

3. Related Matters

3.1 Change in Method of Depreciation

- Consistency:** The method of depreciation should be applied consistently to facilitate comparability of the results of operations of the enterprise from period to period.
- Conditions for change:** The method of depreciation can be changed only for –
 - Compliance with Statutory Requirement, or
 - Compliance with an Accounting Standard, or
 - Consideration that the change would result in a more appropriate preparation or presentation of the Financial Statements of the enterprise.
- Prospective Effect:** Change in method of depreciation is always applied with prospective effect. Hence, depreciation is recalculated in accordance with the new method **from the date of change in method**

3.2 Review and Revision of Useful Life & Deprn Method

In relation to Depreciation, the following should be reviewed at least at each Financial Year end, and any changes should be accounted for as a **Change in an Accounting Estimate** –

Review & Revision in	Change in an Accounting Estimate, if –	Treatment
Residual Value and Useful Life	Expectations differ from previous estimates.	Depreciable Amount is adjusted.
Depreciation Method applied	There has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the Asset.	Depreciation Method should be changed to reflect the changed pattern.

Illustration 1: Change in Estimated Useful Life – Impact on Depreciation

Susmita Ltd has an asset purchased 3 years ago for ₹ 9,70,000. The residual value of the asset was estimated to be ₹ 10,000 after an estimated useful life of 8 years. The Company charges Straight Line Method of depreciation. Due to change in technology, the Company estimates that the asset will become obsolete in another 3 years time from now. How should depreciation be treated in view of revision in useful life?

Solution:

1. Depreciable Value = Original Cost – Residual Value	= ₹ 9,70,000 – ₹ 10,000	= ₹ 9,60,000
2. Depreciation amount per annum	= ₹ 9,60,000 ÷ 8 years	= ₹ 1,20,000
3. Present Book Value (i.e. after three years)	= ₹ 9,70,000 – (₹ 1,20,000 × 3 yrs)	= ₹ 6,10,000
4. Revised Useful Life		= 3 years
5. Revised Depreciation amount per annum	= ₹ 6,10,000 ÷ 3 years	= ₹ 2,03,333
6. Alternatively, considering residual value of ₹ 10,000	= (₹ 6,10,000 – ₹ 10,000) ÷ 3 years	= ₹ 2,00,000

3.3 Revaluation of Assets

- Revaluation:** In case of Upward Revaluation, the amount of appreciation should be debited to the Asset (PPE) Account. In case of Downward Revaluation, the amount of reduction should be credited to the Asset (PPE) Account.
- Treatment:** Where the Depreciable Assets are revalued, the Provision for Depreciation should be based on – (a) the Revalued Amount, and (b) Estimate of the Useful Lives of such assets. The **Revaluation Reserve** should be credited for the amount of revaluation. The treatment as under –

Situation	Treatment
(a) Upward Revaluation for First Time	Directly credited to Owner's Interests under the heading "Revaluation Surplus"
(b) Upward Revaluation of an Item previously revalued downwards	<ul style="list-style-type: none"> Credit to P&L to the extent of Reversal of previous downward revaluation. Credit the remaining portion to "Revaluation Surplus".
(c) Downward Revaluation for First Time	Recognised (i.e. debited), in Profit or Loss.
(d) Downward Revaluation of an Item previously revalued upwards	<ul style="list-style-type: none"> Debited to Owner's Interests under the heading "Revaluation Surplus", to the extent of any Credit Balance in the Revaluation Surplus in respect of that Asset. Debit the remaining portion, if any, to Profit or Loss.

3.4 Sale / Disposal of Assets, and Gain / Loss thereon

Sale / Disposal of Assets is dealt with in the following manner –

- Ascertain Depreciation for the year (upto the date of disposal), and charge the same for that year.
- Determine Net Book Value (or) Written Down Value of the Asset = Cost **less** Depreciation till date, including depreciation upto the date of disposal.
- Compare Net Book Value of Asset with its Disposal Value and ascertain Profit / (Loss) on disposal.
- Transfer the Profit / (Loss) on disposal to the Profit and Loss Account.

Note: Where the Net Disposal Value of an Asset is less than the expenses of disposal, it is not worthwhile to dispose off the Asset. In such cases, the Asset is just retired from active use (i.e. discarded without realizing any Scrap Value.) So, the Net Book Value will be the amount of Loss thereon, transferred to the P&L Account.

Illustration 2: Straight Line Method – Asset Credit Method of Accounting

From the following data, you are required to show the Fixed Asset and Depreciation Account.

- Cost of Machine = ₹ 75 Lakhs, Useful Life = 7 years. Estimated Residual Value = ₹ 5 Lakhs.
- The Company adopts SLM Method of Depreciation.
- In the middle of the 5th year, the Machine was sold for ₹ 32,00,000.

Solution: Depreciation under Straight Line Method = $(75 - 5) \div 7 = ₹ 10$ Lakhs per annum.

1. Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
Year 1 Beginning	To Bank / Asset Vendor A/c	75,00,000	Year 1 End	By Depreciation A/c	10,00,000
			End	By balance c/d	65,00,000
	Total	75,00,000		Total	75,00,000
Year 2 Beginning	To balance b/d	65,00,000	Year 2 End	By Depreciation A/c	10,00,000
			End	By balance c/d	55,00,000
	Total	65,00,000		Total	65,00,000
Year 3 Beginning	To balance b/d	55,00,000	Year 3 End	By Depreciation A/c	10,00,000
			End	By balance c/d	45,00,000
	Total	55,00,000		Total	55,00,000
Year 4 Beginning	To balance b/d	45,00,000	Year 4 End	By Depreciation A/c	10,00,000
			End	By balance c/d	35,00,000
	Total	45,00,000		Total	45,00,000
Year 5 Beginning	To balance b/d	35,00,000	Year 5 Middle	By Bank (Sale Proceeds)	32,00,000
End	To P&L A/c (Gain on Sale)	2,00,000	End	By Depreciation (for half-yr)	5,00,000
	Total	37,00,000		Total	37,00,000

2. Depreciation A/c

Date	Particulars	₹	Date	Particulars	₹
Year 1 End	To Machinery A/c	10,00,000	Year 1 End	By Profit & Loss A/c	10,00,000
Year 2 End	To Machinery A/c	10,00,000	Year 2 End	By Profit & Loss A/c	10,00,000
Year 3 End	To Machinery A/c	10,00,000	Year 3 End	By Profit & Loss A/c	10,00,000
Year 4 End	To Machinery A/c	10,00,000	Year 4 End	By Profit & Loss A/c	10,00,000
Year 5 End	To Machinery A/c	5,00,000	Year 5 End	By Profit & Loss A/c	5,00,000

Illustration 3 Depreciation Accounting

N 18

A Plant & Machinery costing ₹ 10,00,000 is depreciated on Straight Line assuming 10 years working life and zero Residual Value, for four years. At the end of the fourth year, the Machinery was revalued upwards by ₹ 40,000. The remaining useful life was re-assessed at 8 years. Calculate Depreciation for the fifth year.

Solution: Refer Principles in Page 6.11, Para 3.3 & Page 6.11, Illustration 3

1. Depreciable Value = Original Cost – Residual Value = ₹ 10,00,000 – Nil = ₹ 10,00,000
2. Depreciation amount per annum = ₹ 10,00,000 ÷ 10 years = ₹ 1,00,000
3. Present Book Value (i.e. after four years) = ₹ 10,00,000 – (₹ 1,00,000 × 4 yrs) = ₹ 6,00,000
4. Revised Book Value (i.e. after Revaluation) = ₹ 6,00,000 + ₹ 40,000 = ₹ 6,40,000
5. Revised Useful Life = Given = 8 years
6. Revised Depreciation amount per annum = ₹ 6,40,000 ÷ 8 years = ₹ 80,000

Illustration 4: Straight Line Method – Provision for Depreciation Method

From the following data, you are required to show the Fixed Asset and Depreciation Account.

- Cost of Machine = ₹ 75 Lakhs, Useful Life = 7 years. Estimated Residual Value = ₹ 5 Lakhs.
- The Company adopts SLM Method of Depreciation, and credits the same to Provision for Depreciation A/c.
- In the middle of the 5th year, the Machine was sold for ₹ 26,00,000.

Solution: Depreciation under Straight Line Method = $(75 - 5) \div 7 = ₹ 10 \text{ Lakhs per annum.}$

1. Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
Year 1 Begin	To Bank / Asset Vendor	75,00,000	Year 1 End	By balance c/d	75,00,000
Year 2 Begin	To balance b/d	75,00,000	Year 2 End	By balance c/d	75,00,000
Year 3 Begin	To balance b/d	75,00,000	Year 3 End	By balance c/d	75,00,000
Year 4 Begin	To balance b/d	75,00,000	Year 4 End	By balance c/d	75,00,000
Year 5 Begin	To balance b/d	75,00,000	Year 5 End	By M/c Disposal A/c – tfr	75,00,000

2. Provision for Depreciation A/c

Date	Particulars	₹	Date	Particulars	₹
Year 1 End	To balance c/d	10,00,000	Year 1 End	By Profit and Loss A/c	10,00,000
	Total	10,00,000		Total	10,00,000
Year 2 End	To balance c/d	20,00,000	Year 2 Beginning End	By balance b/d By Profit and Loss A/c	10,00,000 10,00,000
	Total	20,00,000		Total	20,00,000
Year 3 End	To balance c/d	30,00,000	Year 3 Beginning End	By balance b/d By Profit and Loss A/c	20,00,000 10,00,000
	Total	30,00,000		Total	30,00,000
Year 4 End	To balance c/d	40,00,000	Year 4 Beginning End	By balance b/d By Profit and Loss A/c	30,00,000 10,00,000
	Total	40,00,000		Total	40,00,000
Year 5 End	To M/c Disposal A/c – tfr	45,00,000	Year 5 Beginning End	By balance b/d By P&L A/c (dep for half-yr)	40,00,000 5,00,000
	Total	45,00,000		Total	45,00,000

3. Machinery Disposal A/c

Date	Particulars	₹	Date	Particulars	₹
Year 5 End	To Machinery (Cost Tfr)	75,00,000	Year 5 Middle End	By Bank (Sale Proceeds) By Provision for Deprn (tfr) By P&L A/c (Loss on Sale)	26,00,000 45,00,000 4,00,000
	Total	75,00,000		Total	75,00,000

Note: When asset is sold, the Cost of Asset and Accumulated Depreciation thereon is transferred to the Machinery Disposal A/c, and the net Profit / Loss on sale is transferred to P&L Account.

Illustration 5: WDV Method – Asset Credit Method of Accounting

From the following data, you are required to show the Fixed Asset and Depreciation Account for 5 years.

- Cost of Machine = ₹ 5 Lakhs.
- Assume WDV Method of Depreciation and WDV Rate = 16%
- At the end of the fifth year, the asset is sold for ₹ 1,80,000.

Solution: 1. Computation of Depreciation for each of the first 5 years is given below –

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Cost / Opg WDV	5,00,000	4,20,000	3,52,800	2,96,352	2,48,936
(-)Depreciation	$5,00,000 \times 16\% = 80,000$	$4,20,000 \times 16\% = 67,200$	$3,52,800 \times 16\% = 56,448$	$2,96,352 \times 16\% = 47,416$	$2,48,936 \times 16\% = 39,830$
Closing WDV	4,20,000	3,52,800	2,96,352	2,48,936	2,09,105

2. Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
Year 1 Beginning	To Bank / Asset Vendor A/c	5,00,000	Year 1 End	By Depreciation A/c	80,000
			Year 1 End	By balance c/d	4,20,000
	Total	5,00,000		Total	5,00,000
Year 2 Beginning	To balance b/d	4,20,000	Year 2 End	By Depreciation A/c	67,200
			Year 2 End	By balance c/d	3,52,800
	Total	4,20,000		Total	4,20,000
Year 3 Beginning	To balance b/d	3,52,800	Year 3 End	By Depreciation A/c	56,448
			Year 3 End	By balance c/d	2,96,352
	Total	3,52,800		Total	3,52,800
Year 4 Beginning	To balance b/d	2,96,352	Year 4 End	By Depreciation A/c	47,416
			Year 4 End	By balance c/d	2,48,936
	Total	2,96,352		Total	2,96,352
Year 5 Beginning	To balance b/d	2,48,936	Year 5 End	By Depreciation A/c (full yr)	39,830
			Year 5 End	By Bank (Sale Proceeds)	1,80,000
			Year 5 End	By P&L A/c (Loss on Sale)	29,106
	Total	2,48,936		Total	2,48,936

3. Depreciation A/c

Date	Particulars	₹	Date	Particulars	₹
Year 1 End	To Machinery A/c	80,000	Year 1 End	By Profit & Loss A/c	80,000
Year 2 End	To Machinery A/c	67,200	Year 2 End	By Profit & Loss A/c	67,200
Year 3 End	To Machinery A/c	56,448	Year 3 End	By Profit & Loss A/c	56,448
Year 4 End	To Machinery A/c	47,416	Year 4 End	By Profit & Loss A/c	47,416
Year 5 End	To Machinery A/c	39,830	Year 5 End	By Profit & Loss A/c	39,830

Illustration 6: Depreciation - Change in Method of Depreciation

M 19

A firm purchased an old Machinery for ₹ 37,000 on 1st January, 2017 and spent ₹ 3,000 on its overhauling. On 1st July 2018, another machine was purchased for ₹ 10,000. On 1st July 2019, the machinery which was purchased on 1st January 2017, was sold for ₹ 28,000 and the same day a new machinery costing ₹ 25,000 was purchased. On 1st July, 2020, the machine which was purchased on 1st July, 2018 was sold for ₹ 2,000.

Depreciation is charged @ 10% per annum on straight line method. The firm changed the method and adopted diminishing balance method with effect from 1st January, 2018 and the rate was increased to 15% per annum. The books are closed on 31st December every year.

Prepare Machinery account for four years from 1st January, 2017.

Solution:

Machinery Account

Date	Particulars	₹	Date	Particulars	₹
01.01.2017	To Bank (Cost + Overhauling)	40,000	31.12.2017	By Depreciation (WN 1)	4,500
01.07.2017	To Bank	10,000	31.12.2017	By Balance c/d	45,500
		50,000			50,000
01.01.2018	To Balance b/d	45,500	31.12.2018	By Depreciation (45,500×15%) (WN 2)	6,825
			31.12.2018	By Balance c/d	38,675
		45,500			45,500
01.01.2019	To Balance b/d	38,675	01.07.2019	By Bank A/c (Sale Proceeds)	28,000
01.07.2019	To Bank	25,000	31.12.2019	By Depreciation (WN 3)	5,381
			31.12.2019	By Profit & Loss A/c (WN 4)	305
			31.12.2019	By Balance c/d	29,989
		63,675			63,675

Date	Particulars	₹	Date	Particulars	₹
01.01.2020	To Balance b/d	29,989	31.12.2020	By Bank	2,000
			31.12.2020	By Profit & Loss A/c (WN 5)	4,349
			31.12.2020	By Depreciation (WN 3)	3,984
			31.12.2020	By Balance c/d	19,656
		29,989			29,989

Working Notes:

- Full Year Depn. for 50,000 (i.e. $40,000 \times 10\%$) + Half Year Depn. for 25,000 (i.e. $10,000 \times 10\% \times \frac{1}{2}$) = 4,500
- Any changes in Depreciation Method should be accounted for as a Change in an Accounting Estimate and hence depreciated prospectively.
- Depreciation Computation for all the years

	Purchase on 01.01.2017	Purchase on 01.07.2017	Purchase on 01.07.2019	Total
Cost of Machinery on date of Purchase	40,000	10,000	25,000	
Less: Depreciation for 2017	4,000	$10,000 \times 10\% \times \frac{1}{2} = 500$	NA	4,500
WDV on 31.12.2017	36,000	9,500	NA	45,500
Less: Depreciation for 2018 at 15%	5,400	1,425	NA	6,825
WDV on 31.12.2018	30,600	8,075	NA	38,675
Depreciation for 2019 at 15%	$30,600 \times 15\% \times \frac{1}{2} = 2,295$	$8,075 \times 15\% = 1,211$	$25,000 \times 15\% \times \frac{1}{2} = 1,875$	5,381
WDV on 31.12.2019	NA Machine Sold	6,864	23,125	29,989
Depreciation for 2020 at 15%	NA	$6,864 \times 15\% \times \frac{1}{2} = 515$	$23,125 \times 15\% = 3,469$	
WDV on 31.12.18	NA	NA Machine Sold	19,656	

4. **Loss on Sale of Machine bought on 01.01.2017:**

Cost of the Machinery on the date of Purchase, i.e. 01.01.2017	₹ 40,000
Less: Depreciation for the 1 st Year from 01.01.2017 to 31.12.2017 at 10% in SLM	(₹ 4,000)
WDV of Machinery as on 01.01.2018	₹ 36,000
Less: Depreciation for 2 nd Year from 01.01.2018 to 31.12.2018 at 15% in WDV Method	(₹ 5,400)
WDV of Machinery as on 01.01.2019	₹ 30,600
Less: Depreciation for remaining 0.5 Years from 01.01.2019 to 01.07.2019 ($30,600 \times 15\% \times 0.5$ Years)	(₹ 2,295)
WDV of Machinery sold as on 01.07.2019	₹ 28,305
Less: Sale Proceeds	₹ 28,000
Loss on Sale	₹ 305

5. **Loss on Sale of Machine bought on 01.07.2017:**

Cost of the Machinery on the date of Purchase, i.e. 01.07.2017	₹ 10,000
Less: Depreciation for the 1 st Year from 01.01.2017 to 31.12.2017 at 10% in SLM	(₹ 500)
WDV of Machinery as on 01.01.2018	₹ 9,500
Less: Depreciation for 2 nd Year from 01.01.2018 to 31.12.2018 at 15% in WDV Method	(₹ 1,425)
WDV of Machinery as on 01.01.2019	₹ 8,075
Less: Depreciation for 3 rd Year from 01.01.2019 to 31.12.2019 at 15% in WDV Method	(₹ 1,211)
WDV of Machinery on 01.01.2020	₹ 6,864
Less: Depreciation for remaining 0.5 Years from 01.01.2019 to 01.07.2019 ($6,864 \times 15\% \times 0.5$ Years)	₹ 515
WDV of Machinery sold as on 01.07.2020	₹ 6,349
Less: Sale Proceeds	₹ 2,000
Loss on Sale	₹ 4,349

Illustration 7: Depreciation in WDV Method

ABC Ltd purchased on 01.01.2015 second hand Plant for ₹30,000 and immediately spent ₹20,000 in overhauling it. On 01.07.2015, additional Machinery of a Cost of ₹25,000 was purchased. On 01.07.2017, the Plant purchased on 01.01.2015 became obsolete and was sold for ₹10,000. On that date New Machinery was purchased at a Cost of ₹60,000. Depreciation was provided for annually on 31st December at 10% per annum on the Original Cost of the Asset. In 2018, however, the company changed this method of providing Depreciation and adopted the method of writing off 15% on the Diminishing Value. Show the Plant & Machinery Account as it would appear in the books of the Company for the Years 2015 to 2020.

Solution:

In the Books of ABC Ltd Plant & Machinery Account

Date	Particulars	₹	Date	Particulars	₹
01.01.2015	To Bank (Cost + Overhauling)	50,000	31.12.2015	By Depreciation (WN 1)	6,250
01.07.2015	To Bank	25,000	31.12.2015	By Balance c/d	68,750
		75,000			75,000
01.01.2016	To Balance b/d	68,750	31.12.2016	By Depreciation ($75,000 \times 10\%$)	7,500
			31.12.2016	By Balance c/d	61,250
		68,750			68,750
01.01.2017	To Balance b/d	61,250	01.07.2017	By Bank A/c (Sale Proceeds)	10,000
01.07.2017	To Bank	60,000	31.12.2017	By Depreciation (WN 2)	8,000
			31.12.2017	By Profit & Loss A/c (WN 3)	27,500
			31.12.2017	By Balance c/d	75,750
		1,21,250			1,21,250
01.01.2018	To Balance b/d	75,750	31.12.2018	By Depn(WN 4) ($75,750 \times 15\%$)	11,363
			31.12.2018	By Balance c/d	64,387
		75,750			75,750
01.01.2019	To Balance b/d	64,387	31.12.2019	By Depreciation ($64,387 \times 15\%$)	9,658
			31.12.2019	By Balance c/d	54,729
		64,387			64,387
01.01.2020	To Balance b/d	54,729	31.12.2020	By Depreciation ($54,729 \times 15\%$)	8,209
			31.12.2020	By Balance c/d	46,520
		54,729			54,729

Working Notes:

- Full Year Depn. for 50,000 (i.e. $50,000 \times 10\%$) + Half Year Depn. for 25,000 (i.e. $25,000 \times 10\% \times \frac{1}{2}$) = 6,250
- Full Year Depn. for 25,000 (i.e. $25,000 \times 10\%$) + Half Year Depn. for 50,000 & 60,000 (i.e. $1,10,000 \times 10\% \times \frac{1}{2}$) = 8,000

3. Loss on Sale of Plant

Cost of the Plant on the date of Purchase, i.e. 01.01.2015	₹ 50,000
Less: Depreciation for 2.5 Years i.e. from 01.01.2015 to 01.07.2017 ($50,000 \times 10\% \times 2.5\text{Years}$)	₹ 12,500
WDV of Plant sold as on 01.07.2017	₹37,500
Less: Sale Proceeds	₹ 10,000
Loss on Sale	₹27,500

- Any changes in Depreciation Method should be accounted for as a Change in an Accounting Estimate prospectively.

Illustration 8: Depreciation in WDV Method

A Company whose accounting year is the Calendar Year purchased Machineries on 01.04.2018 costing ₹30,000. It further purchased a Machine costing ₹20,000 on 01.10.2018 and another Machine costing ₹10,000 on 01.07.2019. On 01.01.2020, of the Machineries which were purchased on 01.04.2018, one Machine costing ₹10,000 became obsolete and was sold for ₹3,000. Show how the Machinery Account would appear for all the three years in the books of the Company after charging Depreciation at 10% p.a. on Written Down Value Method.

Solution:

1. Computation of Depreciation

Machine purchased on –	01.04.2018	01.10.2018	01.07.2019	Total
Cost Less: 10% Depreciation for Year 2018	30,000 9 Months = 2,250	20,000 3 Months = 500	10,000 Nil	2,750

Machine purchased on –	01.04.2018	01.10.2018	01.07.2019	Total
Written Down Value	27,750	19,500	10,000	
Less: 10% Depreciation for Year 2019	1 Year = 2,775	1 Year = 1,950	6 Months = 500	5,225
Written Down Value	24,975	17,550	9,500	
Less: Machine sold (10,000 out of 30,000)	1/3 rd of 24,975 = 8,325	–	–	
Written Down Value	16,650	17,550	9,500	
Less: 10% Depreciation for Year 2020	1 Year = 1,665	1 Year = 1,755	1 Year = 950	4,370

2. Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
01.04.2018	To Bank	30,000	31.12.2018	By Depreciation	2,750
01.10.2018	To Bank	20,000	31.12.2018	By Balance c/d	47,250
	Total	50,000		Total	50,000
01.01.2019	To Balance b/d	47,250	31.12.2019	By Depreciation	5,225
01.07.2019	To Bank	10,000	31.12.2019	By Balance c/d	52,025
	Total	57,250		Total	57,250
01.01.2020	To Balance b/d	52,025	01.01.2020	By Bank	3,000
				By Profit & Loss A/c (Note)	5,325
				By Depreciation	4,370
				By Balance c/d	39,330
	Total	52,025		Total	52,025

Note: Loss on Sale of Machinery = WDV on the date of Sale 8,325 Less Sale Proceeds 3,000 = Total ₹5,325.

Illustration 9: Computation of Written Down Value of Asset sold and Depreiation Accounting

The Machinery A/c of a Factory showed a balance of ₹1,90,000 on 01.01.2020. Its Accounts were made up on 31st December each year and Depreciation is written off at 10% p.a under the Diminishing Balance Method. On 01.06.2020, New Machinery acquired at a Cost of ₹28,000 and Installation Charges incurred in erecting the Machine works out to ₹892 on the same date. On 01.06.2020, a Machine which had Cost ₹6,000 on 01.01.2015 was sold for ₹750, another Machine which had Cost ₹600 on 01.01.2016, was scrapped on the same date and it realized nothing. Write up Plant and Machinery Account, allowing the same rate of Depreciation as in the past calculating Depreciation to the nearest multiple of a Rupee.

Solution:

1. Computation of WDV on the date of Sale & Scrap

Machine purchased on –	01.01.2015	01.01.2016
Cost	6,000	–
Less: Depreciation @ 10% for 2015	600	–
W.D.V. on 31.12.2015	5,400	600
Less: Depreciation @ 10% for 2016	540	60
W.D.V. on 31.12.2016	4,860	540
Less: Depreciation @ 10% for 2017	486	54
W.D.V. on 31.12.2017	4,374	486
Less: Depreciation @ 10% for 2018	437	49
W.D.V. on 31.12.2018	3,937	437
Less: Depreciation @ 10% for 2019	394	44
W.D.V. on 31.12.2019	3,543	393
Less: Depreciation @ 10% from January to May	5 Months = 148	5 Months = 16
W.D.V. on 01.06.2020	3,395	377

2. Depreciation for the Year 2020

Particulars	₹
Balance of Machinery on 01.01.2020	1,90,000
Less: W.D.V of Machinery sold & scrapped (3,543 +393)	(3,936)
W.D.V of other Machineries on 01.01.2020	1,86,064
Depreciation @ 10% on ₹1,86,064 for 12 Months	18,606
Depreciation @ 10% on ₹28,892 for 7 Months	1,685
Total Depreciation for 2020	20,291

3. Plant and Machinery A/c

Date	Particulars	₹	Date	Particulars	₹
01.01.2020	To Balance b/d	1,90,000	01.06.2020	By Bank (Sales)	750
01.06.2020	To Bank (28,000 + 892)	28,892	01.06.2020	By Depreciation (on Machine sold) (WN 1)	148
			01.06.2020	By P & L A/c – Loss on Sale (3,395 – 750)	2,645
			01.06.2020	By P & L A/c – Loss on Scrap (WN 1)	377
			31.12.2020	By Depreciation (WN 1)	16
			31.12.2020	By Depreciation (WN 2)	20,291
			31.12.2020	By Balance c/d	1,94,665
	Total	2,18,892		Total	2,18,892

Illustration 10: Accounting for Depreciation

A purchased on 01.01.2017 certain Machinery for ₹ 1,94,000 and spent ₹ 6,000 on its erection. On 01.07.2017, additional Machinery costing ₹ 1,00,000 was purchased. On 01.07.2017, the Machinery purchased on 01.01.2017 having become obsolete was auctioned for ₹ 1,00,000 and on the same date New Machinery was purchased at a Cost of ₹ 1,50,000. Depreciation was provided for annually on 31st December at the rate of 10% per annum on the original cost of the Machinery. No Depreciation need to be provided when a machinery is sold or auctioned, for that part of the year in which a sale or auction took place. But for the above, depreciation shall be provided on time basis. In 2020 however, A changed this method of writing off 15% p.a. on the written down value show the Machinery Account for the Calendar Year 2017 to 2020.

Solution:

1. Machinery Account

Date	Particulars	Amount	Date	Particulars	Amount
01.01.2017	To Bank A/c (Purchase Price)	1,94,000	31.12.2017	By Depreciation A/c (WN 1)	25,000
01.01.2017	To Bank A/c (Cost of Erection)	6,000	31.12.2017	By Balance c/d	2,75,000
01.07.2017	To Bank A/c (Purchase Price)	1,00,000			
		3,00,000			3,00,000
01.01.2018	To Balance b/d	2,75,000	31.12.2018	By Depreciation A/c	30,000
		31.12.2018		By Balance c/d	2,45,000
		2,75,000			2,75,000
01.01.2019	To Balance b/d To Bank A/c	2,45,000	01.07.2019	By Bank A/c (Sale)	1,00,000
01.07.2019		1,50,000	31.12.2019	By Profit and Loss A/c (Loss on Sale of Machinery)	60,000
			31.12.2019	By Depreciation A/c	17,500
			31.12.2019	By Balance c/d	2,17,500
		3,95,000			3,95,000
01.01.2020	To Balance b/d	2,17,500	01.01.2020	By Deprn. (15% × 2,17,500)	32,625
		31.12.2020		By Balance c/d	1,84,875
		2,17,500			2,17,500

Working Notes:**1. Calculation of Depreciation (10% per annum on the Original Cost)**

Machinery purchased on –	01.01.2017	01.07.2017	01.07.2019
Cost	1,94,000 + 6,000 = 2,00,000	1,00,000	1,50,000
Depreciation for Year 2017	12 Months = 20,000	6 Months = 5,000	–
Depreciation for Year 2018	12 Months = 20,000	12 Months = 10,000	–
Depreciation for Year 2019	–	12 Months = 10,000	6 Months = 7,500

2. Loss on Sale of Machinery

Particulars	Amount
Original Cost (including Erection Charges)	2,00,000
Less: Total Depreciation (on machinery I)	40,000
WDV on the date of Sale	1,60,000
Less: Sale Proceeds	1,00,000
Loss on Sale of Machinery	60,000

Illustration 11: Depreciation Accounting**N 19**

X purchased a machinery on 1st January 2017 for ₹ 4,80,000 and spent ₹ 20,000 on its installation. On July 1, 2017 another machinery costing ₹ 2,00,000 was purchased. On 1st July, 2018 the machinery purchased on 1st January, 2017 having become scrapped and was sold for ₹ 2,90,000 and on the same date fresh machinery was purchased for ₹ 5,00,000. Depreciation is provided annually on 31st December at the rate of 10% p.a. on written down value. Prepare Machinery account for the years 2017 and 2018.

Solution:**1. Machinery Account**

Date	Particulars	Amount	Date	Particulars	Amount
01.01.2019	To Bank A/c (Purchase Price)	4,80,000	31.12.2019	By Depreciation A/c (WN 1)	60,000
01.01.2019	To Bank A/c (Cost of Erection)	20,000	31.12.2019	By Balance c/d	6,40,000
01.07.2019	To Bank A/c (Purchase Price)	2,00,000			
		7,00,000			7,00,000
01.01.2020	To Balance b/d To Bank A/c	6,40,000	01.07.2020	By Bank A/c (Sale)	2,90,000
01.07.2020		5,00,000	31.12.2020	By Profit and Loss A/c (Loss on Sale of Machinery) By Depreciation A/c	1,37,500
			31.12.2020	By Balance c/d	66,500
		11,40,000	31.12.2020		6,46,000
					11,40,000

Working Notes:**1. Computation of Depreciation**

Machine purchased on –	01.01.2019	01.07.2019	01.07.2020	Total
Cost	4,80,000+20,000 =5,00,000	2,00,000	5,00,000	
Less: 10% Depreciation for Year 2019	12 Months = 50,000	6 Months = 10,000	NA	60,000
Written Down Value	4,50,000	1,90,000	NA	6,40,000
Less: 10% Depreciation for Year 2020	6 Months = 22,500	12 Months = 19,000	6 Months = 25,000	66,500
Written Down Value	NA	1,71,000	4,75,000	6,46,000

2. Loss on Sale of Machinery

Particulars	Amount
Original Cost (including Erection Charges)	5,00,000
Less: Total Depreciation (on machinery I = 50,000 + 22500)	72,500
WDV on the date of Sale	4,27,500
Less: Sale Proceeds	2,90,000
Loss on Sale of Machinery	1,37,500

State with reasons, whether the following statements are True or False

Statements	T/F	Reasoning
1. Depreciation is an Amortised Expenditure.	True	Depreciation is charged on value of Fixed Assets over their useful life. By way of Depreciation, Capital Expenditure is amortised over the useful life of Depreciable Asset. Note: The term "Depreciation" is used for Tangible Assets will be the term "Amortisation" is used for Intangible Assets.
2. Reducing Balance Method of Depreciation is followed to have a uniform charge for Depreciation and Repairs and Maintenance together.	True	In the early periods, Repairs and Maintenance Expenses are relatively low because the asset is new. Whereas in later periods, as the Asset becomes old, R & M increases continuously. Under WDV Method, Depreciation is high in the initial period and reduces continuously in the later periods.
3. Providing Depreciation ensures sufficient Cash for Asset Replacement.	True	Depreciation ensures sufficient Cash for Asset Replacement. However, it is also questionable whether amount set aside by way of Depreciation will always be sufficient to replace an Asset, because of price rise and other economic reasons.
4. Depreciation cannot be provided in case of loss, in a Financial Year.	False	Depreciation is a charge against Profit and not an appropriation of profit. Therefore, Depreciation has to be provided for, even in case of loss in a Financial Year.
5. Land is also a Depreciable Asset.	False	Land is not a Depreciable Asset because its useful life is not limited to few years.
6. Depreciation is a Cash Expenditure like Other Normal Expenses.	False	Depreciation is not a Cash Expenditure like other normal expenses, as it does not result in any cash outflow.
7. Depreciation is a process of allocation of the Cost of Fixed Asset.	True	Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the Asset.
8. Depreciable amount refers to difference between Historical Cost and the Market Value of an asset.	False	Depreciable amount refers to Historical Cost less Salvage Values.
9. Depreciation is a Non Cash Expense and does not result in any Cash Outflow. [N 18]	True	Refer Page 6.1, Para 1.2, Point 3