Ans.

	Basis of Distinction	Original Cost Method	Written Down Value Method
1.	**Amount of depreciation.**	Equal depreciation is charged every year.	Depreciation goes on decreasing year after year.
2.	**Zero level.**	The book value of the asset can be reduced to zero.	The book value of the asset can never be reduced to zero.

15. What is Depreciable Cost?

Ans. Depreciable Cost = Cost of Asset – Scrap Value.

OBJECTIVE TYPE QUESTIONS

(A) Fill in the blanks :

(*i*) Depreciation represents a .... in the value of fixed assets.

(*ii*) Estimated sale value of an asset after its working life is called ....

(*iii*) .... cannot be correctly calculated unless depreciation on fixed assets is duly provided as a business expense.

(*iv*) Discarding the old Plant & Machinery due to new inventions is called ....

(*v*) Under the Fixed Instalment Method, depreciation is calculated on .... of the asset.

(*vi*) Under the Written Down Value method, ... remains constant whereas the amount of depreciation goes on .... from year to year.

(*vii*) The .... method equalises the burden on each year's Profit & Loss Account for depreciation and repairs put together.

(*viii*) At the time of charging depreciation, asset account is .... and depreciation account is ....

(*ix*) Under fixed instalment method, depreciation is calculated by deducting the .... value from the .... cost of the asset.

(*x*) Under .... method, the value of an asset, even if it becomes obsolete and useless, cannot be reduced to ....

[Ans. : (*i*) Fall, diminution, reduction or decrease; (*ii*) Scrap value; (*iii*) Net Profits (*iv*) Obsolescence; (*v*) Original Cost; (*vi*) Rate of depreciation, decreasing (*vii*) Diminishing balance; (*viii*) Credited; Debited; (*ix*) Scrap, Original; (*x*) Diminishing Balance, Zero.]

(B) State whether the following statements are true or false :

1. Depreciation is the process of apportionment of the cost of the asset over its useful life.
2. Depreciation decreases only the book value of the asset, not the market value.
3. Written down value method is followed so that the total burden on Profit and Loss Account in respect of depreciation and repairs put together remains almost equal each year.

4. Under diminishing balance method, depreciation is charged on the cost price of fixed asset.
5. Under diminishing balance method, depreciation is charged on the original cost of the asset minus estimated scrap value.
6. Depreciation is provided only on fixed assets except land.
7. The main objective of providing depreciation is to calculate true profit.
8. Depreciation is the process of valuation of an asset.
9. Depreciation cannot be provided in case of loss in a financial year.
10. Depreciation is the decline in the market value of tangible fixed assets.
11. In diminishing balance method of depreciation, the rate per cent of depreciation gets reduced every year.
12. There is no difference between written down value method and diminishing balance method of depreciation.
13. In case of diminishing balance method, the asset gets reduced to zero level.
14. It is not necessary to provide depreciation on plant and machinery when its market value is higher than its book value.
15. Depreciation is a non-cash expenditure.
16. Providing depreciation reduces the amount of profit available for dividend.
17. Providing depreciation ensures sufficient cash for the replacement of an asset.
18. When depreciation is credited to a 'Provision for Depreciation' account, the fixed asset appears always at cost price in the books.

[Ans. True. 1, 2, 3, 6, 7, 12, 15, 16, 18.]

Note for Q. 17 : Depreciation provides only the Original Cost of the asset and not sufficient Cash for the replacement of asset due to inflation.

(C) Choose the Best Alternate :

1. Characteristic of Depreciation is :
   (A) Decline in the value of assets
   (B) Depreciation is of permanent nature
   (C) Depreciation is a non-cash expense
   (D) All of the above
2. Depreciation arises because of :
   (A) Obsolescence (B) Constant use of assets
   (C) Expiry of time (D) All of the above
3. Depreciation for business is :
   (A) Expense (B) Income
   (C) Gain (D) Liability
4. Factors taken into consideration for providing depreciation are :
   (A) Total cost of the asset
   (B) Estimated useful life of the asset
   (C) Estimated Scrap value of the asset
   (D) All of the above

5. Depreciation in the value of asset is :
(A) Permanent decrease (B) Temporary decrease
(C) Seasonal decrease (D) None of these

6. Depreciation is provided on :
(A) Current Assets (B) Fictitious Assets
(C) Fixed Assets (D) Intangible Assets

7. Depreciation under fixed instalment method is calculated :
(A) On the purchase price of the asset
(B) On the closing balance of the asset
(C) On each year's opening balance of the asset
(D) On the market price of the asset

8. Depreciation under diminishing balance method is calculated :
(A) On the purchase price of the asset
(B) On the closing balance of the asset
(C) On each year's opening balance of the asset
(D) On the market price of the asset

9. Depreciation arises due to :
(A) Fluctuations
(B) Fall in the value of money
(C) Temporary fall in the market value of asset
(D) Physical wear and tear

10. Main object of charging depreciation is :
(A) Ascertaining true profit or loss
(B) Ascertaining true financial position
(C) Ascertaining true cost of production
(D) All of the above

11. Depreciation is the process of :
(A) Valuation of asset
(B) Allocation of the cost of asset
(C) Valuation and allocation of the cost of asset
(D) None of the above

12. Merit of reducing instalment method is :
(A) Easy calculation
(B) Equal burden on profit and loss account each year
(C) Approved by Income Tax Authorities
(D) All of the above

13. A machine is purchased for ₹80,000 and its installation charges are ₹10,000. If its scrap value is ₹6,000 and effective life is 10 years, its yearly depreciation as per fixed instalment method will be :
(A) ₹8,600 (B) ₹9,600
(C) ₹8,400 (D) ₹9,000

14. Purchase price of a machine is ₹2,00,000 and its installation charges are ₹30,000. Its scrap value is ₹5,000. If it is depreciated @ 10% p.a. on diminishing balance method, the depreciation in the first year will be :

(A) ₹23,000 (B) ₹22,500
(C) ₹23,500 (D) ₹16,500

15. On purchase of an asset, account debited is :
(A) Purchases A/c (B) Assets A/c
(C) Depreciation A/c (D) Goods A/c

16. On purchase of an asset, amount spent on its carriage is debited to :
(A) Purchases A/c (B) Carriage A/c
(C) Asset A/c (D) Installation Expenses A/c

17. On sale of an asset, account credited is :
(A) Asset A/c (B) Sale A/c
(C) Goods A/c (D) Profit & Loss A/c

18. Depreciation charged at the end of the year will be debited to :
(A) Asset A/c (B) Purchases A/c
(C) Goods A/c (D) Depreciation A/c

19. Depreciation charged at the end of the year will be credited to :
(A) Asset A/c (B) Depreciation A/c
(C) Profit and Loss A/c (D) Goods A/c

20. Loss on sale of asset is debited to :
(A) Depreciation A/c (B) Asset A/c
(C) Profit and Loss A/c (D) Sales A/c

21. On 1st October 2021, a machine is purchased for ₹3,60,000 and ₹40,000 are spent on its installation. Depreciation is charged @ 10% p.a. on original cost method. Books are closed on 31st March each year. On 31st March, 2023 depreciation charged will be :
(A) ₹20,000 (B) ₹40,000
(C) ₹38,000 (D) ₹36,000

22. On 1st July 2020, a machine is purchased for ₹1,75,000 and ₹25,000 are spent on its installation. Depreciation is charged @ 10% p.a. on diminishing balance method. Books are closed on 31st March each year. On 31st March, 2023 depreciation charged will be :
(A) ₹18,500 (B) ₹18,000
(C) ₹16,200 (D) ₹16,650

23. On 1st July 2021 a machine is purchased for ₹6,00,000. Depreciation is charged @ 10% p.a. on original cost method on 31st March each year. Depreciation charged on 31st March 2023 will be :
(A) ₹60,000 (B) ₹45,000
(C) ₹55,500 (D) ₹54,000

24. On 1st October 2021, a machine is purchased for ₹10,00,000. Depreciation is charged @ 15% p.a. on diminishing balance method on 31st March each year. The amount of depreciation on 31st March 2023 will be :
(A) ₹1,27,500 (B) ₹1,44,375
(C) ₹ 69,375 (D) ₹1,38,750

25. On 1st April 2021 a machinery is purchased for ₹2,00,000. Depreciation is charged @ 10% p.a. on original cost method and books are closed on 31st December every year. On 1st July 2023 the machinery is sold for ₹1,20,000. Loss on sale will be :
(A) ₹30,000 (B) ₹35,000
(C) ₹40,000 (D) ₹25,000

26. On 1st April 2021 a machinery is purchased for ₹4,00,000. Depreciation is charged @ 10% p.a. on diminishing balance method and books are closed on 31st December every year. On 1st July 2023, the machinery is sold for ₹1,80,000. Loss on sale will be :
(A) ₹1,53,000 (B) ₹1,19,700
(C) ₹1,36,350 (D) ₹1,27,800

27. A firm purchased on 1st April 2021 a second-hand machinery for ₹50,000 and spent ₹10,000 on its installation. On 1st July in the same year additional machinery was purchased for ₹20,000. Depreciation is provided each year on 31st December @ 5% p.a. on written down value of the asset. The amount of depreciation in the first year will be :
(A) ₹4,000 (B) ₹3,250
(C) ₹3,500 (D) ₹2,750

28. On 1st July 2021, a firm purchased a machinery for ₹4,00,000. On 1st October in the same year additional machinery was purchased for ₹1,00,000. Depreciation is provided each year on 31st December @ 10% p.a. on written down value of the asset. The amount of depreciation in the second year will be:
(A) ₹45,000 (B) ₹47,750
(C) ₹47,000 (D) ₹45,750

29. When 'Provision for Depreciation A/c' is created, the amount of depreciation is:
(A) Debited to Provision for Depreciation A/c
(B) Credited to Provision for Depreciation A/c
(C) Debited to Asset A/c
(D) Credited to Asset A/c

30. What is the amount of difference between the closing balances of two machines after two years is both machines were purchased on the same date with the same amount *i.e.*, for ₹1,00,000? Machine I is depreciated by 20% p.a. on Straight Line Method and Machine II is depreciated by 20% p.a. on Diminishing Balance Method :
(A) Value of Machine II is more by ₹2,000
(B) Value of Machine I is more by ₹4,000
(C) Value of Machine II is more by ₹4,000
(D) Value of Machine II is less by ₹2,000

31. Ambuja Cement Ltd. purchased a machine on 1-1-2022 for ₹1,20,000. Installation expenses were ₹10,000. Its residual value after 10 year is ₹5,000. On 1-03-2022 expenses on its repairs were incurred to the extent of ₹2,000.

Depreciation is provided under straight line method. Books are closed on 31st March every year. The amount of depreciation for the current year will be :
(A) ₹ 3,125 (B) ₹ 3,175
(C) ₹12,500 (D) ₹12,700

32. The balance of machine on 31st March 2023 is ₹97,200. The machine was purchased on 1st April 2021. Depreciation is charged @10% p.a. by diminishing balance method. The cost price of the machine as on 1st April 2021 would be :
(A) ₹1,00,000 (B) ₹1,20,000
(C) ₹1,08,000 (D) ₹1,32,000

33. Original cost of an asset is ₹4,80,000; Salvage value is 25% of the Cost of the asset; Useful Life is 10 Years. The rate of depreciation under Straight Line Method will be :
(A) 10% p.a. (B) 9% p.a.
(C) 8% p.a. (D) 7.5% p.a.

34. In the books of *D* Ltd. the Machinery Account shows a debit balance of ₹60,000 as on April 1, 2022 and Provision for Depreciation A/c at ₹24,000. The machinery was sold on September 30, 2022 for ₹30,000. The company charges depreciation @20% p.a. on diminishing balance method. Profit / Loss on sale of the machinery is :
(A) ₹1,200 Profit (B) ₹2,400 Loss
(C) ₹2,400 Profit (D) ₹1,200 Loss

35. What will be the percentage of depreciation under SLM in the following case :

Original Cost of Machine	₹1,50,000
Salvage value after 9 years	₹ 15,000
Repair charges in 2nd year	₹ 10,000

(A) 11.11% (B) 10%
(C) 10.34% (D) 9.37%

36. Which one of the following is not a feature of written down value method of depreciation?
(A) The book value of the asset becomes zero at any one point of time
(B) The depreciation is calculated on the book value of assets and not on the cost
(C) The amount of depreciation charged on a specific asset reduces every year.
(D) It is not approved by Income-tax authorities.

37. Which of the following best describes the "Depreciation"?
(A) Valuation of fixed asset at the end of the year
(B) Verification of assets
(C) Allocation of cost of fixed assets over its useful life
(D) Decreasing the market value of asset

38. A machine was purchased on 1st April 2022 for ₹5,00,000 and on 1st October, 2022 a new machine is added for ₹2,00,000. Calculate the balance of machine account, if depreciation is charged at 20% p.a. on written down value method for the year ending March 31, 2023.

(A) ₹6,00,000 (B) ₹5,60,000
(C) ₹6,60,000 (D) ₹5,80,000

39. Amortisation refers to writing off ....
(A) Depleting Assets (B) Wasting Assets
(C) Intangible Assets (D) Fictitious Assets

40. Depreciation is calculated from the date of ....
(A) Purchase of asset (B) Receipt of asset at business premises
(C) Asset put to use (D) Asset installed

41. A Ltd. purchased a machine on 1.1.2022 for ₹1,20,000. Installation expenses were ₹30,000. Residual value after 5 years ₹5,000. On 1.7.2022, expenses for repair were incurred to the extent of ₹2,000. Depreciation is provided @10% p.a. under written down value method. Accounts are closed on 31st December every year. Total depreciation after 2nd year
(A) ₹25,000 (B) ₹13,000
(C) ₹10,500 (D) ₹28,500

42. The W.D.V. of an asset after three years of depreciation on reducing balance method @10% p.a. is ₹1,45,800. What was its original value?
(A) ₹1,80,000 (B) ₹2,00,000
(C) ₹1,89,540 (D) ₹1,62,000

43. On 1st April, 2022 a machine is purchased for ₹1,00,000 and CGST and SGST are paid @ 9% each. Depreciation is provided @ 10% p.a. Depreciation for the year ending 31st March 2023 will be :
(A) ₹11,800 (B) ₹10,900
(C) ₹10,000 (D) ₹8,200

44. On 1st April, 2022 a Motor Car is purchased for ₹20,00,000. CGST and SGST are paid @ 9% each. Depreciation is provided @ 10% p.a. Depreciation for the year ending 31st March 2023 will be :
(A) ₹2,36,000 (B) ₹2,18,000
(C) ₹2,00,000 (D) ₹1,64,000

Hint: In case of purchase of machinery or any other asset (except vehicle) GST is debited separately and not added to the cost of the asset. However, in case of purchase of Vehicle, GST is not debited separately and is added to the cost of the Vehicle.

45. Which of the following is not a cause of depreciation ?
(A) Obsolescence (B) Fall in the Market Value
(C) Wear and Tear (D) Passage of Time

[**Ans.**

1. (D)	2. (D)	3. (A)	4. (D)	5. (A)
6. (C)	7. (A)	8. (C)	9. (D)	10. (D)
11. (B)	12. (D)	13. (C)	14. (A)	15. (B)
16. (C)	17. (A)	18. (D)	19. (A)	20. (C)
21. (B)	22. (D)	23. (A)	24. (D)	25. (B)
26. (C)	27. (D)	28. (B)	29. (B)	30. (C)
31. (A)	32. (B)	33. (D)	34. (B)	35. (B)
36. (A)	37. (C)	38. (D)	39. (C)	40. (C)
41. (D)	42. (B)	43. (C)	44. (A)	45. (B)]

PRACTICAL QUESTIONS

Original Cost Method

Q. 1. On 1st April, 2019, a limited company purchased a Machine for ₹1,90,000 and spent ₹10,000 on its installation. At the date of purchase, it was estimated that the scrap value of the machine would be ₹50,000 at the end of sixth year.

Give Machine Account and Depreciation A/c in the books of the Company for 4 years after providing depreciation by Fixed Instalment Method. The books are closed on 31st March every year.

[**Ans.** Balance of Machinery A/c on 31st March, 2023, ₹1,00,000; Rate of Depreciation 12.5% p.a.]

Q. 2. Chandra Ltd. purchased a second-hand machine for ₹8,000 plus CGST and SGST @6% each on 1st July, 2019. They spent ₹3,500 on its overhaul and installation. Depreciation is written off 10% p.a. on the original cost. On 30th September, 2022, the machine was found to be unsuitable and sold for ₹6,500. Prepare the Machinery A/c for four years assuming that accounts are closed on 31st March.

[**Ans.** Loss on sale of Machine ₹1,262.]

Note : There will be no effect of CGST and SGST on Machine A/c.

Q. 3. *A* Ltd. purchased a machine for ₹5,00,000 on 1st April, 2020. Further addition were made on 1st October 2020 and on 1st July 2021 for ₹4,00,000 and ₹3,00,000 respectively. On 1st January, 2023, 1st machine was sold for ₹2,85,000 and new machine was purchased for ₹6,00,000.

Prepare Machine A/c for three years ending 31st March, 2023 if depreciation is to be charged @ 10% p.a. on straight line basis.

[**Ans.** Loss on sale ₹77,500; Balance of Machine A/c on 31st March, 2023, ₹11,32,500.]

Q. 4. On 1st January, 2020, *A* Ltd. Purchased a machine for ₹2,40,000 and spent ₹10,000 on its erection. On 1st July, 2020 an additional machinery costing ₹1,00,000 was purchased. On 1st July, 2022 the machine purchased on 1st January, 2020 was sold for ₹1,43,000 and on the same date, a new machine was purchased at a cost of ₹2,00,000.

Show the Machinery Account for the first three calendar years after charging depreciation at 5% p.a. by the Straight Line Method.

[**Ans.** Loss on Sale of Machinery ₹75,750; Balance of Machinery Account ₹2,82,500.]

Hint. Calendar year indicates that the accounts are closed on 31st December every year.

Q. 5. Abhinandan Ltd. bought a machinery on 1st August, 2017, costing ₹90,000. It purchased further machinery on 1st December, 2017 costing ₹60,000 and on 1st October, 2018 it bought machine costing ₹40,000.

On 1st April, 2019, one third part of the machinery bought on 1st August 2017 was sold for ₹18,000 as it became obsolete. Show the Machinery Account for three years ended 31st March 2018 to 31st March 2020. Company is charging Depreciation @ 10% p.a. as Per Straight Line Method. *(Delhi 2020)*

[**Ans.** Loss on Sale of Machinery ₹7,000; Balance of Machinery A/c on 31st March, 2020 ₹1,24,000.]

Q. 6. Bhushan & Company purchased a Machinery on 1st April, 2019, for ₹54,000 and spent ₹6,000 on its installation. On 1st December, 2020, it purchased another machine for ₹30,000.

On 30th June 2021, the first machine purchased on 1st April, 2019, is sold for ₹36,000 and on the same date it purchased a new machinery for ₹80,000.

On December 1, 2022, the second machine (purchased on December 1, 2020) was also sold off for ₹26,000.

Depreciation was provided on machinery @ 10% p.a. on Original Cost Method annually on 31st March. Give the machinery account for four years.

[**Ans.** Loss on sale of First Machine ₹10,500; Gain on sale of Second Machine ₹2,000, Balance of Machine A/c on 31st March, 2023, ₹66,000.]

Q. 7. On 1st October, 2016, Raj & Co. purchased machinery worth ₹40,000. On 1st October, 2018, it buys additional machinery worth ₹10,000. On 30th September, 2019, half of the machinery purchased on 1st Oct., 2016, is sold for ₹8,200. The company writes off 10 per cent p.a. on the original cost. The accounts are closed every year on 31st March.

Show the Machinery Account for four years.

[**Ans.** Loss on sale ₹5,800. Balance of Machinery A/c on 31st March, 2020, ₹21,500.]

Q. 8. On 1st April, 2020, Plant and Machinery was purchased for ₹1,20,000. New machinery was purchased on 1st Oct., 2020, for ₹50,000 and on 1st July, 2021, for ₹25,000.

On 1st January, 2023, a machinery of the original value of ₹20,000 which was included in the machinery purchased on 1st April, 2020, was sold for ₹6,000. Prepare Plant & Machinery A/c for three years after providing depreciation at 10% p.a. on Straight Line Method. Accounts are closed on 31st March every year.

[**Ans.** Loss on sale of machinery ₹8,500; Balance of Machinery A/c on 31st March, 2023, ₹1,28,125.]

Q. 9. From the following transactions of a concern, prepare Machinery Account for the year ending 31st March, 2023 :—

2022
April 1 : Purchased a second-hand machinery for ₹40,000.
April 1 : Spent ₹10,000 on repairs for making it serviceable.
Sept. 30 : Purchased additional new machinery for ₹20,000.
Dec. 31 : Repairs and renewals of machinery ₹2,000.
2023
March 31 : Depreciate the machinery at 10% p.a.

[**Ans.** Balance of Machinery on 31-3-2023, ₹64,000.]

Hint :— Repair charges of ₹2,000 have been incurred on Dec., 31 whereas the machinery has been purchased on Sept. 30. As such, it is an expenditure of revenue nature and hence will not be recorded in Machinery A/c.

Diminishing Balance Method

Q. 10. A plant is purchased for ₹60,000 on 1st April, 2016. It is estimated that the residual value of this plant at the end of its working life of 10 years will be ₹20,920. Depreciation is to be provided at 10% p.a. on diminishing balance method.

You are required to show the Plant Account for 4 years, assuming that the books are closed on 31st March every year.

[**Ans.** Balance of Plant A/c on 31st March, 2020, ₹39,366.]

Hint : Residual value is ignored, when depreciation is calculated under the Diminishing Balance Method.

Q. 11. A Company purchased a second-hand machine on 1st April, 2020, for ₹30,000 and immediately spent ₹4,000 on its repair and ₹1,000 on its installation. On Oct. 1, 2022, the machine was sold for ₹25,000. Prepare Machine Account after charging depreciation @ 10% p.a. by diminishing balance method, assuming that the books are closed on 31st March every year. IGST was charged @12% on purchase and sale of machine.

[**Ans.** Loss on sale of machine ₹1,932.]

Note : There will be no effect of IGST on Machine A/c.

Q. 12. A firm purchased on 1st April, 2016, a second-hand Machinery for ₹36,000 and spent ₹4,000 on its installation. On 1st Oct. in the same year another Machinery costing ₹20,000 was purchased. On 1st Oct., 2018, the Machinery bought on 1st April, 2016 was sold off for ₹12,000 and on the same date a fresh Machine was purchased for ₹64,000. Depreciation is provided annually on 31st March, @ 10% p.a. on the Written Down Value Method. Show the Machine A/c from 1st April, 2016 to 31st March, 2020.

[**Ans.** Loss on sale of Machinery ₹18,780; Balance of Machinery A/c on 31st March, 2020, ₹68,571.]

Q. 13. Urja industries Ltd. purchased on 1st January, 2016, a machinery for ₹1,60,000. On 1st April, 2017, it purchased additional machinery costing ₹96,000. On 1st September, 2018 the machinery purchased on 1st January, 2016 was sold for ₹84,000 and on same date fresh machinery was purchased at cost of ₹1,50,000. Depreciation is provided at 10% p.a. on diminishing balance method every year. Accounts are closed each year on 31st December. Show machinery account for 3 years. *(K.V.S. 2020)*

[**Ans.** Loss on Sale of Machinery ₹36,960; Balance of Machinery A/c on 31st December 2018 ₹2,24,920.]

Q. 14. A Company purchased a machinery for ₹50,000 on 1st Oct., 2016. Another machinery costing ₹10,000 was purchased on 1st Dec., 2017. On 31st March, 2019, the machinery purchased in 2016 was sold at a loss of ₹5,000. The Company charges depreciation at the rate of 15% p.a. on Diminishing Balance Method. Accounts are closed on 31st March every year.

Prepare Machinery account for 3 years.

[Ans. Sale price of Machinery ₹28,415; Balance of Machinery A/c on 31st March, 2019 ₹8,075.]

Q. 15. Ashoka Ltd. bought a machine on 1st April, 2020 for ₹2,40,000 and spent ₹4,000 on its carriage and ₹6,000 towards installation cost. On 1st July, 2021 it purchased a second hand machinery for ₹75,000 and spent ₹25,000 on its overhauling. On 1st January, 2023 it decided to sell the machinery bought on 1st April, 2020 at a loss of ₹20,000. It bought another machine on the same date for ₹40,000. Company decided to charge depreciation @ 15% p.a. on written down value method. Prepare machinery account for 3 years. Books are closed each year on 31st March.

[Ans. Sale price of Machine ₹1,40,305; Balance of Machine A/c on 31st March, 2023 ₹1,13,938]

Q. 16. The Sameer Transport Company purchased 10 Trucks at ₹90,000 each on 1st April 2019. On 1st October 2021 one of the Trucks was involved in an accident and is completely destroyed. ₹56,200 was received from the Insurance company in full settlement. On the same date another truck was purchased by the company for the sum of ₹1,00,000. The company writes off 20% per annum on the Diminishing Balance Method. The company maintains the calendar year as its financial year. Show the Truck Account for four years ending 31st December, 2022.

[Ans. Gain on one Truck ₹4,180; Balance of Trucks A/c on 31st Dec., 2022 ₹4,28,512.]

Q. 17. Raja Textiles Co. which closes its books on 31st March, purchased a machine on 1-4-2016 for ₹50,000. On 1-10-2017, it purchased an additional machine for ₹30,000. The part of the machine which was purchased on 1-4-2016 costing ₹10,000 was sold for ₹3,600 on 30th Sept., 2019. Prepare the Machine Account for four years, if the depreciation is provided at the rate of 10% p.a. on Diminishing Balance Method.

[Ans. Loss on sale of Machinery ₹3,325; Balance of Machinery A/c on 31st March, 2020, ₹49,329.]

Q. 18. A Company, which closes its books on 31st March every year, purchased on 1st July, 2017, machinery costing ₹30,000. It purchased further machinery on 1st January, 2018, costing ₹20,000 and on 1st October, 2018, costing ₹10,000. On 1st April, 2019, one-third of the machinery installed on 1st July, 2017, became obsolete and was sold for ₹3,000.

Show how the machinery account would appear in the books of the Company, it being given that machinery was depreciated by Diminishing Balance Method at 10% per annum. What would be the balance of Machinery Account on 1st April, 2020?

[Ans. Loss on sale of Machinery ₹5,325; Balance on 1st April, 2020, ₹39,330. Dep. for 2017-18 ₹2,750; for 2018-19 ₹5,225 and for 2019-20 ₹4,370.]

Provision for Depreciation Account

Q. 19. On July 1, 2020 Pushpak Ltd. purchased a machinery for ₹5,70,000 and paid ₹30,000 for its overhauling and installation. Depreciation is provided @ 20% p.a. on Original Cost Method and the books are closed on 31st March every year. The machine was sold on 31st January 2023 for a sum of ₹1,60,000. You are required to show the Machinery Account and Provision for Depreciation Account for three years.

[Ans. Loss on sale of Machinery ₹1,30,000.]

Q. 20. On 1st April 2016, a Company purchased 6 machines for ₹50,000 each. Depreciation at the rate of 10% p.a. is charged on Straight Line Method. The accounting year of the Company ends on 31st March and the depreciation is credited to a separate 'Provision for Depreciation Account'.

On 1st October, 2018, one machine was sold for ₹30,000 and on 1st April, 2019 a second machine was sold for ₹24,000.

You are required to prepare Machinery Account and Provision for Depreciation Account for four years ending 31st March, 2020.

[Ans. Balance of Machinery A/c on 31st March, 2020 ₹2,00,000; Balance of Provision for Depreciation A/c on 31st March, 2020 ₹80,000; Loss on sale of first Machine ₹7,500; Loss on sale of second Machine ₹11,000.]

Q. 21. On 1st July 2015, *ABC* Ltd. purchases 4 machines for ₹80,000 each. The accounting year of the company ends on 31st March every year. Depreciation is provided at the rate of 15% p.a. on original cost.

On 1st April, 2017 one machine was sold for ₹50,000 and on 1st January, 2019 a second machine was sold for ₹40,000. Another machine with a higher capacity which cost ₹2,00,000 was purchased on 1st January, 2019.

You are required to show : (*i*) Machinery Account, (*ii*) Depreciation Account, and (*iii*) Provision for Depreciation Account for four years ending 31st March, 2019.

[Ans. Balance of Machinery A/c on 31st March, 2019 ₹3,60,000; Balance of Provision for Depreciation A/c on 31st March, 2019 ₹97,500; Loss on sale of first Machine ₹9,000; Gain on sale of second Machine ₹2,000.]

Q. 22. *X* Ltd. which closes its books of account every year on 31st March, purchased on 1st October, 2019 machinery costing ₹4,40,000. It purchased further machinery on 1st April, 2020 costing ₹5,20,000. On 30th June, 2021, the first machine was sold for ₹2,50,000 and on the same date a fresh machine was installed at a cost of ₹3,00,000. On 1st July 2022, the second machine purchased on 1st April 2020 was also sold for ₹3,25,000.

The company writes off depreciation at 10% p.a. on the Straight Line Method each year. Show the Machinery A/c, Depreciation A/c and Provision for Depreciation A/c for all the four years.

[Ans. Balance of Machinery A/c on 31st March, 2023 ₹3,00,000; Balance of Provision for Depreciation A/c on 31st March 2023 ₹52,500. Loss on sale of first Machine ₹1,13,000; Loss on sale of second machine ₹78,000.]

Q. 23. A company purchased second-hand machinery on 1st May, 2019 for ₹5,85,000 and immediately spent ₹15,000 on its erection. On 1st October, 2020, it purchased another machine for ₹4,00,000. On 31st July, 2021, it sold off the first machine for ₹2,50,000 and bought another for ₹4,20,000. On 1st November, 2022, the second machine was also sold off for ₹3,00,000. Depreciation was provided on the machinery @ 15% p.a. on Equal Instalment Method.

Show the Machinery Account, Depreciation Account and Provision for Depreciation Account assuming that the books are closed on 31st March every year.

[**Ans.** Balance of Machinery A/c on 31st March, 2023 ₹4,20,000; Balance of Provision for Depreciation A/c on 31st March, 2023 ₹1,05,000; Loss on sale of first machine ₹1,47,500; Gain on sale of second machine ₹25,000.]

Q. 24. *X* Ltd. purchased a plant on 1st July, 2020 costing ₹5,00,000. It purchased another plant on 1st September, 2020 costing ₹3,00,000. On 31st December, 2022, the plant purchased on 1st July, 2020 got out of order and was sold for ₹2,15,000. Another plant was purchased to replace the same for ₹6,00,000. Depreciation is to be provided at 20% p.a. according to Written Down Value Method. The accounts are closed every year on 31st March.

Show the Plant Account and Provision for Depreciation Account.

[**Ans.** Balance of Plant A/c on 31st March, 2023 ₹9,00,000; Balance of Provision for Depreciation A/c on 31st March, 2023 ₹1,60,400; Loss on sale of plant ₹74,000.]

Q. 25. On 1st August, 2020, Hindustan Toys Ltd. purchased a plant for ₹12,00,000. The firm writes off depreciation at 10% p.a. on the diminishing balance and the books are closed on 31st March each year. On 1st July, 2022, a part of this plant of which the original cost was ₹1,80,000 was sold for ₹1,00,000 and on the same date a new plant was purchased for ₹4,00,000. Show the Plant Account and Provision for Depreciation Account for three years ending 31st March, 2023.

[**Ans.** Balance of Plant A/c on 31st March, 2023 ₹14,20,000; Balance of Provision for Depreciation A/c on 31st March, 2023 ₹2,78,880; Loss on sale of Plant ₹47,420.]

Q. 26. On 1st April 2020, Banglore Silk Ltd. purchased a machinery for ₹20,00,000. It provides depreciation at 10% p.a. on the Written Down Value Method and closes its books on 31st March every year. On 1st July 2022, a part of the machinery purchased on 1st April 2020 for ₹4,00,000 was sold for ₹3,20,000. On 1st November 2022, a new machinery was purchased for ₹4,80,000. You are required to prepare Machinery Account, Depreciation Account and Provision for Depreciation Account for three years ending 31st March 2023.

[**Ans.** Balance of Machinery A/c on 31st March 2023 ₹20,80,000; Balance of Provision for Depreciation A/c on 31st March 2023 ₹4,53,600; Gain on sale of Machinery ₹4,100.]

Q. 27. Binny Textiles Ltd. which depreciates its machinery at 20% p.a. on diminishing balance method, purchased a machine for ₹6,00,000 on 1st October, 2020. It closes its books on 31st March every year. On 1st January, 2022, it purchased another machine for ₹1,50,000. On 1st December, 2022, one-third of the machinery purchased on 1st October, 2020 was sold for ₹80,000.

You are required to prepare Machinery A/c and Provision for Depreciation A/c for the relevant years.

[**Ans.** Balance of Machinery A/c on 31st March, 2023 ₹5,50,000; Balance of Provision for Depreciation A/c on 31st March, 2023 ₹2,05,600; Loss on sale of Machinery ₹44,800.]

Q. 28. Following balances appeared in the books of Saurabh on 1st April, 2017 :

	₹
Plant and Machinery	10,00,000
Provision for Depreciation	3,50,000

On 1st July 2017, he sold a part of machinery for ₹1,25,000 which was purchased on 1st October 2015 for ₹1,60,000. On the same date, he purchased a new machinery for ₹3,00,000. Prepare Plant & machinery account and provision for depreciation account from 1.4.2017 to 31.3.2019, if depreciation is charged on 10% p.a. by straight line method. *(KVS 2020)*

[**Ans.** Balance of Machinery A/c on 31st March, 2019 ₹11,40,000; Balance of Provision for Depreciation A/c on 31st March, 2019 ₹5,46,500; Loss on Sale of Machinery ₹7,000.]

Q. 29. The following balances appear in the books of *Y* Ltd.:

	₹
Machinery A/c as on 1-4-2022	8,00,000
Provision for Depreciation A/c as on 1-4-2022	3,10,000

On 1-7-2022, a machinery which was purchased on 1-4-2019 for ₹1,20,000 was sold for ₹50,000 and on the same date another machinery was purchased for ₹3,20,000.

The firm has been charging depreciation at 15% p.a. on Original Cost Method and closes its books on 31st March every year. Prepare the Machinery A/c and Provision for Depreciation A/c for the year ending 31st March 2023.

[**Ans.** Balance of Machinery A/c on 31st March 2023 ₹10,00,000; Balance of Provision for Depreciation A/c on 31st March 2023 ₹3,94,000; Loss on sale of Machinery ₹11,500.]

Q. 30. On 1st April, 2022, following balances appeared in the books of M/s Krishna Traders :

	₹
Furniture Account	50,000
Provision for Depreciation on Furniture Account	22,000

On 1st October, 2022 a part of Furniture purchased for ₹20,000 on 1st April, 2018 was sold for ₹5,000. On the same date a new furniture costing ₹25,000 was purchased. The depreciation was provided @10% p.a. on original cost of the asset and no depreciation was charged on the asset in the year of sale. Prepare 'Furniture Account' and 'Provision for Depreciation Account' for the year ending 31st March, 2023.

[**Ans.** Balance of Furniture Account on 31st March, 2023 ₹55,000; and Balance of Provision for Depreciation Account on 31st March, 2023 ₹18,250; Loss on Sale of Furniture ₹7,000.]

Q. 31. Books of Mumbai Chemicals Ltd. showed the following balances on 1st April, 2019 :

Machinery A/c	₹10,00,000
Provision for Depreciation A/c	₹ 4,05,000

On 1st April, 2019, a machine which had a cost of ₹2,00,000 on 1st October, 2016 was sold for ₹80,000. The firm writes off depreciation @ 10% p.a. under the Reducing Balance Method and its accounts are made up on 31st March each year. You are required to prepare the Machinery A/c and Provision for Depreciation A/c for the year ending 31st March, 2020.

[**Ans.** Balance of Machinery A/c on 31st March, 2020 ₹8,00,000. Balance of Provision for Depreciation A/c on 31st March, 2020 ₹4,03,010; Loss on sale of Machinery ₹73,900.]

Asset Disposal Account

Q. 32. On 1st July, 2017, *X* Ltd. purchased a machinery for ₹15,00,000. Depreciation is provided @ 20% p.a. on the original cost of the machinery and books are closed on 31st March each year. On 31st May, 2019, a part of this machine purchased on 1st July 2017 for ₹3,60,000 was sold for ₹2,40,000 and on the same date new machinery was purchased for ₹4,20,000. You are required to prepare (*a*) Machinery Account, (*b*) Provision for Depreciation Account, and (*c*) Machinery Disposal Account.

[**Ans.** Balance of Machinery A/c on 31st March, 2020 ₹15,60,000; Balance of Provision for Dep. A/c on 31st March, 2020 ₹6,97,000; Gain on sale of Machinery ₹18,000.]

Q. 33. On 1st September 2016, Gopal Ltd. purchased a plant for ₹10,20,000. On 1st July 2017 another plant was purchased for ₹6,00,000. The firm writes off depreciation @ 10% p.a. on original cost and its accounts are closed every year on 31st March. On 1st October 2019, a part of the second plant purchased on 1st July 2017 for ₹1,80,000 was sold for ₹1,10,000. On 1st December 2019, another plant was purchased for ₹3,00,000.

Prepare Plant Account, Provision for Depreciation Account and Plant Disposal Account.

[**Ans.** Balance of Plant A/c on 31st March 2020 ₹17,40,000; Balance of Provision for Depreciation A/c on 31st March 2020 ₹4,91,000; Loss on sale of Plant ₹29,500.]

Q. 34. On 1st June, 2017, Kedarnath Ltd. purchased a machinery for ₹27,00,000. Depreciation is provided @ 10% p.a. on diminishing balance method and the books are closed on 31st March each year. On 1st October, 2019, a part of the machinery purchased on 1st June, 2017 for ₹6,00,000 was sold for ₹3,50,000 and on the same date another machinery was purchased for ₹8,00,000. You are required to show (*i*) Machinery A/c, (*ii*) Provision for Dep. A/c, and (*iii*) Machinery Disposal A/c.

[**Ans.** Balance of Machinery A/c on 31st March, 2020 ₹29,00,000; Balance of Provision for Dep. A/c on 31st March, 2020 ₹5,80,750; Loss on sale of Machinery ₹1,20,250.]

Q. 35. On 1st Jan. 2017, Panjim Dryfruits Ltd. bought a plant for ₹15,00,000. The company writes off depreciation @ 20% p.a. on Written Down Value Method and closes its books on 31st March every year. On 1st Oct. 2019, a part of the plant purchased on 1st Jan. 2017 for ₹3,00,000 was sold for ₹1,75,000. On 1st Jan. 2020 a fresh plant was purchased for ₹5,00,000. Prepare Plant A/c, Provision for Dep. A/c and Plant Disposal A/c.

[**Ans.** Balance of Plant A/c on 31st March 2020 ₹17,00,000; Balance of Provision for Dep. A/c on 31st March 2020 ₹6,41,320; Gain on sale of plant ₹10,840.]

Q. 36. The following balances appear in the books of M/s Amrit :

		₹
1st April, 2022	Machinery A/c	60,000
"	Provision for depreciation A/c	36,000

On 1st April, 2022, they decided to dispose off a machinery for ₹8,400 which was purchased on 1st April, 2018 for ₹16,000.

You are required to prepare Machinery A/c, Provision for Depreciation A/c and Machinery Disposal A/c for 2022-23. Depreciation was charged at 10% p.a. on original cost method.

[**Ans.** Loss on sale ₹1,200; Balance of Machinery A/c ₹44,000; Balance of Provision for Depreciation A/c ₹34,000.]

Q. 37. A limited company purchased on 01-01-2017 a plant for ₹38,000 and spent ₹2,000 for carriage and brokerage. On 01-04-2018 it purchased additional plant costing ₹20,000. On 01-08-2019 the plant purchased on 01-01-2017 was sold for ₹25,000. On the same date, the plant purchased on 01-04-2018 was sold at a profit of ₹2,800. Depreciation is provided @10% per annum on diminishing balance method every year. Accounts are closed on 31st December every year. Show the plant A/c for 3 years.

[**Ans.** Loss on Sale of Plant ₹5,510; Sale of IInd Plant ₹20,220.]

Q. 38. *A* Limited purchased a machine on 1st July 2017 for ₹3,00,000 and on 1st January 2019 bought another machinery for ₹2,00,000. On 1st August 2019 machine bought in 2017 was sold for ₹1,60,000. Another machine was bought for ₹1,50,000 on 1st October 2019. It was decided to provide depreciation @ 10% p.a. on written down value method assuming books are closed on 31st March each year. Prepare Machinery Account and Provision for depreciation account for 3 years.

[**Ans.** Balance of Machinery A/c on 31st March 2020 ₹3,50,000; Balance of Provision for Depreciation A/c on 31st March 2020 ₹32,000; Loss on sale of Machine ₹81,425.]

Q. 39. On April 01, 2019 Jain & Sons purchased a second hand plant costing ₹2,00,000 and spent ₹10,000 on its overhauling. It also spent ₹5,000 on transportation and installation of the plant. It was decided to provide for depreciation @ 20% on written down value. The plant was destroyed by fire on Oct. 31, 2022 and an insurance claim of ₹50,000 was admitted by the insurance company. Prepare plant account assuming that the company closes its books on March 31, every year.

[**Ans.** Loss by Fire ₹47,237.]

HIGHER ORDER THINKING SKILLS (HOTS) QUESTIONS

1. Why depreciation is not charged on Land?
2. Reliance Co. did not use a particular machine during the current year. Should depreciation be charged on this machine also?

3. Is depreciation the result of fluctuations in the value of fixed assets?
4. Should depreciation be provided even if there is loss in a financial year?
5. "In case of a long term asset, repair and maintenance expenses are expected to rise in later years than in earlier year". Which method is suitable for charging depreciation if the management does not want to increase burden on Profit & Loss Account on account of depreciation and repair.
6. Is it necessary to provide depreciation on a fixed asset of which the market value is higher than its book value. Why?
7. Is depreciation a non-cash expenditure?
8. Name the method of depreciation which assumes that the asset is depreciated more in the earlier years and less in the later years of its life.
9. Original Cost of a Machinery ₹5,00,000; Salvage value ₹20,000; Expected useful life 10 years. What will be the amount of depreciation for the fourth year according to original cost method? Also specify the rate of depreciation.
10. On 1st April, 2019 *X* Ltd. acquired a machine for ₹6,00,000. Installation expenses were ₹40,000. Residual value after 5 years ₹1,00,000. On 1st Oct. 2019 it incurred repair expenses of ₹20,000. What will be the annual depreciation under straight line method if books are closed on 31st March every year.
11. Original cost of a Machinery ₹5,20,000; Salvage Value ₹20,000. What will be the amount of depreciation for second year according to diminishing balance method @ 10% p.a.
12. A machine was purchased on 1st April, 2019. The balance of this machine on 31st March, 2022 is ₹5,83,200. Depreciation is charged @ 10% p.a. on written down value method. What was the cost price of the machine on 1st April, 2019?
13. Under which method the value of an asset can never be completely extinguished? *(KVS 2017)*
14. *X* Ltd. purchased a plant for ₹7,80,000 and spent ₹60,000 on its installation. Its scrap value is ₹42,000 and useful life 10 years. What will be the rate of depreciation as per straight line method?
15. Ram purchased computer on 1.04.2022 for ₹6,00,000. They are charging depreciation on written down value method. On 31.03.2023 they sold the computer for ₹1,65,000 and incurred a loss of ₹75,000. What was the rate of depreciation p.a.?

ANSWERS TO HIGHER ORDER THINKING SKILLS (HOTS) QUESTIONS

1. Depreciation is not charged on land because its useful life is not limited to few years.
2. Yes. Depreciation must be charged because depreciation is caused not only because of its use but also because of efflux of time.
3. No. Depreciation is not the result of fluctuations because fluctuations affect the