

" ASSIGNMENT : 6 "

Ques. 1

① Compute the total cost of machine and give the entries in General Journal

Ans :

Computation of machine cost

	List Price	90,000
(Less)	Trade Discount ($90,000 \times 10\%$)	<u>-9,000</u>
	Trade Price	81,000
(Less)	Cash Discount ($81,000 \times 5\%$)	<u>-4,050</u>
	Cash Price	76,950
Add	Sales Tax ($76,950 \times 2\%$)	<u>1,539</u>
	Invoice Price	78,489
	Other Expense	
	Transp charges	1,200
	Labor charges	569
	Testing charges	250
	Total other Exp	2,019
	Machine Cost	80,500

(b) Compute the depreciation for 2019 & 2020.

Ans.

	Dr	Cr
1 Machine	80,500	
Cash		80,500
2 Prepaid Insurance	900	
Cash		900

Straight line method

$$\text{Dep Exp} = \frac{\text{Cost} - \text{Salvage value}}{\text{Useful life}}$$

$$= \frac{80,500 - 10,500}{10}$$

$$= \frac{70,000}{10}$$

$$\text{Yearly Dep} = 7,000$$

$$\text{Dep Exp 2019} = \frac{7000 \times 6}{12}$$

$$= 3500$$

$$\text{Dep Exp 2020} = 7000$$

© Give entries in General Journal to record dep Expense

Ans.

		Dr	Cr
31-12-2019	Depreciation Expense	3500	
	Allowance for Dep		3500
31-12-2020	Depreciation Expense	7000	
	Allowance for Dep		7000

① Show how the machine account will be reported on the company balance sheet as of Dec 31, 2019 & Dec 31, 2020

Ans.

National Co.
Partial Balance Sheet
As on 31 Dec 2019

Asset

Liabilities & owner's Equity

Fixed Assets

Machine	80500
Less Allowance for Dep	<u>13500</u>
	77000

National Co.
Partial Balance Sheet
As on Dec 31, 2020

Asset

Liabilities & owner's Equity

Fixed Asset

Machine	80500
Less Allowance for Dep	<u>10500</u>
	70000

Ques. 2

① Calculate total cost of machinery and journalise

Ans.

Computation of Machine cost

	List Price	60,000
less	Trade Discount ($60,000 \times 2\%$)	<u>-1200</u>
	Trade Price	58800
less	Cash Discount ($58,800 \times 3\%$)	<u>-1764</u>
	Cash Price	57036
Add	Sales Tax ($57,036 \times 4\%$)	<u>2281</u>
	Invoice Cost	59317
	Other Expense	
	Transportation	683
	Inst & Testing chg	1000
	Package charges	500
	Insurance in Transit	1500
	Total other Expense	<u>3683</u>
	Machine Cost	63000

Entries

		Dr	Cr
1	Machine		
	Cash	63,000	63,000
2	Fine Expense	350	
	Cash		350
3	Repair Exp	650	
	Cash		650
4	Prepaid Insurance	2400	
	Cash		2400
5	Maint Expense	1500	
	Cash		1500

⑥ Compute and record depreciation expense for the first two years assuming following methods.

① Straight Line Method:

$$\text{Dep Exp of 1st year} = \frac{\text{Cost} - \text{Salvage value}}{\text{Useful life}}$$

$$= \frac{63000 - 8000}{10}$$

$$= \frac{55000}{10}$$

$$\text{Dep Exp of 1st year} = 5500$$

$$\text{Dep Exp of 2nd year} = 5500$$

② Working Hour Method

1st year 2200 Hrs

2nd year 2500 Hrs

$$\text{DPH} = \frac{\text{Cost} - \text{Salvage Value}}{\text{Total Hours}}$$

$$= \frac{63000 - 8000}{27500}$$

$$\text{DPH} = 2$$

$$\text{Dep of 1st year} = 2 \times 2200$$

$$= 4400$$

$$\text{Dep of 2nd year} = 2 \times 2500$$

$$= 5000$$

iii) Production Method

1st year 1,800 units

2nd year 2,500 units

$$\text{DPU} = \frac{\text{Cost} - \text{Salvage value}}{\text{Total Unit}}$$

$$= \frac{63000 - 8000}{10000}$$

$$= \frac{55000}{10000}$$

$$\text{DPU} = 5.5$$

$$\text{Dep of yearly} = \text{Dep per unit} \times \text{Units produced yearly}$$

$$\begin{aligned} \text{Dep of 1st yr} &= 5.5 \times 1800 \\ &= 9900 \end{aligned}$$

$$\begin{aligned} \text{Dep of 2nd yr} &= 5.5 \times 2500 \\ &= 13750 \end{aligned}$$

iv) Diminishing Balance Method by using 20% rate

$$\text{Diminishing Balance Method} = \text{Book value} \times \text{Rate of Dep}$$

$$\text{Book value} = \text{Cost} - \text{Accumulated Dep}$$

Diminishing Balance Method

$$\begin{aligned} \text{Dep Exp of 1st yr} &= \text{Book value} \times \text{Rate of Dep} \\ &= 63000 \times 20\% \\ &= 12600 \end{aligned}$$

$$\begin{aligned} \text{Dep of 2nd year} &= \text{Book value} \times \text{Rate of Dep} \\ &= (63000 - 12600) \times 20\% \\ &= 10080 \end{aligned}$$

$$\begin{aligned}\text{Dep Exp of 3rd year} &= \text{Book value} \times \text{Rate of Dep} \\ &= (6300 - 22680) \times 20\% \\ &= 8064\end{aligned}$$

⑤ Sum of year Digit Method

$$\text{Sum of year digit method} = (\text{Cost} - \text{Salvage Value}) \times \text{Yearly fraction}$$