\text{Dep}_{1\text{st year}} = \$ \frac{80,000}{5} = \$ 16,000$$

Depreciation Schedule

Year	Cost	Dep	Acc. Dep.	Book value
1	83500	16000	16000	67500
2	83500	16000	32000	51500
3	83500	16000	48000	35500
4	83500	16000	64000	19500
5	83500	16000	80000	3500