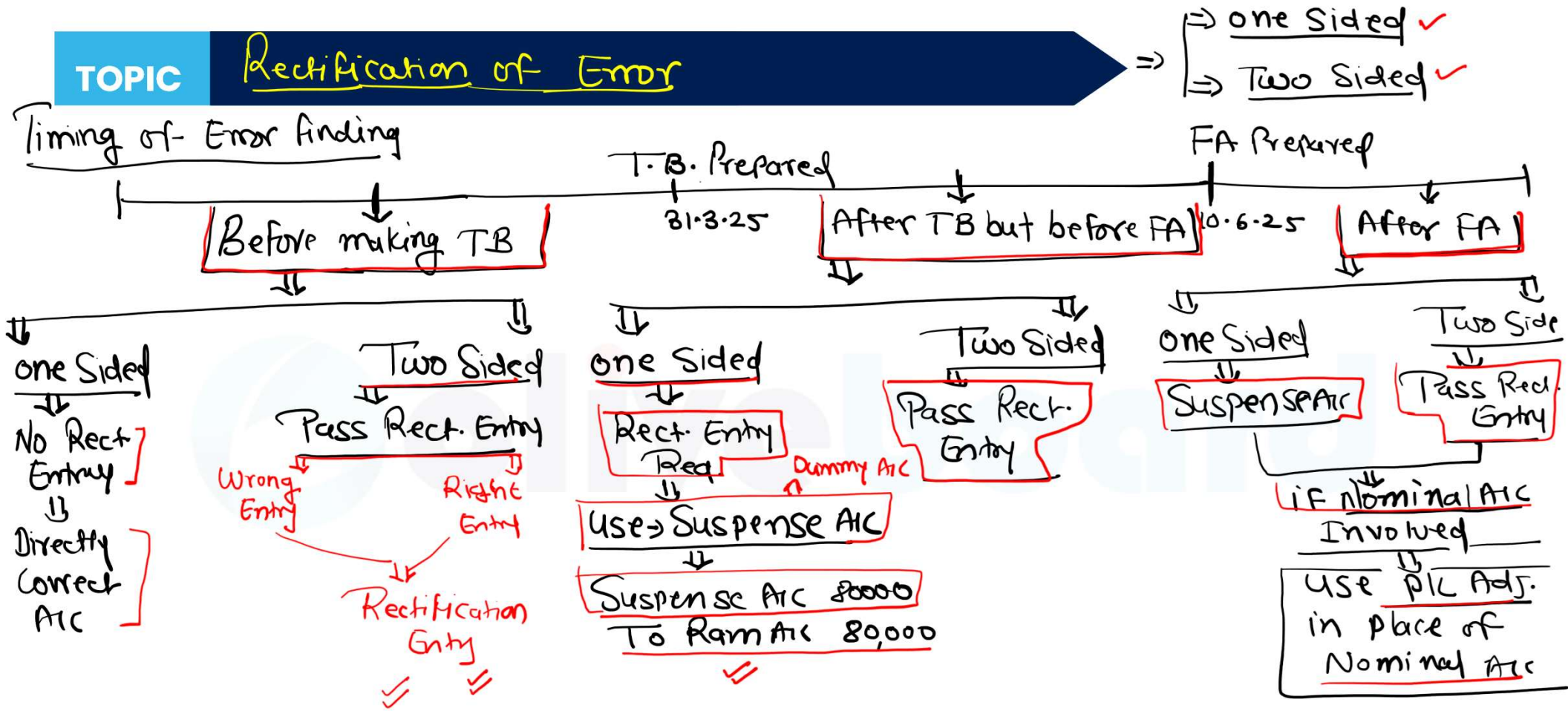
TOPIC **Rectification of Error**



TOPIC

(1) ₹20,000 not recorded in Salary Paid A/c ⇒

One Sided → Exp → DR. (Nominal)

⇒ Before TB ⇒ No Journal entry Req.

⇒ After TB ⇒ Salary A/c Dr. 20000 To Suspense A/c 20000

⇒ After FA ⇒ P/L Adj. A/c Dr. 20000 To Suspense A/c 20000

Dr. 20000

→ DR. = Salary A/c

(2) ₹10,000 Received from Rajy (P) wrongly recorded in Rent (N) A/c ⇒ Error of Principle

	Before TB	After TB	After Final A/c
Wrong Entry	Cash A/c Dr. ✓ To Rent A/c ✓ Cr.	Cash A/c Dr. To Rent	Cash A/c Dr. To Rent A/c
Correct Entry	Cash A/c Dr. ✓ To Rajy ✓	Cash A/c Dr. To Rajy	Cash A/c Dr. To Rajy
Rectification Entry	Rent A/c Dr. 10000 To Rajy A/c 10000	Rent A/c Dr. To Rajy A/c	P/L Adj. A/c Dr. To Rajy A/c

TOPIC

Error of ~~Commission~~ Principle

(3) ₹20,000 Paid for installation of Machinary wrongly recorded in Repairs A/c. (R) (N)

	Before TB	After TB	After FA
Wrong	Repairs A/c Dr. 20000 To Cash 20000	Repairs A/c Dr. 20000 To Cash 20000	Repairs A/c Dr 20000 To Cash A/c 20000
Correct	Machinary A/c Dr. 20000 To Cash 20000	Machinary A/c Dr. 20000 To Cash A/c 20000	Machinary A/c Dr. 20,000 To Cash A/c 20000
Rectification	Machinary A/c Dr. 20000 To Repairs A/c 20000	Machinary A/c Dr. 20000 To Repairs A/c 20000	Machinary A/c Dr. 20000 To P/L Adj-A/c 20000

(4) ₹50,000 Received from Ram, wrongly recorded as ₹5000 → ⇒ one Sided ⇒ Error of Comm.

[Assume After TB] ⇒

Suspense A/c Dr.	45000	
To Ram A/c		45000

5. Sales to Smita Rs.175 posted to ~~his~~ her account as Rs.157, ₹18

After TB | one sided | Error of commission

⇒ Smita A/c Dr. ₹18
To Suspense A/c ₹18

6. Salary Paid ₹ 10,000 wrongly recorded in Rent A/c (N) [After FA] = Two sided / Compensating Error

Wrong
Rent A/c Dr. 10000 DR
To Cash A/c 10000

Correct
Salary A/c Dr. 10000
To Cash 10000

Rectification
P/L Adj. A/c Dr. 10000
To P/L Adj. A/c 10000

After TB ⇒ Salary A/c Dr. 10000
To Rent A/c 10000

TOPIC

One Sided

Excess Total

Sales Book was overcast by Rs.1, 000 ⇒

Income → CR. ↑ → DR.

⇒ Before T.B. = No entry ⇒ Reduce value from CR.

⇒ After TB = Sales A/c Dr. 1000
To Suspense A/c 1000

⇒ After FA = P/L Adj. A/c Dr. 1000
To Suspense A/c 1000

TOPIC

TOPIC

Adjusting Entries

⇒ Representative Personal A/c

TRANSACTION	P/L	B/S
1. Outstanding Exp. ⇒ Exp of cly, not Paid till date	Add in Exp ⇓ DR.	Current Liability
2. Prepaid Exp ⇒ Exp of next Period, Paid in advance	Less in Exp ⇓ CR.	Current Asset
3. Accrued Income ⇒ Income earned but not received	Add in Incom ⇓ CR. ✓	Current Asset
4 Unearned Income ⇒ Income Received, but not earned	Less in Incom ⇓ DR. ✓	Current Liability
5. Closing Stock → Given Inside TB ⇒ No Adjustment Req.	—	Current Asset
→ Given outside TB ⇒ Adjustment Req. ⇒ Record in CR. of Trading A/c		Current Asset

TOPIC Closing Entry ⇒ End of the Year

Trading A/c

Dr.	
Op. Stock	Sales
Purchase	
Direct labour	Closing Stock
Direct Exp.	

P/L A/c

Salary	Interest
Rent	Dividend
Elect. Bill	
Dep	
Repairs	

(1)

Trading A/c Dr.
- To Op Stock A/c
- To Purchase A/c
- To Direct labour A/c
- To Direct Exp A/c

(2)

Sales A/c Dr.
Closing Stock A/c Dr.
To Trading A/c

(3)

P/L A/c Dr.
- To Salary
- To Rent
- To Elect Bill
- To Dep.
- To Repairs

(4)

Interest A/c Dr.
Dividend A/c Dr.
To P/L A/c

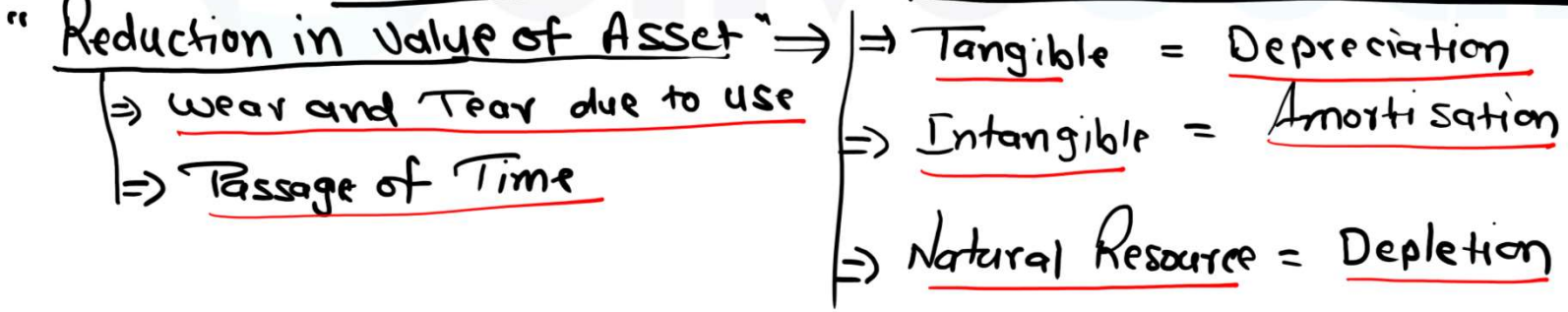
TOPIC

TOPIC

TOPIC

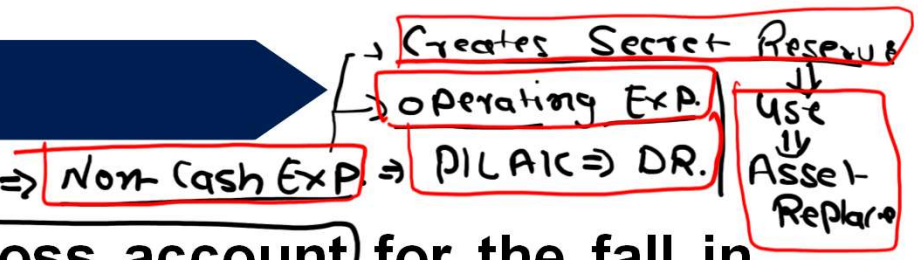
Unit 6

Depreciation and Its Accounting



TOPIC

Depreciation



Depreciation is a charge to profit and loss account for the fall in value of an asset during each year of its use.

* Comply AS-16

P/L A/c

To Dep.

- Depreciation is a part of the opening cost.
- It is a reduction in the value of the asset.
- The decrease in the value of an asset is due to its use, caused by wear and tear, or by other reasons.
- The decrease in the value of an asset is gradual and continuous.

* "Dep is always calculated on Book Value"

Causes of Depreciation

- Wear and tear due to actual use
- Obsolescence

TOPIC

Methods of Depreciation

⇒ Amt. of Dep. → Fixed every year
⇒ Value becomes ZERO
⇒ Time based dep.
⇒ Curve =

Straight line Method

- Straight line method, the cost of the asset is written off equally during its useful life.

eg:- Cost = 20L S.V. = ₹2L. Time = 5Y

Formula: ⇒ $\frac{\text{Cost - Scrap Value}}{\text{No. of Year}}$ ⇒ $\frac{20L-2L}{5}$ = 3,60,000

Value at end of life

- **Amount of Depreciation =** (Cost of Asset – Net Residual Value) / Useful Life
- **The rate of Depreciation =** (Annual Depreciation x 100) / Cost of Asset ⇒ $\frac{3,60,000}{20,00,000} \times 100 = 18\cdot1\cdot$

TOPIC

TOPIC

Journal Entries for ~~Straight Line Method~~ of Depreciation

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1. Purchase of asset	Asset A/c	Dr.	xx 20,00,000	
	To Cash/ Bank/ Creditor's A/c			xx 20,00,000
	(Being asset purchased)			
2. Charge Depreciation	Depreciation on Asset A/c Exp.	Dr.	xx 3,60,000	
	To Asset A/c CR.			xx 3,60,000
	(Being depreciation charged on asset)			
3. Transfer Depreciation	Profit & Loss A/c	Dr.	xx 3,60,000	
	To Depreciation on Asset A/c			xx 3,60,000
	(Being depreciation on asset transferred to profit and loss account)			

TOPIC

TOPIC

⇒ Fixed Rate of Dep.
⇒ Value never becomes ZERO
⇒ Dep ₹ is decreasing
⇒ Curve =

Diminishing Balance Method or Written-down Value Method

- According to the Diminishing Balance Method, depreciation is charged at a fixed percentage on the book value of the asset.
- As the book value reduces every year, it is also known as the Reducing Balance Method or Written-down Value Method.
- Since the book value reduces every year, hence the amount of depreciation also reduces every year.
- Under this method, the value of the asset never reduces to zero.

Amount of depreciation=Book Value× Rate of Depreciation/100

Advantage

- This method is recognised under the Income-Tax Act and the Companies Act. | As. 10

* Time based Method

TOPIC

eg:- Cost 100000 Rate = 10% life 5 year

Y	Book Value		Dep @ 10%		WDV
1	100000	× 0.1	10000	=	90000
2	90,000	× 0.1	9000	=	81000
3.	81000	× 0.1	8100		72900
4	72900	× 0.1	7290		65610
5.	65610	× 0.1	6561		59049

* 1. 3rd year Dep. ? = 8100
* 2. 3rd year WDV = 72900
* 3. 3rd year BV = 81000
* 4. Total Dep. till 3rd year = 27100
* 5. Higest = 1st year
  lowest = last year

TOPIC

Units Of Production Method

- Accounting Standards in India (AS-10 and Ind AS-16) recognise 3 methods of calculating depreciation.
- These are Straight line method, Diminishing Balance method and the Units of Production method.
- This method is a usage based method. Emp and not on time basis

eg:- Cost = 50L, SV = 2L, Total Prod. = 24 Lumtr Qty Prod. = 200000 units

⇒ Formula: $\frac{\text{Cost} - \text{SV}}{\text{lifelong Production}} \times \text{Qty Production}$ ⇒ $\frac{50L - 2L}{24L} \times 2L$

= 4,00,000

TOPIC

Example;

Company ABC Ltd. Purchases a pen production machine. This machine can manufacture 1,000,000 pens after which it will have to be scrapped. The purchase price of the machine is Rs. 100,000 and the scrap value is estimated at Rs. 10,000. During the first year of production, the machine produced 200,000 pens.

Cost SV

$$\text{Dep.} \Rightarrow \frac{100000 - 10,000}{10,00,000} \times 200000 = 18000$$

TP CYP

TOPIC

Sum Of the Years Digits Method

⇒ "Method Providing highest Amount of dep. in initial years" ⇐

Example

A new machine was purchased for Rs. 3 lac with 5 years economic life. What is WDV at the end of 3rd year as per SOYD method?

Y	Dep.	Dep	WDV
1	$\frac{3,00,000}{15} \times 5 =$	1,00,000	2,00,000
2	$\frac{3,00,000}{15} \times 4 =$	80,000	1,20,000
3	$\frac{3,00,000}{15} \times 3 =$	60,000	60,000 ⇐
4	$\frac{3,00,000}{15} \times 2 =$	40,000	20,000
5	$\frac{3,00,000}{15} \times 1 =$	20,000	0
15			

⇑ 60,000

* Total Dep till 3rd year = 2,40,000

* Cost = 10L, Dep @ 10% find dep. of 3rd year
  ↳ WDV
* Cost = 2L — Total Prod = 40L units; Clq Prod. = 4L units] = UOP
* Cost = 10L — SV = 2L, Time = 5 year
  ↳ SLM

TOPIC

Amortisation Of Intangible Assets

- ⇒ Goodwill
- ⇒ Patent
- ⇒ Copyright
- ⇒ Trade mark

Indian Accounting Standard (Ind AS) 38 + AS 26

Few key Points:

1. All cost till Asset is Put to use should be added in Cost of Asset
2. Show Asset in BIS at Cost Price and show dep. in PL A/c
3. Rate of dep. are shown in Schedule II of Company Act 2013