Q.4. A firm purchases plant for a sum of Rs.10000 on 1st January 2010. Installation charges are Rs.1000. The plant is to have scrap value of Rs.1000 at the end of its useful life of 5 years. You are required to prepare plant account for five years, charging depreciation according to straight line method.

Total value of Plant = Rs.10000+Rs.1000 =Rs.11000

Depreciation under SLM Method = 10000 +1000/5 = 2200

Solution: **Plant Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2010  Jan.1 To Bank Account | 11000 | 2010  Dec.31 By Depreciation A/C | 2200 |
|  |  | Dec.31 By Balance c/d | 9800 |
| Total | 11000 | Total | 11000 |
| 2011  Jan.1 To Balance b/d | 9800 | 2011  Dec.31 By Depreciation A/C  Dce.31 By Balance c/d | 2200  7600 |
| Total | 9800 | Total | 9800 |
| 2012  Jan.1 To Balance b/d | 7600 | 2012  Dec.31 By Depreciation A/C  Dec.31 By Balance c/d | 2200  5400 |
| Total | 7600 | Total | 7600 |
| 2013  Jan.1 To Balance b/d | 5400 | 2013  Dec.31 By Depreciation A/C  Dec.31 BY Balance c/d | 2200  3200 |
| Total | 5400 | Total | 5400 |
| 2014  Jan.1 To Balance b/d | 3200 | 2014  Dec.31 By Depreciation A/C  Dec.31 By Balance c/d | 2200  1000 |
| Total | 3200 | Total | 3200 |
| 2015  Jan.1 To Balance b/d | 1000 |  |  |

Q.5. A firm purchased plant for a sum of Rs.10000 on 1st January 2010. Installation charges are Rs.1000. The plant is to have scrap value of Rs.4015 at the end of its useful life of 5 years and the same is sold for Rs.1500 at the end of its useful life. You are required to prepare plant account for 5 years, charging depreciation according to Diminishing Balance Method (Written Down Value Method).

Total Value of Plant = Rs.10000 + Rs.1000 = Rs.11000

Depreciation Rate = 100%/5 = 20%

Depreciation under Written Down Value Method

|  |
| --- |
| 2010 Cost of Plant 11000 |
| Less: Depreciation@20% -2010 2200 |
| Written Down Value-2010 9800 |
| Less: Depreciation@20% -2011 1960 |
| Written Down Value-2011 7840 |
| Less: Depreciation@20% -2012 1568 |
| Written Down Value-2012 6272 |
| Less: Depreciation@ 20%- 2013 1254 |
| Written Down Value-2013 5018 |
| Less: Depreciation@20%- 2014 1003 |
| Written Down Value- 2014 4015 |

Solution: **Plant Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2010  Jan.1 To Bank Account | 11000 | 2010  Dec.31 By Depreciation A/C | 2200 |
|  |  | Dec.31 BY Balance c/d | 9800 |
| Total | 11000 | Total | 11000 |
| 2011  Jan.1 To Balance b/d | 9800 | 2011  Dec.31 By Depreciation A/C  Dce.31 By Balance c/d | 1960  7840 |
| Total | 9800 | Total | 9800 |
| 2012  Jan.1 To Balance b/d | 7840 | 2012  Dec.31 By Depreciation A/C  Dec.31 By Balance c/d | 1568  6272 |
| Total | 7840 | Total | 7840 |
| 2013  Jan.1 To Balance b/d | 6272 | 2013  Dec.31 By Depreciation A/C  Dec.31 By Balance c/d | 1254  5018 |
| Total | 6272 | Total | 6272 |
| 2014  Jan.1 To Balance b/d | 5018 | 2014  Dec.31 By Depreciation A/C  Dec.31 By Balance c/d | 1003  4015 |
| Total | 5018 | Total | 5018 |
| 2015  Jan.1 To Balance b/d | 4015 | 2015  Jan.1 By Bank A/C  Jan.1 By Profit &Loss A/C(Loss on sale of plant A/C) | 1500  2515 |
| Total | 4015 |  | 4015 |

Q.6. A firm purchased a truck of Rs.100000 on 1st January 2015. It charged depreciation 20% per annum according to Diminishing Balance Method. The truck was sold for Rs.80000 on 1st July 2016. Prepare Truck Account for 2015 and 2016.

Solution: **Truck Account**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2015  Jan.1 To Bank Account | 100000 | 2015  Dec.31 By Depreciation A/C | 20000 |
|  |  | Dec.31 BY Balance c/d | 80000 |
| Total | 110000 | Total | 100000 |
| 2016  Jan.1 To Balance b/d  July 1 To Profit & Loss A/C( Profit on sale of Truck A/C) | 80000  8000 | 2016  July 1 By Depreciation A/C \*  July 1 By Cash | 8000  80000 |
| Total | 88000 | Total | 88000 |

* Depreciation @ 20% on Rs.80000 for 6 months (1-1-2016 to 30-06-2016)

= 16000/2 =Rs.8000

Q.7. A firm purchased a truck for a sum of Rs.100000 on 1st January 2015. It charged 20% depreciation per annum according to Diminishing Balance Method. The truck was sold for Rs.80000 on 1st July 2016. Prepare Truck Account, Provision for Depreciation on Truck Account, Depreciation and Truck Disposal Account separately.

Truck Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2015  Jan.1 To Bank A/C | 100000 | 2015  Dec 31 By Balance c/d | 100000 |
| Total | 100000 | Total | 100000 |
| 2016  Jan.1 To Balance b/d | 100000 | 2016  July 1 By Truck Disposal A/C | 100000 |
| Total | 100000 | Total | 100000 |

Provision for Depreciation on Truck Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2015  Dec.31 To Balance c/d | 20000 | 2015  Dec.31 By Depreciation A/C | 20000 |
|  | 20000 | Total | 20000 |
| 2016  July 1 To Asset Disposal A/C | 28000 | 2016  Jan.1 By Balance b/d  July 1 By Depreciation A/C | 20000  8000 |
| Total | 28000 | Total | 28000 |

Depreciation Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2015  Dec.31 To provision for Dep. A/C | 20000 | 2015  Dec.31 By Profit & Loss A/C | 20000 |
| Total | 20000 | Total | 20000 |
| 2016  July 1 To provision for Dep. A/C | 8000 | 2016  Dec.31 By Profit & Loss A/C | 8000 |
| Total | 8000 | Total | 8000 |

Truck Disposable Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(Rs) |
| 2016  July 1 To Truck Account | 100000 | 2016  July 1 By provision for Dep. A/C | 28000 |
| July 1 To Profit & Loss A/C (Profit on Sale of Truck A/C) | 8000 | July 1 By Bank A/C | 80000 |
|  | 108000 | Total | 108000 |

Q.8. Bill and Gill commenced business on January 1, 2000, when they purchased plant and equipment for Rs.700000. They adopted a policy of (1). Charging depreciation at 15% per annum on diminishing balance method and (2). Charging full year depreciation on additions.

Over the year, their purchases have been:

August 1, 2001 Rs.150000

September 30, 2004 Rs. 200000

On January 1, 2004, they decided to change method and rate of depreciation to 10% on Straight Line Method(SLM) with retrospective effect (back dated effect) from January 1, 2000, the adjustment being made in the accounts for the year ending on December 31, 2004.

Calculate the difference in depreciation to be adjusted in the plant and equipment account on January 1, 2004 and show the ledger account for the year 2004

Solution:

For Plant &Equipment: 1 total depreciation under WDV/DBM Method as of 1st January 2014 is as follows:

|  |  |  |
| --- | --- | --- |
|  | Amount(RS) | Depreciation(RS) |
| Jan.1, 2000: Original Cost | 700000 |  |
| Less: Depreciation @15% -2000 | 105000 | 105000 |
| Jan 1, 2001: WDV/DBM | 595000 |  |
| Less: Depreciation@ 15%-2001 | 89250 | 89250 |
| Jan 1, 2002: WDV/DBM | 505750 |  |
| Less: Depreciation @15%-2002 | 75863 | 75863 |
| Jan 1,2003: WDV/DBM | 429887 |  |
| Less: Depreciation@15%-2003 | 64483 | 64483 |
| Jan 1, 2004 WDV/DBM | 365404 |  |
| Total Depreciation under WDV/DBM |  | 334596 |

For Plant &Equipment: 2 total depreciation under WDV/DBM Method as of 1st January 2014 is as follows:

|  |  |  |
| --- | --- | --- |
|  | Amount(Rs) | Depreciation(Rs) |
| August 1, 2001: Original Cost | 150000 |  |
| Less: Depreciation @ 15%-2001 | 22500 | 22500 |
| Jan 1, 2002 WDV/DBM | 127500 |  |
| Less: Depreciation@15%-2002 | 19125 | 19125 |
| Jan 1, 2003 WDV/DBM | 108375 |  |
| Less: Depreciation @15%-2003 | 16256 | 16256 |
| Jan 1,2004 WDV/DBM | 92119 |  |
| Total Depreciation under WDV/DBM |  | 57881 |

|  |  |
| --- | --- |
| Total Depreciation as of 01-01-2004 for plant & equip. 1 under WDV/DBM | Rs. 334596 |
| Total Depreciation as of 01-01-2004 for plant &equip.2 under WDV/DBM | Rs. 57881 |
| Total Depreciation as of 01-01-2004 for plant &equip under WDV/DBM | Rs. 392477 |

Total Depreciation on plant & equip under SLM as of 1st January 2004

1. 10% on [Rs.700000@10%](mailto:Rs.700000@10%25) for 4 years = 70000\*4 = Rs.280000
2. 10% on [Rs.150000@10%](mailto:Rs.150000@10%25) for 3 years= 15000\*3= Rs. 45000

Total Depreciation under SLM as of 1st Jan.2004 =Rs.325000

Therefore, WDV under SLM as on 1st January 2004 = 850000 – 325000 =525000

Excess Depreciation charged under WDV Method = 392477 – 325000 = 67477

Plant &Equipment Account

|  |  |  |  |
| --- | --- | --- | --- |
|  | Amount(Rs) |  | Amount(RS) |
| 2004  Jan.1 To Balance b/d  (700000 +1500000) 850000  Less: Accu.Dep. 392477 | 457523 | 2004  Dec.31 By Depreciation  10% on Rs.700000 = Rs.70000  10% on Rs. 150000 = Rs. 15000  10% on Rs. 200000 =Rs. 20000 | 105000 |
| Jan.1 To profit & Loss  A/C- Excess Dep. W/off | 67477 | Dec.31 By Balance c/d | 620000 |
| Sept.30 To Bank A/C | 200000 |  |  |
| Total | 725000 | Total | 725000 |
| 2005  Jan,1: To balance b/d | 620000 |  |  |