UNIT 21 DEPRECIATION – II

Structure

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21.0 OBJECTIVES

After studying this unit you should be able to :

- compute the amount of depreciation upder various methods of providing depreciation
- prepare accounts under different methods of providing depreciation
- identify the method of providing depreciation for various fixed assets.

21.1 INTRODUCTION

In Unit 20 you learnt how depreciation is trqated in the books of account and what are the various methods of providing depreciation. In that unit we discussed the two most important methods viz., (i) fixed instalment method and (ii) diminishing balance method. In this unit we shall take up the remaining methods of providing depreciation and study their main features, merits, demerits and the accounting treatment.

21.2 ANNUITY METHOD

The amount invested in an asset has an opportunity cost i.e., if that amount had been invested in some other form it would have earned some interest. The fixed instalment and the diminishing balance methods ignore such cost. Normally depreciation does not take such lass of interest into account. But in some cases it is codsidered desirable to include it. For example, when-some property is taken on lease we have to pay a lump sum amount at the initial stage and then a nominal amount as rent every year, The amount paid at the initial stage is a sort of advance payment of rent. It is treated as the cost of lease and written off duting the lease period by way of providing depreciation.

In such a situation, the loss of interest on advance payment must also be treated as a part of the cost of using the asset: The method by which the interest is also included in the amount of depreciation-is known as Annuity Method. This method is usually employed for providing depreciation on leasehold property. But it can also be used far other fixed assets provided it is decided to account for the loss of interest on the account invested in the asset.

Under this method the interest is calculated on the opening balance of the asset each year and debited to the asset account, credit being given to interest Account. As

depreciation is to be inclusive of interest, the amount of depreciation charged every year is higher than what it would have been under any other method. Although the amount of interest varies from year to year (it goes on decreasing) the instalment of depreciation is uniform which is computed with reference to the annuity table. Which is given below :

Annuity Table
Amount *required* to write off Re. 1 *by* Annuity *Method*

Years	10 per cent	11 per cent	12 *per* cent	*13* per cent	14 per cent	15 per cent
1	1.1000000	1.1100000	1.1200000	1.1300000	1.1400000	1.1500000
2	0.5761902	0.5839335	0.5916978	0.5994833	0.6072896	0.6151161
3	0.4021148	0.4092129	0.4163489	0.4235218	0.4307314	0.4379709
4	0.3154707	0.3223262	0.3292344	0.3361941	0.3432047	0.3502653
5	0.2637974	0.2705702	0.2774096	0.2843145	0.2912835	0.2983155
6	0.2296073	0.2363765	0.2432257	0.2501532	0.2571574 ,	0.2642369
7	0.2054054	0.2122152	0.2191177	0.2261107	0.2331923	0.2403603
8	0.1874439	0.1943210	0.2013028	0.2083866	0.2155700	0.2228500
9	0.1736405	0.1806016	0.1876788	0.1948688	0.2021683	0.2095740
10	0.1627453	0.1698014	0.1769841	0.1842895	0.1917135	0.1992520

Let us take an illustration to see how the amount of depreciation is determined by referring to the annuity table. Suppose a lease has been taken for Rs. 10,000 for 5 years. It is decided to charge depreciation under annuity method, interest being calculated at 12% per annum. Refer to the 'years' column and move down up to fifth year. Now move horizontally towards the right to read the figure under 12% column which is **0.2774096.** It means that to write off Pie. 1, which earns interest at 12% per annum, must be depreciated by **(4.2774096each year** for five years. Since the amount to be written off is Rs. 10,000 the annual depreciation would be Rs. 10,000 × **0.2774096 = Rs. 2774.096. You** can take it as Ks. **2,774** (approximately).

Look at Illustration 1 aria see how the asset account would be prepared under annuity method.

Illustration 1

A company acquires a lease costing Ks. 1,00,000 for a term of five years. You find from the Annuity Table that in order to write off the lease on the annuity method at 13% per annum interest, the amount to be written off annually works out to be Rs. **0.2843145** for every rupee. Prepare the Lease Account for all the five years and show the annual charge to Profit and Loss Account during each of these five years.

Solution :

Lease Accouut

Dr. **Cr.**

I year		Rs.	I year		XU
Jan. 1	To Bank	1,00,000	Dec. 31	By Depreciation A/c	28,431
Dec. 31	To Interest A/c	13,000	" 31	By Balance c/d	84,569
		1,13,000			1,13,000
II year					
Jan. 1	To Balance b/d	84,569	Dec. 31	*By Depreciation* A/c	28,431
Dec. 31	To Interest A/c	10,994	" 31	*By* Balance c/d	67,132
		95,563			95,563
III year					
Jan. 1	To Balance b/d	67,132	Dec. 31	By Depreciation A/c	28,431
Dec. 31	To Interest A/c	8,727	" 31	By Balance c/d	47,428
		75,859			75,859

IV year					
Jan. 1	To **Balance** b/d	47,428	Dec. 31	By **Depreciation** A/c	28,431
Dec. 31	**To** Interest A/c	6,165	31	By **Balance** c/d	25,162
		53,593			53,593
V year					
Jan. 1	To **Balance** b/d	25,162	Dec. 31	By Depreciation A/c	28,431
Dec. 31	To Interest A/c	3,269			
		28,431			28,431

Notes : 1 The annual charge on account of depreciation has been worked out as follows:

Rs. 1,00,000 x 0.2843145

= Rs. 28,431.45

This has been rounded off to Rs. 28,431.

2 Interest debited to the asset account every year has also been rounded off to the ,nearest rupees.

3 On account of these approximations, the actual amount of interest to be taken into account in the last year works out to Rs. 3,269 as against Rs. 3,271.

You know that depreciation is debited to tlic Profit and Loss Account. When you prepare the Interest Account, the amount of interest debited to the asset account will be credited to this account. This will ultimately be transferred to the Profit and Loss Account. Thus each year the Profit and Loss Account will have debit in respect of depreciation and credit in respect of interest. This will, in effect, reduce the net charge (debit) to the Profit and Loss Account to the level of depreciation based on **original** cost. Look at the following statement which shows the net charge to Profit and Loss Account.

Statement Showing the Amount Chargeable to P & L Account

Year	Depreciation (dehited) Rs.	Interest (credited) Rs.	Net charge against profits Rs.
I	28,431	13,000	15,431
II	28,431	10,994	17,437
III	28,431	8,727	19,704
IV	28,431	6,165	22,266
V	28,431	3,269	25,162
	1,42,155	42,155	1,00,000

'From the above table it is clear that the net charge to Profit and Loss Account increases year after year even though the depreciation is a fixed sum. This is **because** of the interest amount decreases year after year. However, the total net charge to Profit and Loss Account is equal to the cost of lease.

Merits and Demerits

The annuity method has the merit of considering the amount invested in the purchase of an asset as an investment capable of earning some interest. However, when additions are made to the asset, fresh computations have to be made and the calculation becomes difficult. Another limitation of this method arises on account of debiting the asset account with interest, This increases the book value of asset particularly in the initial years. As stated earlier, this method is generally used for leases in respect of which a lumpsum payment is made in advance.

21.3 DEPRECIATION FUND METHOD

None of the methods discussed so far ensure the provision of necessary funds fur replacement of asset at the end of its useful Rife. It is so because the amount of depreciation charged results in conserving the resources, but such resources join the mainstream and lose their independent identity. Actual replacement of the asset requires liquid funds and preferrably such funds should he provided without disturbing the working capital of the business. Depreciation Fund method, also known as 'Sinking Fund Method' takes care of this aspect and ensures that funds are provided for replacement of the asset. Under this method an amount equal to depreciation is taken out of business and invested in some outside securities carrying a particular rate of interest. At the end of the useful life of the asset such securities are sold out and with the funds so realised the new asset can be conveniently purchased.

As the amount invested in securities earns some interest it will not be necessary to write off the full amount of the cost of asset as depreciation. The total depreciation written off and the interest earned on securities together will be equal to the original cost of the asset. Hence, depreciation charged under this method will be lower as compared to other method.

Under this method the amount required for investment annually at a given rate of interest for a given number of years can be determined by referring to Sinking Fund Table.

Sinking Fund Table
Periodic deposit which will amount do Re. 1

Years	10 per cent	11 *per* cent	12 per cent	13 per cent	14 pel. rent	15 per cent
1	1.0000000	1.0000000	1.0000000	1.0000000	1.0000000	1.0000000
2	0.4761904	0.4739336	1.0000000	1.0000000	0.4672897	0.4651162
3	0.3021148	0.2992130	0.4716981	0.4694835	0.2907314	0.2879769
4	0.3021148	0.2992130	0.2963489	0.2935219	0.2032048	0.2002653
5	0.1654978	0.1605763	0.1574097	0.1543945	0.1512835	0.1483155
6	0.1296073	0.1265703	0.1232097	0.1201543	0.1171575	0.1142369
7	0.1054054	0.1022152	0.0991277	0.0961108	0.0931923	0,0903603
8	0.0874440	0.084321.0	0.0813028	0.0783807	0.0755700	0.0728500
9	0.0736405	0.0706016	0.0676089	0.0648689	0.0621683	0.0595740
10	0.0627453	0.0598014	0.0569841	0.0542895	0.0517135	0.0492520

Supp[illegible] amount of Rs. 20,000 is to be written off over a period of three years and it is c[illegible] ed to invest the depreciation amount in securites yielding *14%* interest per annu[illegible] hen the amount to be written off every year is determined as explained belo[illegible]

Loca[illegible] the years column the relevant figure for three years under 14% and you find i[illegible] e Re. **0.2907314. This means if** Re. 0.2907314 is invested each year at **14%** per annum, it will accumulate to Re. 1 at the end of three years. As Rs. 20,000 is required to be written off, the depreciation amount to be charged every year is calculated as under :

Me **0.2907314** × 20,000 = Rs. 5,814.628, say Rs. **5,815** (approximately).

Under this method a fixed amount as calculated above is charged every year as depreciation by debiting it to the Profit and Loss Account and crediting it to the Depreciation Fund Account. You should note that the asset account is not credited with the amount of depreciation as in the case of other methods.

The asset account appears at its original cost till the last year of its useful life. Every year an amount equal to depreciation is invested in some outside securities. These

investments accumulate at compound interest and make available adequate funds for replacement of the worn out asset. In the last year of the life of the asset the balance in Depreciation Fund Account is transferred to asset account and thus the accounts will be closed (after due adjustment in respect of profit or loss on sale of investment).

The following journal entries are passed when this method is followed :

1 At the end of 1st year:

a) For depreciation instalment
Depreciation A/c Dr.
To Depreciation Fund A/c

b) For investing the amount equal to depreciation
Depreciation Fund Investment A/c Dr.
To Bank A/c

2 At the end of 2nd year and subsequent years :
(up to the last but one year)

a) For depreciation instalment
Depreciation A/c **Dr.**
To Depreciation Fund A/c

b) For receipt of interest on investment
Bank A/c Dr.
To Depreciation Fund A/c

c) For investing the amount (depreciation and interest) in securities
Depreciation Fund Investments A/c Dr.
To Bank A/c

3 At the end of the last year

a) For depreciation instalment
Depreciation A/c Dr.
To Depreciation Fupd A/c

b) For receipt of interest on investment
Bank A/c Dr.
To Depreciation Fund A/c

c) For sale of investments
Bank A/c Dr.
To Depreciation Fund Investments A/c

d) For profit on sale of investments :
Depreciation Fund Investments A/c Dr.
To Depreciation Fund A/c

OR

For the loss on sale of investments
Depreciation Fund A/c Dr.
To Depreciation Fund Investments A/c

e) For transferring the balance of Depreciation Fund A/c
Depreciation Fund A/c Dr.
To Depreciation Fund Investments A/c

f) For sale of Asset if it has some residual value :
Bank A/c Dr.
To Asset A/c

g) For transferring debit balances in the Asset account, if any
Profit and Loss A/c Dr.
To Asset A/c

You should also note the following points in this regard.

1 At the end of every year the debit balance on Depreciation Account representing total amount of depreciation charged on all fixed assets will be transferred to the Profit and Loss Account with the help of the following entry :

Profit and Loss A/c Dr.
To Depreciation A/c

2 Usually the annual charge of depreciation and interest received are rounded off to the nearest rupee with a view to simplify the calculations,.

3 Sometimes, the interest is received half yearly. In such a situation, the entries for receipt of interest on investments and investing the amount of interest in securities, will have to be passed twice a year.

Look at Illustrations 2 and 3 and see how the relevant accounts are prepared under Depreciation Fund Method.

Illustration 2

Satish Ltd. purchased a four years lease on January 1, 1983 for Rs. 1,00,000. It is decided to provide for the renewal of the lease at the end of the four years by setting up a depreciation fund. It is expected that investments will fetch interest at 10% per annurn. Sinking Fund tables show that the 0.2154708 invested each year will produce Re. 1 at the end of four years at 10% per annuni.

On December 31, 1986, the depreciation fund investments are sold for Rs. 70,000. Pass the necessary journal entries and prepare the ledger accounts. Also show how these accounts are shown in the Balance Sheet.

Solution :

Journal of Satish Ltd.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1983			Rs.	Rs.
Jan. 1	Lease A/c Dr. To Bank A/c (Being lease taken for four years)		1,00,000	1,00,000
Dec. 31	Depreciation A/c Dr. To Depreciation Fund A/c (Being depreciation written off)		21,547	21,547
" 31	P & L A/c Dr. To Depreciation A/c (Being depreciation charged to P & L A/c)		21,547	21,547
" 31	Dep. Fund Investment A/c Dr. To Bank A/c (Being dep, amount invested)		21,547	21,547
1984 Dec. 31	Depreciation A/c Dr. To Dep. Fund A/c (Being depreciation written off)		21,547	21,547
" 31	P & L A/c Dr. To Depreciation A/c (Being dep. charged to P&L A/c)		21,547	21,547
" 31	Bank A/c Dr. To Dep. Fund A/c (Being interest received on DF investments)		2,155	2,155

Dec. 31	Dep. Fund Investment Nc Dr. To Bank A/c (Being amount of interest and depreciation invssted')		23,702	23,702
1985 Dec. 31	Depreciation A/c Dr. To Dep. Fund A/c (Being dep. written off)		21,547	21,547
" 31	P & L A/c Dr. To Depreciation A/c (Being dep. charged to P & L A/c)		21,547	21,547
" 31	Bank A/c Dr. To Dep. Fund A/c (Being interest received on DF investments)		4,525	4,525
" 31	Dep. Fund Investment A/c Dr. To Bank A/c (Reing interest and Dep. invested)		26,072	26,072
1986 " 31	Depreciation A/c Dr. To Dep. Fund A/c (Being depreciation written off)		21,547	21,547
" 31	P & L A/c Dr. To Depreciation A/c (Being dep. charged to P & L A/c)		21,547	21,547
" 31	Bank A/c Dr. To Dep. Fund A/c (Being interest received on DF Inv.)		7,132	7,132
" 31	Bank A/c Dr. To Dep. Fund Investment A/c (Being DF Investment sold)		70,000	70,000
" 31	Dep. Pund A/c Dr. To Dep. Fund Investment A/c (Being loss on sale of DF Investment)		1,321	1,321
" 31	Dep Fund A/c Dr. To (Being the balance of dep. fund transferred)		98,679	98,679
" 31	P & L A/c Dr. To Lease A/c (Being the debit balance on Lease A/c transferred)		1,321	1,321

Lease Account

Dr.					Cr.
1983		Rs.	1983		Rs.
Jan. 1	To Bank A/c	1,00,000	Dec. 31	By Balance c/d	1,00,000
1984 Jan. 1	To Balance b/d	1,00,000	1984 Dec. 31	By Balance cld	1,00,000
1985 Jan. 1	To Balance b/d	1,00,000	1985 Dec. 31	By Balance c/d	1,00,000

1986 Jan. 1	To Balance b/d	1,00,000	1986 Dec. 31	By Depreciation Fund A/c	98,679
			" 31	By P & L A/c (loss)	1,321
		1,00,000			1,00,000

Depreciation Fund Account

		Rs.			Rs.
1983 Dec. 31	To Balance c/d	21,547	1983 Dec. 31	By Depreciation A/c	21,547
1984 Dec. 31	To Balance b/d	45,249	1984 Jan. 31	By Balance b/d	21,547
			Dec. 31	By Bank A/c	2,155
			" 31	By Depreciation A/c	21,547
		45,249			45,249
1985 Dec. 31	To Balance b/d	71,321	1985 Jan. 31	By Balance b/d	45,249
			Jan. 31	By Bank A/c	4,525
			Dec. 31	By Depreciation	21,547
		71,321			71,321
1986 Dec. 31	To Depreciation Fund Investment A/c	1,321	1986 Jan. 1	By Balance b/d	71,321
			Dec. 31	By Bank A/c	7,132
" 31	To Lease A/c	98,679	" 31	By Depreciation A/c	21,547
		1,00,000			1,00,000

Depreciation Fund Investments Account

		Rs.			Rs.
1983 Dec. 31	To Bank A/c	21,547	1983 Dec. 31	By Balance c/d	21,547
1984 Jan. 1	To Balance b/d	21,547	1984 Dec. 31	By Balance c/d	45,249
Dec. 31	To Bank A/c	23,702			
		45,249			45,249
1985 Jan. 1	To Balance b/d	45,249	1985 Dec. 31	By Balance c/d	71,321
Dec. 31	To Bank A/c	26,072			
		71,321			71,321
1986 Jan. 1	To Balance b/d	71,321	1986 Dec. 31	By Bank A/c (sale)	70,000
			Dec. 31	By Depreciation Fund A/c (loss on sale)	1,321
		71,321			71,321

Balance Sheet as on December 31, 1983

	Rs.		Rs.
Depreciation Fund	21,547	Lease	1,00,000
		Depreciation Fund Investments	21,547

Balance Sheet as on December 31, 1984

	Rs.		Rs.
Depreciation Fund	45,249	Lease	1,00,000
		Depreciation Fund Investments	45,249

Balance Sheet as on December 31, 1985

	Rs.		Rs.
Depreciation Fund	71,321	Lease	1,00,000
		Depreciation Fund Investments	71,321

Balance Sheet as on December 31,1989

	Rs.		Rs.
		Lease	1,00,000
		Less Depreciation Fund Investments	1,00,000

Note : Depreciation Fund balance can also be shown as a deduction from asset value in the Balance Sheet.

Illustration 3

Ramesh bought a plant on January 1,1982 for a sum of Rs. 50,000 having a useful life of 5 years. The estimated scrap value of the plant was Rs. 8,000. Ramesh decided to charge depreciation according to depreciation fund method. The investment expected to earn interest @ 5% p.a. Sinking fund table showed that Re. 0.180975 if invested yearly at 5% p.a. would produce Re. 1 at the end of 5 years. The investment were sold at the end of 5th year for Rs. 32,500. The asset was sold and its scrap released Rs. 8,500.

Prepare necessary ledger accounts in the books of Ramesh.

Solution :

Plant Account

Dr. **Cr.**

		Rs.			Rs.
1982 Jan. 1	To Bank A/c	50,000	1982 Dec. 31	By Balance c/d	50,000
1983 Jan. 1	To Balance b/d	50,000	1983 Dec. 31	By Balance c/d	50,000
1984 Jan. 1	To Balance b/d	50,000	1984, Dec. 31	By Balance c/d	50,000
1985 Jan. 1	To Balance b/d	50,000	1985 Dec. 31	By Balance c/d	50,000
1986 Jan. I	To Balance b/d	50,000	1986 Dec. 31	By Dep. Fund A/c	41,739
Dec. 31	To P & L A/c (Profit on sale of asset)	239	" 31	By Bank A/c (sale)	8,500
		50,239			50,239

Depreciation Fund Account

Dr.					Cr.
1982		Rs.	1982		Rs.
Dec. 31	To Balance c/d	7,601	Dec. 31	By Depreciation A/c	7,601
1983			1983		
Dec. 31	To Balance c/d	15,582	Jan. 1	By Balance b/d	7,601
			Dec. 31	By Bank A/c	380
			" 31	By Depreciation A/c	7,601
		15,582			15,582
1984			1984		
Dec. 31	To Balance c/d	23,962	Jan. 31	By Balance bld	15,582
			Dec. 31	By Bank A/c	779
			" 31	By Depreciation A/c	7,601
		23,962			23,962
1985			1985		
Dec. 31	To Balance c/d	32,761	Jan. 1	By Balance b/d	23,962
			Dec. 31	By Bank A/c	1,198
			" 31	By Depreciation A/c	7,601
		32,761			32,761
1986			1986		
Dec. 31	By D.F. Investment A/c (Loss transferred)	261	Jan. 31	By Balance b/d	32,761
			Dec. 31	By Hank A/c	1,638
" 31	By Plant A/c (accumulated depreciation)	41,739	" 31	By Depreciation A/c	7,601
		42,000			42,000

Depreciation Fwd Investment Account

Dr.					Cr.
1982		Rs.	1982		Rs.
Dec. 31	To Bank *Nc*	7,601	Dec. 31	By Balance c/d	7,651
1983			1983		
Jan. 1	To Balance b/d	7,601	Dec. 31	Ry Balance c/d	15,582
Dec. 31	To Bank A/c				
		5			15,582
1984			1984		
Jan. 1	To Balance b/d	15,582	Dec. 31	By Balance c/d	23,962
Dec. 31	To Bank A/c	8,380			
		23,962			23,962
1985			1985		
Jan. 1	To Balance b/d	23,962	Dec. 31	Ey Balance c/d	32,761
Dec. 31	To Bank A/c	8,799			
		32,761			32,761
1986			1986		
Jan. 1	To Balance b/d	32,761	Dec. 31	By Bank A/c	32,500
				By Dep. Fund A/c	261
		32,761		(loss transferred)	32.761

Merits and Demerits

The main advantages of this method is that it provides the firm with necessary funds required for replacing the asset. If the amounts were not invested outside the business and accumulated, the withdrawal of funds from regular business operations would have crippled the normal financial working of the business. The disadvantage however, is that the combined charge of depreciation and repairs will not be uniform throughout the life of an asset. This method is used in respect of assets like plant and machinery, lease etc.

21.4 INSURANCE POLICY METHOD

The **Depreciation** Fund Method involves the investment of funds in outside securities. This requires an expert knowledge of the investment market and risk of loss due to price fluctuations in the market. Moreover the specific securities may not always be available in the market. To avoid such uncertainties, the firm instead of investing the money in purchasing securities, may take an insurance policy from a general insurance company for the sum required for replacement of she asset. For this it will have to pay certain amount as premium every year. In return the insurance company promises to pay agreed policy amount at the end of the specified period i.e., useful life of the asset which will be utilised for replacement of the asset, The money received from insurance company is usually a little higher than the amount insured because of bonus. Thus, there is certainty about receiving the anticipated amount. From the accounting point of view, this method is very similar to Depreciation Fund Method. In fact, it is also called Depreciation Fund Policy Method. Following are the journal entries required under this method.

1 During the first and subsequent years (except in the last year)

a) For payment of the premium :
Depreciation Fund Policy A/c Dr.
To Bank A/c

b) For charging depreciation
Depreciation A/c Dr.
To Depredation Fund A/c

2 During the last year

a) For payment of the premium
Depreciation Fund Policy A/c Dr.
To Bank A/c

b) Fur charging depreciation
Depreciation A/c Dr.
To Depreciation Fund A/c

c) For receipt of amount on insurance policy :
Bank A/c Dr.
To Depreciation Fund Policy A/c

d) For transferring the credit balance in the Policy A/c
Depredation Fund Policy A/c Dr.
To Depreciation Fund A/c

e) For transferring the balance in the Fund A/c to Asset Account.
Depreciation Fund A/c Dr.
To Asset A/c

f) For realisation of salvage value, if'any, on the sale of asset :
Bank A/c Dr.
To Asset A/c

g) For transferring debit balance, if any, in the asset account.
Profit and Loss A/c Dr.
To Asset A/c

Look at Illustration 4 and set: how various accounts are prepared under the Insurance Policy Method.

His assets and liabilities in the beginning and in the end were:

	1-10-87	30-9-88
	Rs.	Rs.
Stock	18,000	20,440
Cnsh in hand	950	150
Cash at bank	1,000	7
Creditors	16,000	10,000
Debtors	44,000	7
Furniture	2,000	2.000
Land & Buildings	30,000	30,000

Additional Information

i) Credit sales for the year Rs. 18,100.
ii) Discount allowed to Debtors Rs. 2,100.
iii) Returns Outwards during the year Rs. 500.
iv) Salaries Outstanding on 30-9-88 Rs. 3,000.
v) Provision for doubtful debts is to be created to the extent of Rs. 3,000.
vi) 5% depreciation is to be provided on Furniture and Land & Building.

(Answer: Cash at bank on 30-9-88 Rs. 4,850; Opening Capital Rs. 79,950; Closing Debtors Rs. 60,000; Credit Purchases Rs. 25,500; Gross Profit Rs. 63,540; Net Profit Rs. 22,890; Balance Sheet Total Rs. 1,12,840).

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University. These are for your practice only.