

Depreciation

LEARNING OBJECTIVES

After studying this Chapter, you should be able to understand :

- Meaning of Depreciation
- Causes of Depreciation
- Need for Providing Depreciation
- Factors Determining the amount of Depreciation
- Methods of Providing Depreciation :
 - Straight Line Method : Meaning, Merits, Demerits and Suitability
 - Written Down Value Method : Meaning, Merits, Demerits and Suitability
- Distinction between Straight Line Method and Written Down Value Method
- Methods of Recording Depreciation :
 - By Charging to Asset Account
 - By Creating Provision for Depreciation Account
- Asset Disposal Account

Meaning :— In every business there are certain assets of a fixed nature that are needed for the conduct of business operations. Some examples of such assets are Building, Plant and Machinery, Motor Vehicles, Furniture, Office equipments etc. These assets have a definite span of life after the expiry of which the assets will lose their usefulness for the business operations. Fall in the value and utility of such assets due to their constant use and expiry of time is termed as depreciation. In other words, the process of allocation of the cost of a fixed asset over its useful life is known as depreciation.

Definitions :— Some of the well-known definitions of depreciation are given below :—

1. “Depreciation is the gradual and permanent decrease in the value of an asset from any cause.” — R.N. Carter
2. “Depreciation may be defined as the permanent and continuing diminution in the quality, quantity or the value of an asset.” — William Pickles
3. “Depreciation is the measure of the exhaustion of the effective life of an asset from any cause during a given period.” — Spicer & Peglar
4. “It is a matter of common knowledge that all fixed assets such as plant, machinery, building, furniture etc. gradually diminish in value as they get older and become worn out by constant use in the business.” — J.R. Batliboi

Special features or Characteristics of Depreciation :—

1. Depreciation is decline in the value of fixed assets (except land).
2. Such fall is of a permanent nature. Once the value of an asset is reduced due to depreciation, it cannot be restored to its original cost.
3. Depreciation is a gradual and continuing process because the value of the assets will decline either by their constant use or obsolescence due to expiry of time.
4. Depreciation is not the process of valuation of asset but process of allocation of the cost of an asset to its effective span of life.
5. It decreases only the book value of the asset, not the market value.
6. The term depreciation is used only in respect of tangible fixed assets. The term is not used for wasting assets such as mines, oil-wells etc.
7. It is a non-cash expense. It does not involve any cash outflow.

Causes of Depreciation :— Main causes of depreciation are as follows :—

- (1) **By Constant Use** :— Due to the constant use of fixed assets in business operations wear and tear arise in them which results in the reduction of their values.
- (2) **By Expiry of Time** :— The value of majority of assets decreases with the passage of time even if they are not being put to use in the business. Natural forces such as rain, winds, weather etc. contribute to the deterioration of their values.
- (3) **By Expiry of Legal Rights** : There are certain assets which have a definite span of life such as Lease. For example, if a lease has been obtained for 20 years for ₹5,00,000, it will lose 1/20th, i.e., ₹25,000 of its value each year whether utilised or not, so that at the end of 20th year its value is reduced to zero.
- (4) **By Obsolescence** :— Quite often, due to new inventions and improved techniques the old assets become obsolete and may have to be discarded even if they can be put to use physically.
- (5) **By Accident** :— Sometimes a machine may be destroyed due to fire, earthquake, flood etc. or a vehicle may be damaged due to accident.
- (6) **By Depletion** :— Depletion is the decrease in the value of wasting assets such as mines, oil-wells etc. due to their constant working.
- (7) **By Permanent fall in Market Price** :— Though, the fluctuations in the market value of fixed assets are not recorded because such assets are not meant for resale but for use in the business, sometimes the fall in the value of certain fixed assets is treated as depreciation such as permanent fall in the value of investments.

Need, Importance or Objects of Providing Depreciation

- (1) **For ascertaining the true profit or loss** :— The true profit of a business can be ascertained only when all costs incurred for the purpose of earning revenues have been debited to the Profit and Loss Account. As the Assets are used in earning revenues, the depreciation in the value of an asset is as much an expense as any other, such as wages, salary, rent etc.

- (2) **For showing the 'true and fair view' of the financial position** :— If the depreciation is not charged, the assets will be shown in the Balance Sheet at an amount which is in excess of their true values. As such, the Balance Sheet will not present the 'true and fair view' of the financial position of a business.

(3) **To ascertain the accurate cost of production** :— As depreciation is also an item of expense, the correct cost of production cannot be calculated unless it is also taken into account. Sale price chargeable from customers is determined on the basis of cost of production and hence if the depreciation is not included in Cost of Production, the sale price will be fixed at lower rates and this in turn will lead to reduced profits.

(4) **To provide funds for replacement of assets** :— Depreciation though debited to Profit & Loss Account, is not paid in cash like other expenses. Hence, the amount of depreciation is retained in the business and is used for the replacement of fixed assets after the expiry of their estimated span of life.

(5) **To prevent the distribution of profits out of capital** :— If the depreciation is not charged, the profit shown by the Profit and Loss Account will be in excess of the actual profits. Such an excess profit may be wholly withdrawn by the proprietor or may be distributed among the shareholders as dividend. Hence, the amount of dividend distributed will also include the amount of depreciation which is actually a part of capital.

(6) **For avoiding over payment of Income Tax** :— Depreciation is a deductible expense for tax purposes. If depreciation is not debited to Profit and Loss Account, the net profit shown by it will be in excess of actual profits. Hence, we will also have to pay more income tax.

(7) **Other Objectives** : If the depreciation is not charged, the net profit shown by Profit & Loss Account will exceed the actual profits and as a result :

- (I) Employees may demand an increase in wages and bonus,
- (II) It may also result in extravagance,
- (III) It may lead to increase in competition in that type of business.

Factors determining the amount of Depreciation

It is impossible to calculate the actual and true amount of depreciation. It can only be estimated by keeping the following factors into consideration :—

(1) **Total Cost of the Asset** :— The cost of a fixed asset is determined after adding all expenses incurred for bringing the asset to usable condition, such as freight, transit insurance and installation costs etc.

(2) **Estimated Useful Life of Asset** :— Useful life of an asset is estimated in terms of number of years, it can be effectively used for business operations. For example, if a machine can work for 25 years but is likely to become obsolete in 15 years on account of availability of a better type of machine due to improved technology, its useful life will be considered as only 15 years.

(3) **Estimated Scrap Value** :— It is the estimated sale value of the asset at the end of its useful life. It is also known as residual value or break-up value. For example, a machine is purchased for ₹60,000 and ₹4,000 are spent on its freight and ₹1,000 for installation. It is estimated that its serviceable life will be 10 years at the end of which period it will have a scrap value of ₹8,000. Depreciation in this case will be calculated on ₹57,000 (i.e., ₹60,000 + ₹4,000 + ₹1,000 - ₹8,000).

Depreciation charged on this machine will be $\frac{57,000}{10} = ₹5,700$ every year.

Methods of Providing or Allocating Depreciation

Various methods have been devised for providing depreciation. Different methods are suitable for different assets depending upon the nature and type of the asset. These methods are enumerated as under :—

1. Straight Line Method
2. Written Down Value Method
3. Annuity Method
4. Depreciation Fund Method
5. Insurance Policy Method
6. Revaluation Method
7. Depletion Method
8. Machine Hour Rate Method

The first two methods are discussed below :—

(1) Straight Line Method

This method is also termed as '**Original Cost Method**' because under this method depreciation is charged at a fixed percentage on the original cost of the asset. The amount of depreciation remains equal from year to year and as such the method is also known as '**Equal Instalment Method**' or '**Fixed Instalment Method**'. Under this method, the amount of depreciation is calculated by deducting the scrap value from the original cost of the asset and then by dividing the remaining balance by the number of years of its estimated life. The depreciation so calculated and charged annually will reduce the original cost of the asset to zero, or its scrap value, as the case may be, at the end of its estimated life. Under this method, the amount of depreciation is calculated by the following formula :—

$$\text{Yearly Depreciation} = \frac{\text{Original Cost of the Asset} - \text{Estimated Scrap Value}}{\text{Estimated Life of the Asset}}$$

For example, if the original cost of the asset is ₹1,00,000 and its scrap value is likely to be ₹15,000 after its estimated life of 10 years, the depreciation written off will be $\frac{1,00,000 - 15,000}{10} = ₹8,500$ every year.

Merits of Straight Line Method :—

(1) **Simplicity** :— Calculation of depreciation under this method is very simple and as such the method is widely popular.

(2) **Equality of Depreciation Burden** :— Under this method, equal amount of depreciation is debited to the Profit and Loss Account of each year. Hence, the burden of depreciation on each year's net profit is equal.

(3) **Assets can be completely written off** :— Under this method, the book value of an asset can be reduced to net scrap value or zero value, which is not possible under some other methods.

(4) **Knowledge of Original Cost and Up-to-date depreciation** :— Under this method, the original cost of the asset is shown in the Balance Sheet and the up-to-date depreciation is shown as a direct deduction from it. As such, the information of Original Cost of the asset and its up-to-date depreciation is available at any time. Various assets also maintain their separate identity under this method.

Demerits :—

(1) **Difficulty in Computation** :— When there are different machines having different life-spans, the computation of depreciation becomes complicated because the depreciation on each machine will have to be calculated separately.

(2) **Unequal charge against income** :— Repair charges go on increasing year by year as the asset becomes older but as the equal depreciation is charged under this method each year, the total burden charged to Profit and Loss Account in respect of depreciation and repairs put together will not be equal each year. The total burden will be lighter in earlier years and heavier during the later years.

(3) **Undue pressure in later years** :— It is a well-known fact that the efficiency and usefulness of a machine is more in the earlier years in comparison to later years. As such, more depreciation should be charged in earlier years in comparison to the later years, whereas, depreciation remains constant from year to year under this method.

(4) **Omission of Interest Factor** :— This method does not take into consideration the loss of interest on the amount invested in the asset. The amount would have earned interest, had it been invested outside the business.

(5) **Unrealistic to Write off the Value of asset to Zero** :— Sometimes, even after the value of an asset is reduced to zero in the books, it continues to be used in the business in actual practice.

(6) **Difficulty in the determination of scrap value** :— It is quite difficult to assess the true scrap value of the asset after a long period, say 15 or 20 years from the date of its installation.

Suitability :— This method is suitable for those assets whose useful life can be estimated accurately and which do not require much expenses on repairs and renewals.

Accounting Treatment :—

Following entries are passed in this method :—

1. Entry for purchase of Asset :—

Dr.
Asset A/c

To Bank/Vendor A/c

2. Entry for providing depreciation at the end of each year :—

Dr.

Depreciation A/c

To Asset A/c

3. Entry for the amount realised on sale of Asset :—

Dr.

Bank A/c

To Asset A/c

4. Entry in case of loss on sale of Asset :—

Dr.

Profit & Loss A/c

To Asset A/c

5. Entry in case of profit on sale of Asset :—

Dr.

Asset A/c

To Profit & Loss A/c

ILLUSTRATION 1.

On 1st January 1990 Atul Glass Limited purchased a Machine for ₹90,000 and spent ₹6,000 on its carriage and ₹4,000 on its erection. On the date of purchase, it was estimated that the effective life of the machine will be 10 years and after 10 years its scrap value will be ₹20,000.

Prepare Machine A/c and Depreciation A/c for 4 years after providing depreciation on Fixed Instalment Method. Accounts are closed on 31st December each year.

SOLUTION :

As the rate of depreciation is not given in the question, the amount of annual depreciation will be arrived at as under :

$$\begin{aligned}\text{Annual Depreciation} &= \frac{\text{Cost of Asset} - \text{Scrap Value}}{\text{Estimated life of Asset}} \\ &= \frac{₹1,00,000 - ₹20,000}{10 \text{ years}} = ₹8,000\end{aligned}$$

$$\begin{aligned}\text{Rate of Depreciation} &= \frac{\text{Amount of Depreciation}}{\text{Total Cost of Asset}} \times 100 \\ &= \frac{8,000}{1,00,000} \times 100 = 8\%\end{aligned}$$

MACHINE ACCOUNT

Date	Particulars	Amount	Date	Particulars	Amount
1990		₹	1990		₹
Jan. 1	To Bank A/c	90,000	Dec. 31	By Depreciation A/c (8% on 1,00,000)	8,000
Jan. 1	To Bank A/c (expenses)	6,000		By Balance c/d	92,000
Jan. 1	To Bank A/c (expenses)	4,000			
		<u>1,00,000</u>			<u>1,00,000</u>
1991			1991		
Jan. 1	To Balance b/d	92,000	Dec. 31	By Depreciation A/c (8% on 1,00,000)	8,000
			Dec. 31	By Balance c/d	84,000
		<u>92,000</u>			<u>84,000</u>
1992			1992		
Jan. 1	To Balance b/d	84,000	Dec. 31	By Depreciation A/c (8% on 1,00,000)	8,000
			Dec. 31	By Balance c/d	76,000
		<u>84,000</u>			<u>76,000</u>
1993			1993		
Jan. 1	To Balance b/d	76,000	Dec. 31	By Depreciation A/c (8% on 1,00,000)	8,000
			Dec. 31	By Balance c/d	68,000
		<u>76,000</u>			<u>68,000</u>
1994					
Jan. 1	To Balance b/d	68,000			

DEPRECIATION ACCOUNT

1990 Dec. 31	To Machine A/c	₹ 8,000	1990 Dec. 31	By Profit & Loss A/c	₹ 8,000
1991 Dec. 31	To Machine A/c	8,000	1991 Dec. 31	By Profit & Loss A/c	8,000
1992 Dec. 31	To Machine A/c	8,000	1992 Dec. 31	By Profit & Loss A/c	8,000
1993 Dec. 31	To Machine A/c	8,000	1993 Dec. 31	By Profit & Loss A/c	8,000

ILLUSTRATION 2.

On 1st January, 1990, X Ltd. purchased a Plant and Machinery for ₹43,000. It was estimated that the effective life of the Plant and Machinery will be 10 years and after 10 years its scrap value will be ₹3,000.

On 1st January, 1991, the Company purchased additional machine for ₹25,000, of which the effective life will be 15 years and scrap value ₹2,500.

On 1st July, 1992, a new machine was purchased for ₹12,000, of which the scrap value will be ₹2,000 and effective life 20 years.

Show the Plant and Machinery A/c from 1990 to 1993, if depreciation is provided on Straight Line Method. The accounts are closed on 31st December every year.

SOLUTION :

Depreciation on 1st Machine

$$= \frac{₹43,000 - ₹3,000}{10} = \frac{40,000}{10}$$

= ₹4,000 per year

$$= \frac{₹25,000 - ₹2,500}{15} = \frac{22,500}{15}$$

= ₹1,500 per year

$$= \frac{₹12,000 - ₹2,000}{20} = \frac{10,000}{20}$$

= ₹500 per year

Depreciation on 2nd Machine

Depreciation on 3rd Machine

PLANT AND MACHINERY ACCOUNT

1990 Jan. 1	To Bank A/c	₹ 43,000	1990 Dec. 31	By Depreciation A/c	₹ 4,000
		43,000	Dec. 31	By Balance c/d	39,000
		43,000			43,000
1991 Jan. 1	To Balance b/d	39,000	1991 Dec. 31	By Depreciation A/c	4,000
Jan. 1	To Bank A/c	25,000	(i)	1,500	5,500
		64,000	(ii)		
			Dec. 31	By Balance c/d	
			(i)	35,000	58,500
			(ii)	23,500	64,000

1992		1992			
Jan. 1	To Balance b/d		Dec. 31	By Depreciation A/c	
	(i) 35,000			(i) 4,000	
July 1	(ii) 23,500	58,500		(ii) 1,500	
	To Bank A/c	12,000	Dec. 31	(iii) (for 6 months) 250	5,750
				By Balance c/d	
				(i) 31,000	
				(ii) 22,000	
				(iii) 11,750	64,750
		70,500			70,500
1993		1993			
Jan. 1	To Balance b/d		Dec. 31	By Depreciation A/c	
	(i) 31,000			(i) 4,000	
	(ii) 22,000	64,750		(ii) 1,500	
	(iii) 11,750		Dec. 31	(iii) 500	6,000
				By Balance c/d	
				(i) 27,000	
				(ii) 20,500	
				(iii) 11,250	58,750
		64,750			64,750
1994					
Jan. 1	To Balance b/d				
	(i) 27,000				
	(ii) 20,500				
	(iii) 11,250	58,750			

ILLUSTRATION 3.

On 1st January, 1990, Ashoka Ltd. purchased furniture costing ₹50,000. On April 1, 1993, the furniture was sold for ₹20,000. Prepare furniture account calculating depreciation @ 10% p.a. on Original Cost Method. Accounts are closed on 31st December each year.

SOLUTION :**FURNITURE ACCOUNT**

1990		₹	1990		₹
Jan. 1	To Bank A/c	50,000	Dec. 31	By Depreciation A/c	5,000
		50,000	Dec. 31	By Balance c/d	45,000
					50,000
1991		1991			
Jan. 1	To Balance b/d	45,000	Dec. 31	By Depreciation A/c	5,000
		45,000	Dec. 31	By Balance c/d	40,000
					45,000
1992		1992			
Jan. 1	To Balance b/d	40,000	Dec. 31	By Depreciation A/c	5,000
		40,000	Dec. 31	By Balance c/d	35,000
					40,000

1993 Jan. 1	To Balance b/d	35,000	1993 April 1 April 1 April 1	By Bank A/c By Depreciation A/c (for 3 months) By Profit & Loss A/c (Balancing figure)	20,000 1,250 13,750 35,000
		35,000			

ILLUSTRATION 4.

On 1st January, 1990, a Company purchased a plant for ₹60,000. On 1st July in the same year, it purchased additional plant worth ₹18,000 and spends ₹2,000 on its erection. On 1st July, 1992, the plant purchased on 1st Jan., 1990 having become obsolete, is sold off for ₹27,000. On 1st October, 1993, fresh plant was purchased for ₹64,000 and on the same date the plant purchased on 1st July, 1990 was sold for ₹10,000.

Depreciation is provided at 10% per annum on Original cost on 31st Dec. every year.

Show the Plant Account from 1990 to 1993.

SOLUTION :**PLANT ACCOUNT**

1990		₹	1990		₹
Jan. 1	To Bank A/c	60,000	Dec. 31	By Depreciation A/c (i) On ₹60,000 for one year 6,000	
July 1	To Bank A/c	18,000		(ii) On ₹20,000 for six months 1,000	7,000
July 1	To Bank A/c (expenses)	2,000		By Balance c/d (i) ₹ 54,000 (ii) ₹ 19,000	73,000
		80,000			80,000
1991			1991		
Jan. 1	To Balance b/d		Dec. 31	By Depreciation A/c (i) 6,000 (ii) 2,000	8,000
	(i)	54,000		By Balance c/d (i) 48,000 (ii) 17,000	65,000
	(ii)	19,000			73,000
		73,000			
1992			1992		
Jan. 1	To Balance b/d		July 1	By Bank A/c	27,000
	(i)	48,000	July 1	By Depreciation A/c (On ₹60,000 for six months)	3,000
	(ii)	17,000	July 1	By Profit & Loss A/c (Loss on sale of Plant)	18,000 ⁽¹⁾

			Dec. 31	By Depreciation A/c (On ₹20,000 for one year) By Balance c/d (₹17,000 - 2,000)	
			Dec. 31		
1993					
Jan. 1	To Balance b/d	15,000	Oct. 1	By Bank A/c	10,000
Oct. 1	To Bank A/c	64,000	Oct. 1	By Depreciation A/c (On ₹20,000 for nine months)	1,500
			Oct. 1	By Profit & Loss A/c (Loss on sale of Plant)	3,500 ⁽²⁾
			Dec. 31	By Depreciation A/c (On ₹64,000 for 3 months)	1,600
			Dec. 31	By Balance c/d (₹64,000 - 1,600)	62,400
		79,000			79,000
1994					
Jan. 1	To Balance b/d	62,400			

Working Notes :—

	₹	₹
1. Balance of the Plant on 1st January, 1992		48,000
Less : Selling Price	27,000	
Depreciation for 6 months, i.e., upto 1st July, 1992	3,000	30,000
Loss on sale of Plant		18,000
2. Balance of the Plant on 1st January, 1993		15,000
Less : Selling Price	10,000	
Depreciation for 9 months, i.e., upto 1st October, 1993	1,500	11,500
Loss on sale of Plant		3,500

ILLUSTRATION 5.

Birla Cotton Mills purchased a machinery on 1st May, 1991 for ₹90,000. On 1st July, 1992 it purchased another machine for ₹40,000.

On 31st March, 1993 it sold off the first machine purchased in 1991 for ₹58,000 and on the same date purchased a new machinery for ₹1,00,000. Depreciation is provided at 20% p.a. on the original cost each year. Accounts are closed each year on 31st December.

Show the Machinery Account for three years.

SOLUTION :**MACHINERY ACCOUNT**

1991		₹	1991		₹
May 1	To Bank A/c	90,000	Dec. 31	By Depreciation A/c (for 8 months)	12,000

			Dec. 31	By Balance c/d	
1992	To Balance b/d	90,000			78,000
Jan. 1	To Bank A/c	40,000	1992	By Depreciation A/c (i) ₹ 18,000 (ii) ₹ 4,000 (for 6 months)	90,000
July 1			Dec. 31	By Balance c/d (i) ₹ 60,000 (ii) ₹ 36,000	22,000
		1,18,000			96,000
1993	To Balance b/d		1993	By Bank A/c	1,18,000
Jan. 1	(i) 60,000		Mar. 31	By Depreciation A/c (for 3 months)	58,000
	(ii) 36,000	96,000	Mar. 31	By Depreciation A/c (i) ₹ 8,000 (ii) ₹ 15,000	4,500
Mar. 31	To Bank A/c	1,00,000	Dec. 31	By Depreciation A/c By Balance c/d	23,000
Mar. 31	To Profit & Loss A/c (Profit on machine ₹58,000 + 4,500 - 60,000)	2,500	Dec. 31		1,13,000
		1,98,500			1,98,500
1994	To Balance b/d	1,13,000			
Jan. 1					

ILLUSTRATION 6.

A company whose accounting year is the calendar year, purchased on 1st April, 2008, machinery costing ₹30,000. It purchased further machinery on 1st October, 2008, costing ₹20,000 and on 1st July, 2009, costing ₹10,000.

On 1st January, 2010, one-third of the machinery which was installed on 1st April, 2008 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 Fixed Instalment at 10 per cent p.a.

(KVS 2011)

SOLUTION :**MACHINERY ACCOUNT**

		₹	2008		₹
2008			Dec. 31	By Depreciation A/c	
April 1	To Bank A/c (i)	30,000		(i) 2,250	
Oct. 1	To Bank A/c (ii)	20,000		(ii) 500	2,750
			Dec. 31	By Balance c/d	
				(i) 27,750	
				(ii) 19,500	47,250
		50,000			50,000
2009					
Jan. 1	To Balance b/d (i)	27,750	2009	By Depreciation A/c (i) 3,000	

				DEPRECIATION
July 1	(ii) To Bank A/c (iii) 19,500	47,250 10,000	Dec. 31	(ii) 2,000 (iii) 500 By Balance c/d
				(i) 24,750 (ii) 17,500 (iii) 9,500
		57,250		
2010			2010	51,750 57,250
Jan. 1	To Balance b/d		Jan. 1	By Bank A/c
	(i) 24,750		Jan. 1	By Profit & Loss A/c (i) 3,000
	(ii) 17,500		Dec. 31	By Depreciation A/c
	(iii) 9,500	51,750		(i) 2,000 (10% on ₹20,000)
				(ii) 2,000 (iii) 1,000
		51,750	Dec. 31	5,000
				(i) 14,500 (ii) 15,500 (iii) 8,500
				38,500 51,750
2011				
Jan. 1	To Balance b/d	38,500		

Note 1. Calculation of Loss on Sale of one-third Machinery :—

$$\text{Balance of 1st Machinery on 1st January, 2010} = ₹24,750$$

Therefore Balance of one third Machinery

$$\text{on 1st Jan. 2010} = ₹24,750 \times \frac{1}{3} = 8,250$$

Less : Selling Price	$\frac{3,000}{\underline{\underline{5,250}}}$
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ILLUSTRATION 7.

On 1-1-1976, a Company purchased plant and machinery for ₹2,00,000. New machinery for ₹10,000 was purchased on 1-10-1976 and for ₹20,000 on 1-7-1977. On 1-4-1978, a machinery whose book value had been ₹30,000 on 1-1-1976 was sold for ₹16,000 and the entire amount was credited to Plant and Machinery Account. Depreciation had been charged at 10% per annum on straight-line method. Show the Plant and Machinery Account from 1-1-1976 to 31-12-1978.

SOLUTION :

PLANT & MACHINERY A/C

		₹	1976	1976	₹
Jan. 1	To Bank A/c			Dec. 31	By Depreciation A/c
	(i) 30,000				(i) 3,000
	(ii) 1,70,000	2,00,000			(ii) 17,000
Oct. 1	To Bank A/c (iii)	10,000			(iii) 250
			Dec. 31	By Balance c/d	
				(i) 27,000	
				(ii) 1,53,000	
					20,250

DEPRECIATION

15.13

			(iii)	9,750	1,89,750
		2,10,000			2,10,000
1977					
Jan. 1	To Balance b/d		1977		
	(i) 27,000		Dec. 31	By Depreciation A/c	
	(ii) 1,53,000			(i) 3,000	
	(iii) 9,750	1,89,750		(ii) 17,000	
July 1	To Bank A/c (iv)	20,000		(iii) 1,000	
				(iv) 1,000	22,000
			Dec. 31	By Balance c/d	
				(i) 24,000	
				(ii) 1,36,000	
				(iii) 8,750	
				(iv) 19,000	1,87,750
		2,09,750			2,09,750
1978					
Jan. 1	To Balance b/d		1978		
	(i) 24,000		Apr. 1	By Bank A/c	16,000
	(ii) 1,36,000		Apr. 1	By Depreciation A/c	
	(iii) 8,750	1,87,750	Apr. 1	(On 1st Machine for 3 months)	750
	(iv) 19,000			By P & L A/c	
				(Loss on sale of 1st Machine : ₹24,000 – 16,000 – 750)	7,250
			Dec. 31	By Depreciation A/c	
				(i) 17,000	
				(ii) 1,000	
				(iii) 2,000	20,000
			Dec. 31	By Balance c/d	
				(i) 1,19,000	
				(ii) 7,750	
				(iii) 17,000	1,43,750
		1,87,750			1,87,750