

# CHAPTER - 7

## DEPRECIATION, PROVISIONS & RESERVES

### Short Answer Type Questions

**Q1. What is 'Depreciation'?**

**Solution:**

Depreciation means fall in book value of depreciable fixed asset because of

1. wear and tear of the asset
2. passage/efflux of time
3. obsolescence
4. accident

A machinery costing ₹ 1,00,000 and its useful life is 10 years; so, depreciation is calculated as:

Annual Depreciation per annum

= Cost of Asset-Estimated Scrap Value/Expected or Estimated life of Asset

= 100000/10 = ₹ 10,000

**Q2. State briefly the need for providing depreciation.**

**Solution:**

The needs for providing depreciation are given below.

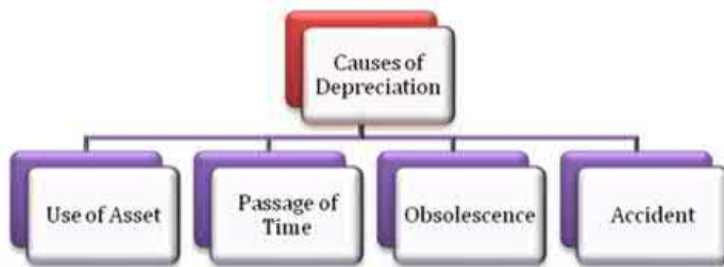
1. To ascertain the correct profit or loss: Correct profit or loss can be ascertained when all the expenses and losses incurred for earning revenues are charged to Profit and Loss Account. Assets are used for earning revenues and its cost is charged in form of depreciation from Profit and Loss Account.
2. To show true and fair view of financial statements: If depreciation is not charged, assets will be shown at higher value than their actual value in the balance sheet. Consequently,

the balance sheet will not reflect true and fair view of financial statements.

3. For ascertaining the accurate cost of production: Depreciation on the assets, which are engaged in production, is included in the cost of production. If depreciation is not charged, the cost of production is underestimated, which will lead to low selling price and thus leads to low profit.
4. To provide funds for replacement of assets: Unlike other expenses, depreciation is non cash expense. So, the amount of depreciation debited to the profit and loss account will be retained in the business. These funds will be available for replacement of fixed assets when its useful life ends.
5. To meet the legal requirement: To comply with the provisions of the Companies Act and Income Tax Act, it is necessary to charge depreciation.

### Q3. What are the causes of depreciation?

**Solution:**



1. Use of asset: Because of constant use of the fixed assets there exists a normal wear and tear which leads to fall in the value of the assets.
2. Passage of time: Whether assets are used or not, with the passage of time, its effective life will decrease.
3. Obsolescence: Because of new technologies, innovations and inventions, assets purchased currently may become outdated later which leads to the obsolescence of fixed assets.
4. Accident: An asset may lose its value due to mishaps such as a fire accident, theft or by natural calamities and they are permanent in nature.

### Q4. Explain basic factors affecting the amount of depreciation.

**Solution:**

1. **Original cost of asset:** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The total cost of an asset include all expenses incurred up to the point the asset is ready for use like freight expenses and installation charges.  
$$\text{Total Cost} = \text{Purchase Price} + \text{Freight Expenses} + \text{Installation Charges}.$$
2. **Estimated useful life:** Every asset has its useful life other than its physical life in terms of number of years and units used by a business. The asset may exist physically but may not be able to produce the goods at a reasonable cost. For example, an asset is likely to lose its useful value within 15 years, its useful life, i.e., life for purpose of accounting should be considered as only 15 years
3. **Estimated scrap value:** It is estimated as the net realisable value of an asset at the end of its useful life. It is deducted from the total cost of an asset and the difference is written off over the useful life of the asset. For example, Furniture acquired at ₹ 1,30,000, its useful life is estimated to be 10 years and it is estimated scrap value ₹ 10,000.  
$$\text{Depreciation per annum} = \frac{1,30,000 - 10,000}{10 \text{ years}} = 12,000$$

### Q5. Distinguish between straight line method and written down value method of calculating

**depreciation.**

**Solution:**

| <b>Straight Line Method</b>                                                                                                                           | <b>Written Down Value Method</b>                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Depreciation is calculated on the original cost of an asset.                                                                                          | Depreciation is calculated on the reducing balance, i.e., the book value of an asset.                                                                                                                            |
| Equal amount of depreciation is charged each year over the useful life of the asset.                                                                  | Diminishing amount of depreciation is charged each year over the useful life of the asset.                                                                                                                       |
| Book value of the asset becomes zero at the end of its effective life.                                                                                | Book value of the asset can never be zero.                                                                                                                                                                       |
| It is suitable for the assets such as patents, copyright, land and buildings which have lesser possibility of obsolescence and lesser repair charges. | It is suitable for assets which needs more repair in the later years such as plant and machinery and car.                                                                                                        |
| As depreciation remains same over the years but repair cost increases in the later years, there will be unequal effect over the life of the asset.    | As depreciation cost is high and repairs are less in the initial years but in the latter years the repair costs increase and depreciation cost decreases, there will be equal effect over the life of the asset. |
| It is not recognised under the income tax act.                                                                                                        | It is recognised under the income tax act.                                                                                                                                                                       |

**Q6. "In case of a long term asset, repair and maintenance expenses are expected to rise in later years than in earlier year". Which method is suitable for charging depreciation if the management does not want to increase burden on profits and loss account on account of depreciation and repair.**

**Solution:**

The written down value method is most appropriate to overcome the burden of the profit and loss account because of high depreciation and repair costs over the years of the asset. The cost of depreciation reduces and the repair and maintenance expenses increase over the years. However, the entire burden will not get ease to the management.

**Q7. What are the effects of depreciation on profit and loss account and balance sheet?**

**Solution:**

The effects of depreciation on Profit and Loss Account are as follows:

1. An increase in depreciation will be debited in the profit and loss account which reduces net profit.
2. Hence total expenses increase which leads to an excess of debit over credit balance.

The effects of depreciation on Balance Sheet are as follows:

1. The original cost or book value of the concerned asset gets reduced.
2. The overall balance of asset's column in the balance sheet gets reduced.

**Q8. Distinguish between 'provision' and 'reserve'.****Solution:**

| <b>Provision</b>                                                                                                                                                             | <b>Reserve</b>                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| It is charge against profit.                                                                                                                                                 | It is an appropriation of profit.                                                                                |
| It is created to meet a specific liability or contingencies.                                                                                                                 | It is made for strengthening the financial position of the business. Some reserves are also mandatory under law. |
| It is recorded on the debit side of profit and loss account.                                                                                                                 | It is recorded on the credit side of the profit and loss appropriation account.                                  |
| It can be shown either (i) by way of deduction from the item on the assets side for which it is created, or (ii) in the liabilities side along with the current liabilities. | It is shown on the liabilities side after capital.                                                               |
| It cannot be utilized for dividend distribution.                                                                                                                             | It can be utilized for dividend distribution.                                                                    |
| It is never invested outside the business.                                                                                                                                   | It can be invested outside the business.                                                                         |
| It reduces net profits.                                                                                                                                                      | It reduces only divisible profit.                                                                                |

**Q9. Give four examples each of 'provision' and 'reserves'.****Solution:**

Four examples of provision are given below.

1. Provision for bad and doubtful debts
2. Provision for discount on debtors
3. Provision for depreciation
4. Provision for tax

Four examples of reserve are given below.

1. General reserve
2. Capital redemption reserve
3. Dividend equalisation reserve
4. Debenture redemption reserve

**Q10. Distinguish between 'revenue reserve' and 'capital reserve'.****Solution:**

| <b>Revenue Reserve</b>                                                                            | <b>Capital Reserve</b>                                                                                                                     |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| It is formed out of revenue profit which is earned from normal activities of business operations. | It is formed out of capital profit which is a gain from other than normal activities of business operations, such as sale of fixed assets. |

|                                                                      |                                                     |
|----------------------------------------------------------------------|-----------------------------------------------------|
| It can be used for distribution of dividend.                         | It cannot be used for distribution of dividend.     |
| It is created for increasing the financial position of the business. | It is created for the purpose of the Companies Act. |

**Q11. Give four examples each of 'revenue reserve' and 'capital reserve'.**

**Solution:**

Examples of revenue reserve are as follows:

1. General reserve
2. Investment equalisation reserve
3. Dividend equalisation reserve
4. Debenture reserve

Examples of capital reserve are as follows:

1. Issues of shares at premium
2. Profit on forfeiture of shares
3. Profit on sale of fixed assets
4. Profit on redemption of debentures

**Q12. Distinguish between 'general reserve' and 'specific reserve'.**

**Solution:**

| Specific Reserve                                                                                                                         | General Reserve                                                                                               |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| It is created for specific purpose.                                                                                                      | It is not created for specific purpose.                                                                       |
| It is not available for any future contingencies or expansion of business. It is utilised only for that purpose for which it is created. | It is available for any future contingencies or expansion of business. It strengthens the financial position. |
| Dividend equalisation reserve, debenture redemption reserve, development rebate reserves.                                                | Contingency reserve and general reserve                                                                       |

**Q13. Explain the concept of 'secret reserve'.**

**Solution:**

Secret reserves are created by overstating liabilities or understating assets which are not shown in the balance sheet. This will reduce tax liabilities, because the liabilities are overstated. It is created by management to avoid competition by reducing profit. Creation of secret reserve is not allowed by Companies Act, 1956 which requires full disclosure of all material facts and accounting policies while preparing final statements.

## Long Answer Type Questions

**Q1. Explain the concept of depreciation. What is the need for charging depreciation and what are the causes of depreciation?**

**Solution:**

Depreciation means fall in book value of depreciable fixed asset because of

1. wear and tear of the asset,
2. passage/efflux of time,
3. obsolescence, or
4. accident.

**The need for providing depreciation is:**

1. **To ascertain the correct profit:** Correct profit or loss can be ascertained when all the expenses and losses incurred for earning revenues are charged to Profit and Loss Account. Assets are used for earning revenues and its cost is charged in form of depreciation from Profit and Loss Account.
2. **To show true and fair view of the financial position:** If depreciation is not charged, assets will be shown at higher value than their actual value in the balance sheet. Consequently, the balance sheet will not reflect true and fair view of financial statements.
3. **To retain, out of profit, funds for replacement:** Unlike other expenses, depreciation is non cash expense. So, the amount of depreciation debited to the profit and loss account will be retained in the business. These funds will be available for replacement of fixed assets when its useful life ends.
4. **To ascertain correct cost of production:** Depreciation on the assets, which are engaged in production, is included in the cost of production. If depreciation is not charged, the cost of production is underestimated, which will lead to low selling price and thus leads to low profit.
5. **To meet the legal requirement:** To comply with the provisions of the Companies Act and Income Tax Act, it is necessary to charge depreciation.

**The causes of depreciation are as stated below:**

1. **Use of Asset i.e., wear and tear:** Due to constant use of the fixed assets there exist a normal wear and tear that leads to fall in the value of the assets.
2. **Passage/Efflux of Time:** Whether assets are used or not, with the passage of time, its effective life will decrease.
3. **Obsolescence:** Due to new technologies, innovations and inventions, assets purchased today may become outdated by tomorrow which leads to the obsolescence of fixed assets.
4. **Accidents:** An asset may lose its value due to mishaps such as a fire accident, theft or by natural calamities and they are permanent in nature.

**Q2. Discuss in detail the straight line method and written down value method of depreciation. Distinguish between the two and also give situations where they are useful.**

**Solution:**

The two methods of depreciation are

1. Fixed percentage on original cost or straight line method
2. Fixed percentage on diminishing balance or written down value method

### **Straight Line Method**

According to this method, a fixed and equal amount is charged as depreciation for every accounting period during the life time of an asset. This method is based on the assumption of equal usage of time over asset's entire useful life. Hence, the amount of depreciation is same from period to period over the life of the asset.

**Depreciation amount can be calculated by using the following formula:**

- If the asset has a residual value at the end of its useful life, the amount to be written off every year is as follows:  
$$\text{Depreciation} = \frac{\text{Cost of asset} - \text{Estimated net residual value}}{\text{No. of years of expected life}}$$
- If the annual depreciation amount is given then we can calculate the rate of depreciation as follows:  
$$\text{Rate of depreciation} = \frac{\text{Annual depreciation amount}}{\text{Cost of asset}} \times 100$$

#### **Advantages of Straight Line Method**

1. Simple to calculate the depreciation amount
2. Assets can be depreciated up to the estimated scrap value
3. Easy to understand the amount of depreciation
4. Every year, the same amount of depreciation is debited to profit and loss account, and hence the effect on profit and loss account will remain the same.

#### **Disadvantages of Straight Line Method**

1. Interest on capital invested in assets is not provided in this method.
2. Over the years, the work efficiency of assets decreases and repair expenses increase. Therefore, there is a burden on the profit and loss account.
3. Book value of the assets becomes zero but still the assets are used in the business.

#### **Written Down Value Method**

In this method depreciation is charged on the book value of the asset and the amount of depreciation reduces year after year. It implies that a fixed rate on the written down value of the asset is charged as depreciation every year over the expected useful life of the asset. The rate of depreciation is applicable to the book value but not to the cost of asset.

Rate of depreciation can be ascertained on the basis of cost, scrap value and useful life of the asset as follows:

$$R = 1 - \sqrt[n]{\frac{S}{C}} \times 100$$

Where, R is the rate of depreciation in percent, n is the useful life of the asset; S is the scrap value at the end of useful life and C is the cost of the asset.

#### **Advantages of Written Down Value Method**

1. The profit and loss account of depreciation and repair expenses has same weightage throughout the useful life of asset because depreciation decreases with an increase in repair expenses.
2. Since the benefits from asset keep on decreasing, the cost of asset is allocated rationally.
3. This method is most favorable for those assets which require increased repairs and maintenance expenses over the years.
4. This method is widely accepted under the Income Tax Act.

#### **Disadvantages of Written Down Value Method**

1. The value of assets can never be zero even though it is discarded.
2. In this method, it is difficult to calculate depreciation.
3. There is no provision of interest on capital invested in use of assets.

#### **Difference between Straight Line and Written Down Value Method**

| <b>Straight Line Method</b>                                                                            | <b>Written Down Value Method</b>                                                                    |
|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Depreciation is calculated on the original cost of fixed asset                                         | Depreciation is calculated on the book value (i.e. original cost less depreciation) of fixed asset  |
| Amount of depreciation remains constant for all years                                                  | Amount of depreciation keeps on decreasing year after year                                          |
| At the end of the useful life of an asset, the balance in the asset account will reduce to zero        | At the end of the useful life of an asset, the balance in the asset account will not reduce to zero |
| It is not accepted by Income Tax Law                                                                   | It is accepted by Income Tax Law                                                                    |
| It is suitable for assets which get completely depreciated on the account of expiry of its useful life | It is suitable for assets which require more and more repairs in the later stage of its useful life |
| Rate of depreciation is easy to calculate                                                              | Rate of depreciation is difficult to calculate                                                      |

**Q3. Describe in detail two methods of recording depreciation. Also give the necessary journal entries.**

**Solution:**

The two methods of recording depreciation are as follows:

#### **1. When Depreciation is Charged or Credited to the Assets Account**

In this method, depreciation is deducted from the asset value and charged (debited) to profit and loss account. Hence the asset value is reduced by the amount of depreciation.

|                                                                                                  |     |
|--------------------------------------------------------------------------------------------------|-----|
| <b>Journal entries for recording under this method are as follows:</b>                           |     |
| Asset A/c                                                                                        | Dr. |
| To Cash/Bank A/c                                                                                 |     |
| (Being the asset purchased and the cost of an asset including installation expenses and freight) |     |
| Depreciation A/c                                                                                 | Dr. |
| To Asset A/c                                                                                     |     |
| (Being the amount of depreciation charged)                                                       |     |
| Profit and Loss A/c                                                                              | Dr. |
| To Depreciation A/c                                                                              |     |
| (Being the depreciation amount transferred to profit and loss account)                           |     |

In the Balance sheet, asset appears at its written down value which is cost less depreciation charged till date. In this method, the original cost of an asset and the total amount of depreciation which has been charged cannot ascertain from this balance sheet.

#### **2. When Depreciation is Credited to Provision for Depreciation Account**

In this method, depreciation is credited to the provision for depreciation account or accumulated depreciation account every year. Depreciation is accumulated in a separate account instead of adjusting into the asset account at the end of each accounting period. In



the balance sheet, the asset will continue to appear at the original cost every year. Thus, the balance sheet shows the original cost of the asset and the total amount of depreciation charged on asset.

| Journal entries for recording under this method are as follows:                                                                          |     |
|------------------------------------------------------------------------------------------------------------------------------------------|-----|
| Asset A/c<br>To Cash/Bank/Vendor A/c<br>(Being the asset purchased and the cost of an asset including installation expenses and freight) | Dr. |
| Depreciation A/c<br>To Provision for Depreciation A/c<br>(Being the amount of depreciation charged)                                      | Dr. |
| Profit and Loss A/c<br>To Depreciation A/c<br>(Being the depreciation amount to transferred profit and loss account)                     | Dr. |

#### Q4. Explain determinants of the amount of depreciation.

**Solution:**

1. **Historical (Original) Cost of the Asset:** The total cost of an asset is taken into consideration for ascertaining the amount of depreciation. The total cost of an asset include all expenses incurred up to the point the asset is ready for use like freight expenses and installation charges.  
Total Cost =Purchase Price+ Freight Expenses+ Installation Charges.
2. **Estimated Net Residual Value:** It is estimated as the net realisable value of an asset at the end of its useful life. It is deducted from the total cost of an asset and the difference is written off over the useful life of the asset. For example, Furniture acquired at Rs.1,30,000, its useful life is estimated to be 10 years and it is estimated scrap value Rs.10,000.  
Depreciation p.a.=  $1,30,000 - 10,000 / 10 \text{ Years} = \text{Rs.}12,000$
3. **Estimated Useful Life:** Every asset has its useful life other than its physical life (in terms of number of years, units, etc.), used by a business. The asset may exist physically but may not be able to produce the goods at a reasonable cost. For example, an asset is likely to lose its useful value within 15 years, its useful life, i.e., life for purpose of accounting should be considered as only 15 years.

#### Q5. Name and explain different types of reserves in details.

**Solution:**

**Types of Reserves:**

1. **Revenue Reserve:** It is an amount set aside out of revenue profits for distribution of dividends. For example, general reserve, investment fluctuation fund, capital reserve and workmen compensation fund. It is not a charge against profit but it is appropriation of profit shown in the profit and loss account. It is beneficial for the smooth function of the business. The retention of profit in the form of reserves reduces the amount of profit to distribute among the business owners. This is further classified in to general reserve and specific reserve.
  1. **General reserve** means a reserve which is not maintained for specific purpose. It helps to strengthen the financial status of the business. It is also known as free reserve and contingency reserve.
  2. **Specific reserve** means a reserve which is maintained for specific purpose. For example, dividend equalisation reserve is created to maintain dividend rate. This reserve amount is utilised to maintain the rate dividend in the year of low profit.

Likewise, the workmen compensation fund is maintained to provide claims of the workers, investment fluctuation fund is used at times of decline in the value of investment and debenture redemption reserve is used to provide funds for redemption of debentures.

2. **Capital Reserve:** It is an amount set aside out of capital profits which is not available for distribution as dividend among the shareholders. It is used for writing capital losses/issue of bonus share in a company. Examples of capital reserves are

- Profit prior to incorporation
- Premium on issue of shares or debentures
- Profit on redemption of debenture
- Profit on forfeiture of share
- Profit on sale of fixed assets
- Capital redemption reserve
- Profit on revaluation of fixed assets and liabilities

**Q6. What are 'provisions'? How are they created? Give accounting treatment in case of provision for doubtful Debts.**

**Solution:**

Provision is an amount which is set aside by charging it to profit for the purpose of providing for any known liability or uncertain loss or expense. The amount of which cannot be determined with certainty is also referred to as provision. Few examples are provision for depreciation, provision for doubtful debts and provision for discount on bad debtors.

The main objective of provision is to account all expenses and losses. Through the creation of provision account, the amount of liability, losses and expenses are estimated and accounted for the accounting period. Therefore, the true profit and loss is ascertained, liabilities and assets are presented with correct values.

**Importance of Provision:**

1. To meet anticipated losses and liabilities: Provision is created to meet the anticipated losses and liabilities such as provision for doubtful debts, provision for discount on debtors and provision for taxation.
2. To meet known losses and liabilities: Provision is created to meet known losses and liabilities such as provision for repairs and renewals.
3. To present correct financial statements: To present a true and fair view of profit and financial statement, the business must maintain provision for known liabilities and losses.

Therefore, provision is necessarily to be created to ascertain the current income or profit. Also, it is considered as a charge against revenue or profits.

**Accounting Treatment**

Provision is a charge against the profit which is debited in the profit and loss account. In the balance sheet, the amount of provision may be shown on the asset side by deducting from the relevant asset or on the liability side along with the current liabilities.

1. Treatment on asset side- Provision for doubtful debts is deducted from the amount of sundry debtors and the provision for depreciation is deducted from the relevant asset.
2. Treatment on liability side- Provision for repairs and charges are shown along with the current liabilities.

## Numerical Questions

**Q1. On April 01, 2010, Bajrang Marbles purchased a Machine for ₹ 2,80,000 and spent ₹**

10,000 on its carriage and ₹ 10,000 on its installation. It is estimated that its working life is 10 years and after 10 years its scrap value will be ₹ 20,000.

(a) Prepare Machine account and Depreciation account for the first four years by providing depreciation on straight line method. Accounts are closed on March 31st every year.

(b) Prepare Machine account, Depreciation account and Provision for depreciation account (or accumulated depreciation account) for the first four years by providing depreciation using straight line method accounts are closed on March 31 every year.

**Solution:**

Books of Bajrang Marbles  
Machinery Account

| Dr.    |                |      |          | Cr.    |                     |      |          |
|--------|----------------|------|----------|--------|---------------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date   | Particulars         | J.F. | Amount ₹ |
| 2010   |                |      |          | 2011   |                     |      |          |
| Apr 01 | To Bank A/c    |      | 3,00,000 | Mar 31 | By Depreciation A/c |      | 28,000   |
|        |                |      |          | Mar 31 | By Balance c/d      |      | 2,72,000 |
|        |                |      | 3,00,000 |        |                     |      | 3,00,000 |
| 2011   |                |      |          | 2012   |                     |      |          |
| Apr 01 | To Balance b/d |      | 2,72,000 | Mar 31 | By Depreciation A/c |      | 28,000   |
|        |                |      |          | Mar 31 | By Balance c/d      |      | 2,44,000 |
|        |                |      | 2,72,000 |        |                     |      | 2,72,000 |
| 2012   |                |      |          | 2013   |                     |      |          |
| Apr 01 | To Balance b/d |      | 2,44,000 | Mar 31 | By Depreciation A/c |      | 28,000   |
|        |                |      |          | Mar 31 | By Balance c/d      |      | 2,16,000 |
|        |                |      | 2,44,000 |        |                     |      | 2,44,000 |
| 2013   |                |      |          | 2014   |                     |      |          |
| Apr 01 | To Balance b/d |      | 2,16,000 | Mar 31 | By Depreciation A/c |      | 28,000   |
|        |                |      |          | Mar 31 | By Balance c/d      |      | 1,88,000 |
|        |                |      | 2,16,000 |        |                     |      | 2,16,000 |

Depreciation Account

| Dr.    |                  |      |          | Cr.    |                        |      |          |
|--------|------------------|------|----------|--------|------------------------|------|----------|
| Date   | Particulars      | J.F. | Amount ₹ | Date   | Particulars            | J.F. | Amount ₹ |
| 2011   |                  |      |          | 2011   |                        |      |          |
| Mar 31 | To Machinery A/c |      | 28,000   | Mar 31 | By Profit and Loss A/c |      | 28,000   |
|        |                  |      | 28,000   |        |                        |      | 28,000   |
| 2012   |                  |      |          | 2012   |                        |      |          |
| Mar 31 | To Machinery A/c |      | 28,000   | Mar 31 | By Profit and Loss A/c |      | 28,000   |
|        |                  |      | 28,000   |        |                        |      | 28,000   |
| 2013   |                  |      |          | 2013   |                        |      |          |
| Mar 31 | To Machinery A/c |      | 28,000   | Mar 31 | By Profit and Loss A/c |      | 28,000   |
|        |                  |      | 28,000   |        |                        |      | 28,000   |
| 2014   |                  |      |          | 2014   |                        |      |          |
| Mar 31 | To Machinery A/c |      | 28,000   | Mar 31 | By Profit and Loss A/c |      | 28,000   |
|        |                  |      | 28,000   |        |                        |      | 28,000   |

**Working notes :**

1. Calculation of annual depreciation

Depreciation p.a. = Cost-Scrap Value/Estimated Life of Assets(years)

= (2,80,000+10,000+10,000)-20,000/10

= ₹ 28,000 per annum

Books of Bajrang Marbles  
Machinery Account

| Dr.    |                |      |          | Cr.    |                |      |          |
|--------|----------------|------|----------|--------|----------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date   | Particulars    | J.F. | Amount ₹ |
| 2010   |                |      |          | 2011   |                |      |          |
| Apr 01 | To Bank A/c    |      | 3,00,000 | Mar 31 | By Balance c/d |      | 3,00,000 |
|        |                |      | 3,00,000 |        |                |      | 3,00,000 |
| 2011   |                |      |          | 2012   |                |      |          |
| Apr 01 | To Balance b/d |      | 3,00,000 | Mar 31 | By Balance c/d |      | 3,00,000 |
|        |                |      | 3,00,000 |        |                |      | 3,00,000 |
| 2012   |                |      |          | 2013   |                |      |          |
| Apr 01 | To Balance b/d |      | 3,00,000 | Mar 31 | By Balance c/d |      | 3,00,000 |
|        |                |      | 3,00,000 |        |                |      | 3,00,000 |
| 2013   |                |      |          | 2014   |                |      |          |
| Apr 01 | To Balance b/d |      | 3,00,000 | Mar 31 | By Balance c/d |      | 3,00,000 |
|        |                |      | 3,00,000 |        |                |      | 3,00,000 |

**Provision for Depreciation Account**

| Dr.            |                |      |          | Cr.            |                     |      |          |
|----------------|----------------|------|----------|----------------|---------------------|------|----------|
| Date           | Particulars    | J.F. | Amount ₹ | Date           | Particulars         | J.F. | Amount ₹ |
| 2011<br>Mar 31 | To Balance c/d |      | 28,000   | 2011<br>Mar.31 | By Depreciation A/c |      | 28,000   |
|                |                |      | 28,000   |                |                     |      | 28,000   |
| 2012<br>Mar 31 | To Balance c/d |      | 56,000   | 2011<br>Apr 01 | By Balance b/d      |      | 28,000   |
|                |                |      | 56,000   | 2012<br>Mar 31 | By Depreciation A/c |      | 28,000   |
|                |                |      |          |                |                     |      | 56,000   |
| 2013<br>Mar 31 | To Balance c/d |      | 84,000   | 2012<br>Apr 01 | By Balance b/d      |      | 56,000   |
|                |                |      | 84,000   | 2013<br>Mar 31 | By Depreciation A/c |      | 28,000   |
|                |                |      |          |                |                     |      | 84,000   |
| 2014<br>Mar 31 | To Balance c/d |      | 1,12,000 | 2013<br>Apr 01 | By Balance b/d      |      | 84,000   |
|                |                |      | 1,12,000 | 2014<br>Mar 31 | By Depreciation A/c |      | 28,000   |
|                |                |      |          |                |                     |      | 1,12,000 |

**Depreciation Account**

| Dr.            |                                   |      |          | Cr.            |                        |      |          |
|----------------|-----------------------------------|------|----------|----------------|------------------------|------|----------|
| Date           | Particulars                       | J.F. | Amount ₹ | Date           | Particulars            | J.F. | Amount ₹ |
| 2011<br>Mar 31 | To Provision for Depreciation A/c |      | 28,000   | 2011<br>Mar 31 | By Profit and Loss A/c |      | 28,000   |
|                |                                   |      | 28,000   |                |                        |      | 28,000   |
| 2012<br>Mar 31 | To Provision for Depreciation A/c |      | 28,000   | 2012<br>Mar 31 | By Profit and Loss A/c |      | 28,000   |
|                |                                   |      | 28,000   |                |                        |      | 28,000   |
| 2013<br>Mar 31 | To Provision for Depreciation A/c |      | 28,000   | 2013<br>Mar 31 | By Profit and Loss A/c |      | 28,000   |
|                |                                   |      | 28,000   |                |                        |      | 28,000   |
| 2014<br>Mar 31 | To Provision for Depreciation A/c |      | 28,000   | 2014<br>Mar 31 | By Profit and Loss A/c |      | 28,000   |
|                |                                   |      | 28,000   |                |                        |      | 28,000   |

**Q2.** On July 01, 2010, Ashok Ltd. Purchased a Machine for ₹ 1,08,000 and spent ₹ 12,000 on its installation. At the time of purchase it was estimated that the effective commercial life of the machine will be 12 years and after 12 years its salvage value will be ₹ 12,000.

Prepare machine account and depreciation Account in the books of Ashok Ltd. For first three years, if depreciation is written off according to straight line method. The accounts are closed on December 31st, every year.

**Solution:**

Books of Ashok Ltd.  
Machinery Account

| Dr.            |                |      |          | Cr.            |                     |      |          |
|----------------|----------------|------|----------|----------------|---------------------|------|----------|
| Date           | Particulars    | J.F. | Amount ₹ | Date           | Particulars         | J.F. | Amount ₹ |
| 2010<br>Jul 01 | To Bank A/c    |      | 1,20,000 | 2010<br>Dec 31 | By Depreciation A/c |      | 4,500    |
|                |                |      |          | Dec 31         | By Balance c/d      |      | 1,15,500 |
|                |                |      | 1,20,000 |                |                     |      | 1,20,000 |
| 2011<br>Jan 01 | To Balance b/d |      | 1,15,500 | 2011<br>Dec 31 | By Depreciation A/c |      | 9,000    |
|                |                |      |          | Dec 31         | By Balance c/d      |      | 1,06,500 |
|                |                |      | 1,15,500 |                |                     |      | 1,15,500 |
| 2012<br>Jan 01 | To Balance b/d |      | 1,06,500 | 2012<br>Dec 31 | By Depreciation A/c |      | 9,000    |
|                |                |      |          | Dec 31         | By Balance c/d      |      | 97,500   |
|                |                |      | 1,06,500 |                |                     |      | 1,06,500 |
| 2013<br>Jan 01 | To Balance b/d |      | 97,500   |                |                     |      |          |

Depreciation Account

| Dr.            |                  |      |          | Cr.            |                        |      |          |
|----------------|------------------|------|----------|----------------|------------------------|------|----------|
| Date           | Particulars      | J.F. | Amount ₹ | Date           | Particulars            | J.F. | Amount ₹ |
| 2010<br>Dec 31 | To Machinery A/c |      | 4,500    | 2010<br>Dec 31 | By Profit and Loss A/c |      | 4,500    |
|                |                  |      | 4,500    |                |                        |      | 4,500    |
| 2011<br>Dec 31 | To Machinery A/c |      | 9,000    | 2011<br>Dec 31 | By Profit and Loss A/c |      | 9,000    |
|                |                  |      | 9,000    |                |                        |      | 9,000    |
| 2012<br>Dec 31 | To Machinery A/c |      | 9,000    | 2012<br>Dec 31 | By Profit and Loss A/c |      | 9,000    |
|                |                  |      | 9,000    |                |                        |      | 9,000    |

Working Notes :

1. Calculation of annual depreciation

Depreciation p.a.

= Cost-Scrap Value/Estimated Life of Asset (Years)

= (1,08,000+12,000)-12,000/12 Years

= ₹ 9,000 per annum

**Q3. Reliance Ltd. Purchased a second hand machine for ₹ 56,000 on October 01, 2011 and spent ₹ 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for ₹ 6,000 at the end of its useful life of 15 years. Moreover an estimated cost of ₹ 1,000 is expected to be incurred to recover the salvage value of ₹ 6,000. Prepare machine account and Provision for depreciation account for the first three years charging depreciation by fixed installment Method. Accounts are closed on December 31, every year.**

**Solution:**

Books of Reliance Ltd  
Machinery Account

| Dr.            |                |      |          | Cr.            |                |      |          |
|----------------|----------------|------|----------|----------------|----------------|------|----------|
| Date           | Particulars    | J.F. | Amount ₹ | Date           | Particulars    | J.F. | Amount ₹ |
| 2011<br>Oct 01 | To Bank A/c    |      | 84,000   | 2011<br>Dec 31 | By Balance c/d |      | 84,000   |
|                |                |      | 84,000   |                |                |      | 84,000   |
| 2012<br>Jan 01 | To Balance b/d |      | 84,000   | 2012<br>Dec 31 | By Balance c/d |      | 84,000   |
|                |                |      | 84,000   |                |                |      | 84,000   |
| 2013<br>Jan 01 | To Balance b/d |      | 84,000   | 2013<br>Dec 31 | By Balance c/d |      | 84,000   |
|                |                |      | 84,000   |                |                |      | 84,000   |

Provisions for Depreciation Account

| Dr.            |                |      |          | Cr.            |                     |      |          |
|----------------|----------------|------|----------|----------------|---------------------|------|----------|
| Date           | Particulars    | J.F. | Amount ₹ | Date           | Particulars         | J.F. | Amount ₹ |
| 2011<br>Dec 31 | To Balance c/d |      | 1,316    | 2011<br>Dec 31 | By Depreciation A/c |      | 1,316    |
|                |                |      | 1,316    |                |                     |      | 1,316    |
| 2012<br>Dec 31 | To Balance c/d |      | 6,583    | 2012<br>Jan 01 | By Balance b/d      |      | 1,316    |
|                |                |      | 6,583    | 2012<br>Dec 31 | By Depreciation A/c |      | 5,267    |
|                |                |      |          |                |                     |      | 6,583    |
| 2013<br>Dec 31 | To Balance c/d |      | 11,850   | 2013<br>Jan 01 | By Balance b/d      |      | 6,583    |
|                |                |      | 11,850   | 2013<br>Dec 31 | By Depreciation A/c |      | 5,267    |
|                |                |      |          |                |                     |      | 11,850   |
|                |                |      |          | 2013<br>Jan 01 | By Balance b/d      |      | 11,850   |

**Working notes:**

Calculation of annual depreciation

Depreciation p.a.

= Cost-Scrap Value/Estimated Life of Asset (years)

= (56,000+28,000)-5,000/15

= ₹ 5,267 per annum

Calculation of annual depreciation

Depreciation p.a.

=Cost-Scrap Value/Estimated Life of Asset (years)

=(56,000+28,000)-5,000/15

=₹ 5,267 per annum

Scrap Value = Salvage Value- estimated cost to recover the salvage value

= ₹ 6,000-₹ 1,000

= ₹ 5,000

**Q4. Berlia Ltd. Purchased a second hand machine for Rs.56,000 on July 01, 2011 and spent Rs.24,000 on its repair and installation and Rs.5,000 for its carriage. On September 01, 2012, it purchased another machine for Rs.2, 50,000 and spent Rs.10,000 on its installation. Depreciation is provided on machinery @10% p.a. on original cost method annually on December 31. Prepare machinery account and depreciation account from the year 2011 to 2014.**

**Prepare machinery account and depreciation account from the year 2011 to 2014, if depreciation is provided on machinery @10% p.a. on written down value method annually on December 31.**

**Solution:**



## Machinery Account (Original Cost Method)

Dr.

Cr.

| Date   | Particulars                              | J.F. | Amount ₹ | Date   | Particulars                           | J.F.   | Amount ₹ |
|--------|------------------------------------------|------|----------|--------|---------------------------------------|--------|----------|
| 2011   |                                          |      |          | 2011   |                                       |        |          |
| Jul 01 | To Bank A/c<br>(56,000 + 24,000 + 5,000) |      | 85,000   | Dec 31 | By Depreciation A/c<br>Machine 1 (5m) | 4,250  | 4,250    |
|        |                                          |      |          | Dec 31 | By Balance c/d                        |        | 80,750   |
|        |                                          |      | 85,000   |        |                                       |        | 85,000   |
| 2012   |                                          |      |          | 2012   |                                       |        |          |
| Jan 01 | To Balance b/d                           |      | 80,750   | Dec 31 | By Depreciation A/c<br>Machine 1      | 8,500  |          |
| Sep 01 | To Bank A/c<br>(2,50,000 + 10,000)       |      | 2,60,000 |        | Machine 2 (4m)                        | 8,667  | 17,167   |
|        |                                          |      |          | Dec 31 | By Balance c/d                        |        | 3,23,583 |
|        |                                          |      | 3,40,750 |        |                                       |        | 3,40,750 |
| 2013   |                                          |      |          | 2013   |                                       |        |          |
| Jan 01 | To Balance b/d                           |      | 3,23,583 | Dec 31 | By Depreciation A/c<br>Machine 1      | 8,500  |          |
|        |                                          |      |          |        | Machine 2                             | 26,000 | 34,500   |
|        |                                          |      |          | Dec 31 | By Balance c/d                        |        | 2,89,083 |
|        |                                          |      | 3,23,583 |        |                                       |        | 3,23,583 |
| 2014   |                                          |      |          | 2014   |                                       |        |          |
| Jan 01 | To Balance b/d                           |      | 2,89,083 | Dec 31 | By Depreciation A/c<br>Machine 1      | 8,500  |          |
|        |                                          |      |          |        | Machine 2                             | 26,000 | 34,500   |
|        |                                          |      |          | Dec 31 | By Balance c/d                        |        | 2,54,583 |
|        |                                          |      | 2,89,083 |        |                                       |        | 2,89,083 |

## Depreciation Account

Dr.

Cr.

| Date   | Particulars      | J.F. | Amount ₹ | Date   | Particulars            | J.F. | Amount ₹ |
|--------|------------------|------|----------|--------|------------------------|------|----------|
| 2011   |                  |      |          | 2011   |                        |      |          |
| Dec 31 | To Machinery A/c |      | 4,250    | Dec 31 | By Profit and Loss A/c |      | 4,250    |
|        |                  |      | 4,250    |        |                        |      | 4,250    |
| 2012   |                  |      |          | 2012   |                        |      |          |
| Dec 31 | To Machinery A/c |      | 17,167   | Dec 31 | By Profit and Loss A/c |      | 17,167   |
|        |                  |      | 17,167   |        |                        |      | 17,167   |
| 2013   |                  |      |          | 2013   |                        |      |          |
| Dec 31 | To Machinery A/c |      | 34,500   | Dec 31 | By Profit and Loss A/c |      | 34,500   |
|        |                  |      | 34,500   |        |                        |      | 34,500   |
| 2014   |                  |      |          | 2014   |                        |      |          |
| Dec 31 | To Machinery A/c |      | 34,500   | Dec 31 | By Profit and Loss A/c |      | 34,500   |
|        |                  |      | 34,500   |        |                        |      | 34,500   |

Working Notes :

| Calculation of Annual Depreciation |                                                                                       |
|------------------------------------|---------------------------------------------------------------------------------------|
| 1.                                 | Depreciation (p.a.) on Machinery Purchased on July 01, 2011                           |
|                                    | Depreciation p.a. = Cost-Scrap Value/Estimated Life of Asset (years)                  |
|                                    | $= (56,000 + 24,000 + 5,000) \times 10\%$                                             |
|                                    | $= ₹8,500$ per annum                                                                  |
| 2.                                 | Depreciation on Machinery purchased on July 01, 2011 for the year 2011 (6 month)      |
|                                    | $= ₹8,500 \text{ p.a.} \times 6/12$                                                   |
|                                    | $= ₹4,250$                                                                            |
| 3.                                 | Depreciation (p.a.) Machinery purchased on September 01, 2012                         |
|                                    | Depreciation p.a. = Cost-Scrap Value/Estimated Life of Asset (years)                  |
|                                    | $= (2,50,000 + 10,000) \times 10\%$                                                   |
|                                    | $= ₹26,000$ per annum                                                                 |
| 4.                                 | Depreciation on Machinery purchased on September 01, 2012 for the year 2012 (4 month) |
|                                    | $= ₹26,000 \times 4/12$                                                               |
|                                    | $= ₹8,667$                                                                            |

Books of Berlia Ltd.  
Machinery Account (Written Down value method)

| Dr.            |                           |      |          | Cr.            |                                      |          |          |
|----------------|---------------------------|------|----------|----------------|--------------------------------------|----------|----------|
| Date           | Particulars               | J.F. | Amount ₹ | Date           | Particulars                          | J.F.     | Amount ₹ |
| 2011<br>Jul 01 | To Bank A/c               |      | 85,000   | 2011<br>Dec 31 | By Depreciation A/c                  |          | 4,250    |
|                | (56,000 + 24,000 + 5,000) |      |          | Dec 31         | By Balance c/d                       |          | 80,750   |
|                |                           |      | 85,000   |                |                                      |          | 85,000   |
| 2012<br>Jan 01 | To Balance b/d            |      | 80,750   | 2012<br>Dec 31 | By Depreciation A/c                  |          |          |
| Sep 01         | To Bank A/c               |      |          |                | (80,750 × 10%)                       | 8,075    |          |
|                | (2,50,000 + 10,000)       |      |          |                | Machine 2<br>(2,60,000 × 10% × 4/12) | 8,667    | 16,742   |
|                |                           |      |          | Dec 31         | By Balance c/d                       |          |          |
|                |                           |      |          |                | Machine 1<br>(80,750 - 8,075)        | 72,675   |          |
|                |                           |      |          |                | Machine 2<br>(2,60,000 - 8,667)      | 2,51,333 | 3,24,008 |
|                |                           |      | 3,40,750 |                |                                      |          | 3,40,750 |
| 2013<br>Jan 01 | To Balance b/d            |      | 3,24,008 | 2013<br>Dec 31 | By Depreciation A/c                  |          |          |
|                |                           |      |          |                | Machine 1<br>(72,675 × 10%)          | 7,268    |          |
|                |                           |      |          |                | Machine 2<br>(2,51,333 × 10%)        | 25,133   | 32,401   |
|                |                           |      |          | Dec 31         | By Balance c/d                       |          |          |
|                |                           |      |          |                | Machine 1<br>(72,675 - 7,268)        | 65,407   |          |
|                |                           |      |          |                | Machine 2<br>(2,51,333 - 25,133)     | 2,26,200 | 2,91,607 |
|                |                           |      | 3,24,008 |                |                                      |          | 3,24,008 |
| 2014<br>Jan 01 | To Balance b/d            |      | 2,91,607 | 2014<br>Dec 31 | By Depreciation A/c                  |          |          |
|                |                           |      |          |                | Machine 1<br>(65,407 × 10%)          | 6,541    |          |
|                |                           |      |          |                | Machine 2<br>(2,26,200 × 10%)        | 22,620   | 29,161   |
|                |                           |      |          | Dec 31         | By Balance c/d                       |          |          |
|                |                           |      |          |                | Machine 1<br>(65,407 - 6,541)        | 58,866   |          |
|                |                           |      |          |                | Machine 2<br>(2,26,200 - 22,620)     | 2,03,580 | 2,62,446 |
|                |                           |      | 2,91,607 |                |                                      |          | 2,91,607 |



Depreciation Account

| Dr.            |                  |      |          | Cr.            |                        |      |          |
|----------------|------------------|------|----------|----------------|------------------------|------|----------|
| Date           | Particulars      | J.F. | Amount ₹ | Date           | Particulars            | J.F. | Amount ₹ |
| 2011<br>Dec 31 | To Machinery A/c |      | 4,250    | 2011<br>Dec 31 | By Profit and Loss A/c |      | 4,250    |
|                |                  |      | 4,250    |                |                        |      | 4,250    |
| 2012<br>Dec 31 | To Machinery A/c |      | 16,742   | 2012<br>Dec 31 | By Profit and Loss A/c |      | 16,742   |
|                |                  |      | 16,742   |                |                        |      | 16,742   |
| 2013<br>Dec 31 | To Machinery A/c |      | 32,401   | 2013<br>Dec 31 | By Profit and Loss A/c |      | 32,401   |
|                |                  |      | 32,401   |                |                        |      | 32,401   |
| 2014<br>Dec 31 | To Machinery A/c |      | 29,161   | 2014<br>Dec 31 | By Profit and Loss A/c |      | 29,161   |
|                |                  |      | 29,161   |                |                        |      | 29,161   |

Q5. Ganga Ltd. purchased a machinery on January 01, 2011 for Rs.5,50,000 and spent Rs.50,000 on its installation. On September 01, 2011 it purchased another machine for Rs.3,70,000. On May 01, 2012 it purchased another machine for Rs.8,40,000 (including installation expenses).

Depreciation was provided on machinery @10% p.a. on original cost method annually on December 31. Prepare:

- Machinery account and depreciation account for the years 2011, 2012, 2013 and 2014.
- If depreciation is accumulated in provision for Depreciation account then prepare machine account and provision for depreciation account for the years 2011, 2012, 2013 and 2014.

**Solution:**

Book of Ganga Ltd  
Machinery Account

| Dr.            |                                    |      |           | Cr.            |                     |        |           |
|----------------|------------------------------------|------|-----------|----------------|---------------------|--------|-----------|
| Date           | Particulars                        | J.F. | Amount ₹  | Date           | Particulars         | J.F.   | Amount ₹  |
| 2011<br>Jan 01 | To Bank A/c<br>(5,50,000 + 50,000) |      | 6,00,000  | 2011<br>Dec 31 | By Depreciation A/c |        |           |
| Sept 01        | To Bank A/c                        |      | 3,70,000  |                | Machine 1           | 60,000 |           |
|                |                                    |      |           |                | Machine 2 (4months) | 12,333 | 72,333    |
|                |                                    |      |           | Dec 31         | By Balance c/d      |        | 8,97,667  |
|                |                                    |      | 9,70,000  |                |                     |        | 9,70,000  |
| 2012<br>Jan 01 | To Balance b/d                     |      | 8,97,667  | 2012<br>Dec 31 | By Depreciation A/c |        |           |
| May 01         | To Bank A/c                        |      | 8,40,000  |                | Machine 1           | 60,000 |           |
|                |                                    |      |           |                | Machine 2           | 37,000 |           |
|                |                                    |      |           |                | Machine 3 (8months) | 56,000 | 1,53,000  |
|                |                                    |      |           | Dec 31         | By Balance c/d      |        | 15,84,667 |
|                |                                    |      | 17,37,667 |                |                     |        | 17,37,667 |
| 2013<br>Jan 01 | To Balance b/d                     |      | 15,84,667 | 2013<br>Dec 31 | By Depreciation A/c |        |           |
|                |                                    |      |           |                | Machine 1           | 60,000 |           |
|                |                                    |      |           |                | Machine 2           | 37,000 |           |
|                |                                    |      |           |                | Machine 3           | 84,000 | 1,81,000  |
|                |                                    |      |           | Dec 31         | By Balance c/d      |        | 14,03,667 |
|                |                                    |      | 15,84,667 |                |                     |        | 15,84,667 |
| 2014<br>Jan 01 | To Balance b/d                     |      | 14,03,667 | 2014<br>Dec 31 | By Depreciation A/c |        |           |
|                |                                    |      |           |                | Machine 1           | 60,000 |           |
|                |                                    |      |           |                | Machine 2           | 37,000 |           |
|                |                                    |      |           |                | Machine 3           | 84,000 | 1,81,000  |
|                |                                    |      |           | Dec 31         | By Balance c/d      |        | 12,22,667 |
|                |                                    |      | 14,03,667 |                |                     |        | 14,03,667 |

**Depreciation Account**

| Dr.            |                  |      |          | Cr.            |                        |      |          |
|----------------|------------------|------|----------|----------------|------------------------|------|----------|
| Date           | Particulars      | J.F. | Amount ₹ | Date           | Particulars            | J.F. | Amount ₹ |
| 2011<br>Dec 31 | To Machinery A/c |      | 72,333   | 2011<br>Dec 31 | By Profit and Loss A/c |      | 72,333   |
|                |                  |      | 72,333   |                |                        |      | 72,333   |
| 2012<br>Dec 31 | To Machinery A/c |      | 1,53,000 | 2012<br>Dec 31 | By Profit and Loss A/c |      | 1,53,000 |
|                |                  |      | 1,53,000 |                |                        |      | 1,53,000 |
| 2013<br>Dec 31 | To Machinery A/c |      | 1,81,000 | 2013<br>Dec 31 | By Profit and Loss A/c |      | 1,81,000 |
|                |                  |      | 1,81,000 |                |                        |      | 1,81,000 |
| 2014<br>Dec 31 | To Machinery A/c |      | 1,81,000 | 2014<br>Dec 31 | By Profit and Loss A/c |      | 1,81,000 |
|                |                  |      | 1,81,000 |                |                        |      | 1,81,000 |

**Working Notes:** Calculation of Annual Depreciation

|                                                        |        |                 |
|--------------------------------------------------------|--------|-----------------|
| <b>Machinery I</b>                                     |        |                 |
| Original cost on 1Jan, 2011 (5,50,000+50,000)=6,00,000 |        |                 |
| 10% Depreciation for 2011                              | 60,000 |                 |
| 10% Depreciation for 2012                              | 60,000 |                 |
| 10% Depreciation for 2013                              | 60,000 |                 |
| 10% Depreciation for 2014                              | 60,000 | 2,40,000        |
| <b>Machinery II</b>                                    |        |                 |
| Original cost on 1Sep, 2011 =3,70,000                  |        |                 |
| 10% Depreciation for 2011 4months                      | 12,330 |                 |
| 10% Depreciation for 2012                              | 37,000 |                 |
| 10% Depreciation for 2013                              | 37,000 |                 |
| 10% Depreciation for 2014                              | 37,000 | 1,23,330        |
| <b>Machinery III</b>                                   |        |                 |
| Original cost on 1May, 2012 =8,40,000                  |        |                 |
| 10% Depreciation for 2012 8months                      | 56,000 |                 |
| 10% Depreciation for 2013                              | 84,000 |                 |
| 10% Depreciation for 2014                              | 84,000 | 2,24,000        |
| <b>Total</b>                                           |        | <b>5,87,330</b> |

**Machinery Account**

| Dr.            |                                    |      |           | Cr.    |                |      |           |
|----------------|------------------------------------|------|-----------|--------|----------------|------|-----------|
| Date           | Particulars                        | J.F. | Amount ₹  | Date   | Particulars    | J.F. | Amount ₹  |
| 2011<br>Jan 01 | To Bank A/c<br>(5,50,000 + 50,000) |      | 6,00,000  | 2011   |                |      |           |
| Sept 01        | To Bank A/c                        |      | 3,70,000  | Dec 31 | By Balance c/d |      | 9,70,000  |
|                |                                    |      | 9,70,000  |        |                |      | 9,70,000  |
| 2012<br>Jan 01 | To Balance b/d                     |      | 9,70,000  | 2012   |                |      |           |
| May 01         | To Bank A/c                        |      | 8,40,000  | Dec 31 | By Balance c/d |      | 18,10,000 |
|                |                                    |      | 18,10,000 |        |                |      | 18,10,000 |
| 2013<br>Jan 01 | To Balance b/d                     |      | 18,10,000 | 2013   |                |      |           |
|                |                                    |      | 18,10,000 | Dec 31 | By Balance c/d |      | 18,10,000 |
|                |                                    |      |           |        |                |      | 18,10,000 |
| 2014<br>Jan 01 | To Balance b/d                     |      | 18,10,000 | 2014   |                |      |           |
|                |                                    |      | 18,10,000 | Dec 31 | By Balance c/d |      | 18,10,000 |
|                |                                    |      | 18,10,000 |        |                |      | 18,10,000 |

**Provision for Depreciation Account**

| Dr.    |                |      |          | Cr.    |                     |      |          |
|--------|----------------|------|----------|--------|---------------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date   | Particulars         | J.F. | Amount ₹ |
| 2011   |                |      |          | 2011   |                     |      |          |
| Dec 31 | To Balance c/d |      | 72,333   | Dec 31 | By Depreciation A/c |      | 72,333   |
|        |                |      | 72,333   |        |                     |      | 72,333   |
| 2012   |                |      |          | 2012   |                     |      |          |
| Dec 31 | To Balance c/d |      | 2,25,333 | Jan 01 | By Balance b/d      |      | 72,333   |
|        |                |      | 2,25,333 | Dec 31 | By Depreciation A/c |      | 1,53,000 |
|        |                |      |          |        |                     |      | 2,25,333 |
| 2013   |                |      |          | 2013   |                     |      |          |
| Dec 31 | To Balance c/d |      | 4,06,333 | Jan 01 | By Balance b/d      |      | 2,25,333 |
|        |                |      | 4,06,333 | Dec 31 | By Depreciation A/c |      | 1,81,000 |
|        |                |      |          |        |                     |      | 4,06,333 |
| 2014   |                |      |          | 2014   |                     |      |          |
| Dec 31 | To Balance c/d |      | 5,87,333 | Jan 01 | By Balance b/d      |      | 4,06,333 |
|        |                |      | 5,87,333 | Dec 31 | By Depreciation A/c |      | 1,81,000 |
|        |                |      |          |        |                     |      | 5,87,333 |

**Q6.** Azad Ltd. purchased furniture on October 01, 2012 for Rs.4,50,000. On March 01, 2013 it purchased another furniture for Rs.3,00,000. On July 01, 2014 it sold off the first furniture purchased in 2012 for Rs.2, 25,000. Depreciation is provided at 15% p.a. on written down value method each year. Accounts are closed each year on March 31. Prepare furniture account, and accumulated depreciation account for the years ended on March 31, 2013, March 31, 2014 and March 31, 2015. Also give the above two accounts if furniture disposal account is opened.

**Solution:**

**Books of Azad Ltd.  
Furniture Account**

| Dr.    |                |      |          | Cr.     |                           |      |          |
|--------|----------------|------|----------|---------|---------------------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date    | Particulars               | J.F. | Amount ₹ |
| 2012   |                |      |          | 2013    |                           |      |          |
| Oct 01 | To Bank A/c    |      | 4,50,000 | Mar 31  | By Balance c/d            |      | 7,50,000 |
| 2013   |                |      |          |         |                           |      |          |
| Mar 01 | To Bank A/c    |      | 3,00,000 |         |                           |      | 7,50,000 |
|        |                |      | 7,50,000 |         |                           |      | 7,50,000 |
| 2013   |                |      |          | 2014    |                           |      |          |
| Apr 01 | To Balance b/d |      | 7,50,000 | Mar 31  | By Balance c/d            |      | 7,50,000 |
|        |                |      | 7,50,000 |         |                           |      | 7,50,000 |
| 2014   |                |      |          | 2014    |                           |      |          |
| Apr 01 | To Balance b/d |      | 7,50,000 | July 01 | By Furniture Disposal A/c |      | 4,50,000 |
|        |                |      |          | 2015    |                           |      |          |
|        |                |      | 7,50,000 | Mar 31  | By Balance c/d            |      | 3,00,000 |
|        |                |      |          |         |                           |      | 7,50,000 |

**Accumulated Depreciation Account**

| Dr.     |                           |      |          | Cr.     |                        |        |          |
|---------|---------------------------|------|----------|---------|------------------------|--------|----------|
| Date    | Particulars               | J.F. | Amount ₹ | Date    | Particulars            | J.F.   | Amount ₹ |
| 2013    |                           |      |          | 2013    |                        |        |          |
| Mar 31  | To Balance c/d            |      | 37,500   | Mar 31  | By Depreciation A/c    |        |          |
|         |                           |      |          |         | Furniture 1 (6 months) | 33,750 |          |
|         |                           |      | 37,500   |         | Furniture 2 (1 months) | 3,750  |          |
|         |                           |      |          |         |                        |        | 37,500   |
| 2014    |                           |      |          | 2013    |                        |        |          |
| Mar 31  | To Balance c/d            |      | 1,44,376 | Apr 01  | By Balance b/d         |        | 37,500   |
|         |                           |      |          | 2014    |                        |        |          |
|         |                           |      | 1,44,376 | Mar 31  | By Depreciation A/c    |        |          |
|         |                           |      |          |         | Furniture 1            | 62,438 |          |
|         |                           |      |          |         | Furniture 2            | 44,438 |          |
|         |                           |      |          |         |                        |        | 1,06,876 |
| 2014    |                           |      |          | 2014    |                        |        |          |
| July 01 | To Furniture Disposal A/c |      | 1,09,456 | Apr 01  | Balance b/d            |        | 1,44,376 |
| 2015    |                           |      |          | July 01 | By Depreciation A/c    |        |          |
| Mar 31  | To Balance c/d            |      | 85,960   | 2015    |                        |        |          |
|         |                           |      |          | Mar 31  | By Depreciation A/c    |        | 37,772   |
|         |                           |      | 1,95,416 |         |                        |        | 1,95,416 |

**Furniture Disposal Account**

| Dr.            |                  |      |          | Cr.            |                                    |      |          |
|----------------|------------------|------|----------|----------------|------------------------------------|------|----------|
| Date           | Particulars      | J.F. | Amount ₹ | Date           | Particulars                        | J.F. | Amount ₹ |
| 2014<br>Jul 01 | To Furniture A/c |      | 4,50,000 | 2014<br>Jul 01 | By Accumulated<br>Depreciation A/c |      | 1,09,456 |
|                |                  |      |          | Jul 01         | By Bank A/c                        |      | 2,25,000 |
|                |                  |      |          | Jul 01         | By Profit and Loss A/c<br>(Loss)   |      | 1,15,544 |
|                |                  |      | 4,50,000 |                |                                    |      | 4,50,000 |

**Working Note :-**

**1. Calculation of Profit or Loss on sale of furniture.**

| Furniture 1. |                 |   |                   |   |                 |
|--------------|-----------------|---|-------------------|---|-----------------|
| Years        | Opening Balance |   | Depreciation      |   | Closing Balance |
| 2012 - 2013  | 4,50,000        | - | 33,750 (6 months) | = | 4,16,250        |
| 2013 - 2014  | 4,16,250        | - | 62,438            | = | 3,53,812        |
| 2014 - 2015  | 3,53,812        | - | 13,268 (3 months) | = | 3,40,544        |
|              |                 |   | 1,09,456          |   |                 |

| Particulars                                     | ₹               |
|-------------------------------------------------|-----------------|
| Balance as on July 01, 2014                     | 3,40,544        |
| Less : Sale on July 01, 2014<br>(Selling Price) | 2,25,000        |
| <b>Loss on sale of furniture</b>                | <b>1,15,544</b> |

**Q7. M/s Lokesh Fabrics purchased a Textile Machine on April 01, 2011 for Rs.1,00,000. On July 01, 2012 another machine costing Rs.2,50,000 was purchased . The machine purchased on Rs.01, 2011 was sold for Rs.25,000 on October 01, 2015. The company charges depreciation @15% p.a. on straight line method. Prepare machinery account and machinery disposal account for the year ended March 31, 2016.**

**Solution:**

Books of M/s Lokesh Fabrics  
Machinery Account

| Dr.            |                |      |          | Cr.            |                                             |        |          |
|----------------|----------------|------|----------|----------------|---------------------------------------------|--------|----------|
| Date           | Particulars    | J.F. | Amount ₹ | Date           | Particulars                                 | J.F.   | Amount ₹ |
| 2011<br>Apr 01 | To Bank A/c    |      | 1,00,000 | 2012<br>Mar 31 | By Depreciation A/c<br>Machine 1            | 15,000 | 15,000   |
|                |                |      |          | Mar 31         | By Balance c/d                              |        | 85,000   |
|                |                |      | 1,00,000 |                |                                             |        | 1,00,000 |
| 2012<br>Apr 01 | To Balance b/d |      | 85,000   | 2013<br>Mar 31 | By Depreciation A/c<br>Machine 1            | 15,000 |          |
| July 01        | To Bank A/c    |      | 2,50,000 |                | Machine 2 (9 months)                        | 28,125 | 43,125   |
|                |                |      |          | Mar 31         | By Balance c/d                              |        | 2,91,875 |
|                |                |      | 3,35,000 |                |                                             |        | 3,35,000 |
| 2013<br>Apr 01 | To Balance b/d |      | 2,91,875 | 2014<br>Mar 31 | By Depreciation A/c<br>Machine 1            | 15,000 |          |
|                |                |      |          |                | Machine 2                                   | 37,500 | 52,500   |
|                |                |      |          | Mar 31         | (i) 15,000, (ii) 37,500<br>By Balance c/d   |        | 2,39,375 |
|                |                |      | 2,91,875 |                |                                             |        | 2,91,875 |
| 2014<br>Apr 01 | To Balance b/d |      | 2,39,375 | 2015<br>Mar 31 | By Depreciation A/c<br>Machine 1            | 15,000 |          |
|                |                |      |          |                | Machine 2                                   | 37,500 | 52,500   |
|                |                |      |          | Mar 31         | By Balance c/d                              |        | 1,86,875 |
|                |                |      | 2,39,375 |                |                                             |        | 2,39,375 |
| 2015<br>Apr 01 | To Balance b/d |      | 1,86,875 | 2015<br>Oct 01 | By Depreciation A/c<br>Machine 1 (6 months) | 7,500  | 7,500    |
|                |                |      |          | Oct 01         | By Machinery Disposal<br>A/c                |        | 32,500   |
|                |                |      |          | 2016<br>Mar 31 | By Depreciation A/c<br>Machine 2            | 37,500 | 37,500   |
|                |                |      |          | Mar 31         | By Balance c/d                              |        | 1,09,375 |
|                |                |      | 1,86,875 |                |                                             |        | 1,86,875 |

Machinery Disposal Account

| Dr.            |                  |      |          | Cr.            |                                  |      |          |
|----------------|------------------|------|----------|----------------|----------------------------------|------|----------|
| Date           | Particulars      | J.F. | Amount ₹ | Date           | Particulars                      | J.F. | Amount ₹ |
| 2015<br>Oct 01 | To Machinery A/c |      | 32,500   | 2015<br>Oct 01 | By Bank A/c                      |      | 25,000   |
|                |                  |      |          | Oct 01         | By Profit and Loss A/c<br>(Loss) |      | 7,500    |
|                |                  |      | 32,500   |                |                                  |      | 32,500   |

**Working Note :**

Calculation of Profit or Loss on sale of Machine sold on Oct 01, 2015

| Years                      | Depreciation  |
|----------------------------|---------------|
| 1 April - 31 March 2011-12 | 15,000        |
| 1 April - 31 March 2012-13 | 15,000        |
| 1 April - 31 March 2013-14 | 15,000        |
| 1 April - 31 March 2014-15 | 15,000        |
| 1 April - 1 Oct 2015       | 7,500         |
|                            | <b>67,500</b> |

|                                                       |              |
|-------------------------------------------------------|--------------|
| Original cost                                         | 1,00,000     |
| Less : Accumulated depreciation for 4yrs and 6 months | 67,500       |
| Book value of the Machine on Oct 01, 2015             | 32,500       |
| Less: Sale Proceeds                                   | 25,000       |
| Loss on Sale of Machinery                             | <b>7,500</b> |

**Q8.** The following balances appear in the books of Crystal Ltd, on Jan 01, 2015

Machinery account on ₹ 15,00,000

Provision for depreciation account ₹ 5,50,000

On April 01, 2015 a machinery which was purchased on January 01, 2012 for ₹ 2, 00,000 was sold for ₹ 75,000. A new machine was purchased on July 01, 2015 for ₹ 6, 00,000.

Depreciation is provided on machinery at 20% p.a. on Straight line method and books are



closed on December 31 every year. Prepare the machinery account and provision for depreciation account for the year ending December 31, 2015.

Solution:

Books of Crystal Ltd.  
Machinery Account

| Dr.            |                      |      |           | Cr.            |                           |      |           |
|----------------|----------------------|------|-----------|----------------|---------------------------|------|-----------|
| Date           | Particulars          | J.F. | Amount ₹  | Date           | Particulars               | J.F. | Amount ₹  |
| 2015<br>Jan 01 | To Balance b/d (old) |      | 15,00,000 | 2015<br>Apr 01 | By Machinery Disposal A/c |      | 2,00,000  |
| July 01        | To Bank A/c          |      | 6,00,000  | Dec 31         | By Balance c/d            |      | 19,00,000 |
|                |                      |      | 21,00,000 |                |                           |      | 21,00,000 |

Provision For Depreciation Account

| Dr.            |                           |      |          | Cr.            |                                                                                                     |          |          |
|----------------|---------------------------|------|----------|----------------|-----------------------------------------------------------------------------------------------------|----------|----------|
| Date           | Particulars               | J.F. | Amount ₹ | Date           | Particulars                                                                                         | J.F.     | Amount ₹ |
| 2015<br>Apr 01 | To Machinery Disposal A/c |      | 1,30,000 | 2015<br>Jan 01 | By Balance b/d                                                                                      |          | 5,50,000 |
|                |                           |      |          | Apr 01         | By Depreciation A/c<br>Machine I Old<br>(1 Jan, 2012) (3 months)                                    | 10,000   | 10,000   |
|                |                           |      |          | Dec 31         | By Depreciation A/c<br>Machine I old (Balance)<br>(15,00,000 - 2,00,000) * 20%<br>(13,00,000 * 20%) | 2,60,000 |          |
| Dec 31         | To Balance c/d            |      | 7,50,000 |                | Machine II<br>(1 July, 2015) (6 months)                                                             | 60,000   | 3,20,000 |
|                |                           |      | 8,80,000 |                |                                                                                                     |          | 8,80,000 |

Machinery Disposal Account

| Dr.            |                                 |      |          | Cr.            |                                   |      |          |
|----------------|---------------------------------|------|----------|----------------|-----------------------------------|------|----------|
| Date           | Particulars                     | J.F. | Amount ₹ | Date           | Particulars                       | J.F. | Amount ₹ |
| 2015<br>Apr 01 | To Machinery A/c                |      | 2,00,000 | 2015<br>Apr 01 | By Provision for Depreciation A/c |      | 1,30,000 |
| Apr 01         | To Profit and Loss A/c (Profit) |      | 5,000    | Apr 01         | By Bank A/c                       |      | 75,000   |
|                |                                 |      | 2,05,000 |                |                                   |      | 2,05,000 |

Working Note :

Calculation of Profit or Loss on sale of Machine sold on April 01, 2015

| Years                    | Opening Balance |   | Depreciation      |   | Closing Balance |
|--------------------------|-----------------|---|-------------------|---|-----------------|
| 2012                     | 2,00,000        | - | 40,000            | = | 1,60,000        |
| 2013                     | 1,60,000        | - | 40,000            | = | 1,20,000        |
| 2014                     | 1,20,000        | - | 40,000            | = | 80,000          |
| 2015                     | 80,000          | - | 10,000 (3 months) | = | 70,000          |
| Accumulated Depreciation |                 | = | 1,30,000          |   |                 |

|                               |        |
|-------------------------------|--------|
| Value on April 01, 2015       | 70,000 |
| Less :- Sale on April 1, 2015 | 75,000 |
| Profit and Sale of Machinery  | 5,000  |

Q9. M/s. Excel Computers has a debit balance of ₹ 50,000 (original cost ₹ 1, 20,000) in computers account on April 01, 2010. On July 01, 2010 it purchased another computer costing ₹ 2, 50,000. One more computer was purchased on January 01, 2011 for ₹ 30,000. On April 01, 2014 the computer which has purchased on July 01, 2010 became obsolete and was sold for ₹ 20,000. A new version of the IBM computer was purchased on August 01, 2014 for ₹ 80,000. Show Computers account in the books of Excel Computers for the years ended on March 31, 2011, 2012, 2013, 2014 and 2015. The computer is depreciated @10% p.a. on straight line method basis.

Solution:

Books of M/s Excel Computers  
Computer Account

| Dr.     |                      |      |          | Cr.    |                                            |        |          |
|---------|----------------------|------|----------|--------|--------------------------------------------|--------|----------|
| Date    | Particulars          | J.F. | Amount ₹ | Date   | Particulars                                | J.F.   | Amount ₹ |
| 2010    |                      |      |          | 2011   |                                            |        |          |
| Apr 01  | To Balance b/d (old) |      | 50,000   | Mar 31 | By Depreciation A/c<br>Old (1,20,000*10%)  | 12,000 |          |
| July 01 | To Bank A/c          |      | 2,50,000 |        | Computer 1 (9 months)                      | 18,750 |          |
| 2011    |                      |      |          |        | Computer 2 (3 months)                      | 750    | 31,500   |
| Jan 01  | To Bank A/c          |      | 30,000   | Mar 31 | By Balance c/d                             |        | 2,98,500 |
|         |                      |      | 3,30,000 |        |                                            |        | 3,30,000 |
| 2011    |                      |      |          | 2012   |                                            |        |          |
| Apr 01  | To Balance b/d       |      | 2,98,500 | Mar 31 | By Depreciation A/c<br>Old (1,20,000*10%)  | 12,000 |          |
|         |                      |      |          |        | Computer 1                                 | 25,000 |          |
|         |                      |      |          |        | Computer 2                                 | 3,000  | 40,000   |
|         |                      |      |          | Mar 31 | By Balance c/d                             |        | 2,58,500 |
|         |                      |      | 2,98,500 |        |                                            |        | 2,98,500 |
| 2012    |                      |      |          | 2013   |                                            |        |          |
| Apr 01  | To Balance b/d       |      | 2,58,500 | Mar 31 | By Depreciation A/c<br>Old (1,20,000*10%)  | 12,000 |          |
|         |                      |      |          |        | Computer 1                                 | 25,000 |          |
|         |                      |      |          |        | Computer 2                                 | 3,000  | 40,000   |
|         |                      |      |          | Mar 31 | By Balance c/d                             |        | 2,18,500 |
|         |                      |      | 2,58,500 |        |                                            |        | 2,58,500 |
| 2013    |                      |      |          | 2014   |                                            |        |          |
| Apr 01  | To Balance b/d       |      | 2,18,500 | Mar 31 | By Depreciation A/c<br>Old (1,20,000*10%)  | 12,000 |          |
|         |                      |      |          |        | Computer 1                                 | 25,000 |          |
|         |                      |      |          |        | Computer 2                                 | 3,000  | 40,000   |
|         |                      |      |          | Mar 31 | By Balance c/d                             |        | 1,78,500 |
|         |                      |      | 2,18,500 |        |                                            |        | 2,18,500 |
| 2014    |                      |      |          | 2014   |                                            |        |          |
| Apr 01  | To Balance b/d       |      | 1,78,500 | Apr 01 | By Bank A/c (Sale of<br>Computer 1)        |        | 20,000   |
| Aug 01  | To Bank A/c          |      | 80,000   | Apr 01 | By Profit and Loss A/c<br>(Loss)           |        | 1,36,250 |
|         |                      |      |          | 2015   |                                            |        |          |
|         |                      |      |          | Mar 31 | By Depreciation A/c<br>Old (50,000-48,000) | 2,000  |          |
|         |                      |      |          |        | Computer 2                                 | 3,000  |          |
|         |                      |      |          |        | Computer 3 (8 months)                      | 5,333  | 10,333   |
|         |                      |      |          | Mar 31 | By Balance c/d                             |        | 91,917   |
|         |                      |      | 2,58,500 |        |                                            |        | 2,58,500 |

**Working note:**

Calculation of Profit or Loss on sale of Computer purchased on July 01, 2010

| Years                    | Opening Balance | Depreciation      | Closing Balance |
|--------------------------|-----------------|-------------------|-----------------|
| 2010-11                  | 2,50,000 -      | 18,750 (9 months) | 2,31,250        |
| 2011-2012                | 2,31,250 -      | 25,000            | 2,06,250        |
| 2012-2013                | 2,06,250 -      | 25,000            | 1,81,250        |
| 2013-2014                | 1,81,250 -      | 25,000            | 1,56,250        |
| Accumulated Depreciation | =               | 1,18,750          |                 |

|                              |          |
|------------------------------|----------|
| Value on April 01, 2014      | 1,56,250 |
| Less: Sale on April 01, 2014 | 20,000   |
| Loss on sale of Computer     | 1,36,250 |

Q10. Carriage Transport Company purchased 5 trucks at the cost of ₹ 2,00,000 each on April 01, 2011. The company writes off depreciation @ 20% p.a. on original cost and closes its books on December 31, every year. On October 01, 2013, one of the trucks is involved in an accident and is completely destroyed. Insurance company has agreed to pay ₹ 70,000 in full settlement of the claim. On the same date the company purchased a second hand truck for ₹ 1,00,000 and spent ₹ 20,000 on its overhauling. Prepare truck account and provision for depreciation account for the three years ended on December 31, 2013. Also give truck account if truck disposal account is prepared.

**Solution:**

**Books of Carriage Transport Company**  
**Truck Account**

| Dr.    |                                  |      |           | Cr.    |                       |      |           |
|--------|----------------------------------|------|-----------|--------|-----------------------|------|-----------|
| Date   | Particulars                      | J.F. | Amount ₹  | Date   | Particulars           | J.F. | Amount ₹  |
| 2011   |                                  |      |           | 2011   |                       |      |           |
| Apr 01 | To Bank A/c                      |      | 10,00,000 | Dec 31 | By Balance c/d        |      | 10,00,000 |
|        |                                  |      | 10,00,000 |        |                       |      | 10,00,000 |
| 2012   |                                  |      |           | 2012   |                       |      |           |
| Jan 01 | To Balance b/d                   |      | 10,00,000 | Dec 31 | By Balance c/d        |      | 10,00,000 |
|        |                                  |      | 10,00,000 |        |                       |      | 10,00,000 |
| 2013   |                                  |      |           | 2013   |                       |      |           |
| Jan 01 | To Balance b/d                   |      | 10,00,000 | Oct 01 | By Truck Disposal A/c |      | 2,00,000  |
| Oct 01 | To Bank A/c<br>(1,00,000+20,000) |      | 1,20,000  | Dec 31 | By Balance c/d        |      | 9,20,000  |
|        |                                  |      | 11,20,000 |        |                       |      | 11,20,000 |

**Provision for Depreciation Account**

| Dr.    |                       |      |          | Cr.    |                                                                                                                                                                 |      |          |
|--------|-----------------------|------|----------|--------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|----------|
| Date   | Particulars           | J.F. | Amount ₹ | Date   | Particulars                                                                                                                                                     | J.F. | Amount ₹ |
| 2011   |                       |      |          | 2011   |                                                                                                                                                                 |      |          |
|        |                       |      |          | Dec 31 | By Depreciation A/c<br>Truck 1 (9months) 30,000<br>Truck 2 (9months) 30,000<br>Truck 3 (9months) 30,000<br>Truck 4 (9months) 30,000<br>Truck 5 (9months) 30,000 |      | 1,50,000 |
| Dec 31 | To Balance c/d        |      | 1,50,000 |        |                                                                                                                                                                 |      | 1,50,000 |
|        |                       |      | 1,50,000 |        |                                                                                                                                                                 |      | 1,50,000 |
| 2012   |                       |      |          | 2012   |                                                                                                                                                                 |      |          |
|        |                       |      |          | Jan 01 | By Balance c/d                                                                                                                                                  |      | 1,50,000 |
|        |                       |      |          | Dec 31 | By Depreciation A/c<br>Truck 1 40,000<br>Truck 2 40,000<br>Truck 3 40,000<br>Truck 4 40,000<br>Truck 5 40,000                                                   |      | 2,00,000 |
| Dec 31 | To Balance c/d        |      | 3,50,000 |        |                                                                                                                                                                 |      | 3,50,000 |
|        |                       |      | 3,50,000 |        |                                                                                                                                                                 |      | 3,50,000 |
| 2013   |                       |      |          | 2013   |                                                                                                                                                                 |      |          |
| Oct 01 | To Truck Disposal A/c |      | 1,00,000 | Jan 01 | By Balance b/d                                                                                                                                                  |      | 3,50,000 |
|        |                       |      |          | Oct 01 | By Depreciation A/c<br>Truck 1 (9 months) 30,000                                                                                                                |      | 30,000   |
|        |                       |      |          | Dec 31 | By Depreciation A/c<br>Truck 2 40,000<br>Truck 3 40,000<br>Truck 4 40,000<br>Truck 5 40,000<br>Truck 6 (3months) 6,000                                          |      | 1,66,000 |
| Dec 31 | To Balance c/d        |      | 4,46,000 |        |                                                                                                                                                                 |      | 5,46,000 |
|        |                       |      | 5,46,000 |        |                                                                                                                                                                 |      | 5,46,000 |

**Truck Disposal Account**

| Dr.    |              |      |          | Cr.    |                                              |      |          |
|--------|--------------|------|----------|--------|----------------------------------------------|------|----------|
| Date   | Particulars  | J.F. | Amount ₹ | Date   | Particulars                                  | J.F. | Amount ₹ |
| 2013   |              |      |          | 2013   |                                              |      |          |
| Oct 01 | To Truck A/c |      | 2,00,000 | Oct 01 | By Provision for Depreciation A/c            |      | 1,00,000 |
|        |              |      |          | Oct 01 | By Insurance Co.<br>(Insurance Claim)        |      | 70,000   |
|        |              |      |          | Oct 01 | By Profit and Loss A/c<br>(Loss on accident) |      | 30,000   |
|        |              |      | 2,00,000 |        |                                              |      | 2,00,000 |

**Working Note :**

Loss due to accident:

|                          | Opening Balance |   | Depreciation |   | Closing balance |
|--------------------------|-----------------|---|--------------|---|-----------------|
| Apr.01,2011              | 2,00,000        | - | 30,000       | = | 1,70,000        |
| Jan.01,2012              | 1,70,000        | - | 40,000       | = | 1,30,000        |
| Jan.01,2013              | 1,30,000        | - | 30,000       | = | 1,00,000        |
| Accumulated Depreciation |                 | = | 1,00,000     |   |                 |

|                        |   |          |
|------------------------|---|----------|
| Value on Oct.01,2013   | = | 1,00,000 |
| Less : Insurance Claim | = | 70,000   |
| Loss on Accident       |   | 30,000   |



Q11. Saraswati Ltd. purchased a machinery costing ₹ 10,00,000 on January 01, 2011. A new machinery was purchased on 01 May, 2012 for ₹ 15,00,000 and another on July 01, 2014 for ₹ 12,00,000. A part of the machinery which originally cost ₹ 2,00,000 in 2011 was sold for ₹ 75,000 on October 31, 2014. Show the machinery account, provision for depreciation account and machinery disposal account from 2011 to 2015 if depreciation is provided at 10% p.a. on original cost and account are closed on December 31, every year.

Solution:

Books of Saraswati Ltd.  
Machinery Account

| Dr.    |                |      |           | Cr.    |                                |      |           |
|--------|----------------|------|-----------|--------|--------------------------------|------|-----------|
| Date   | Particulars    | J.F. | Amount ₹  | Date   | Particulars                    | J.F. | Amount ₹  |
| 2011   |                |      |           | 2011   |                                |      |           |
| Jan 01 | To Bank A/c    |      | 10,00,000 | Dec 31 | By Balance c/d                 |      | 10,00,000 |
|        |                |      | 10,00,000 |        |                                |      | 10,00,000 |
| 2012   |                |      |           | 2012   |                                |      |           |
| Jan 01 | To Balance b/d |      | 10,00,000 |        |                                |      |           |
| May 01 | To Bank A/c    |      | 15,00,000 | Dec 31 | By Balance c/d                 |      | 25,00,000 |
|        |                |      | 25,00,000 |        |                                |      | 25,00,000 |
| 2013   |                |      |           | 2013   |                                |      |           |
| Jan 01 | To Balance b/d |      | 25,00,000 | Dec 31 | By Balance c/d                 |      | 25,00,000 |
|        |                |      | 25,00,000 |        |                                |      | 25,00,000 |
| 2014   |                |      |           | 2014   |                                |      |           |
| Jan 01 | To Balance b/d |      | 25,00,000 | Oct 31 | By Machinery Disposal A/c      |      | 2,00,000  |
| Jul 01 | To Bank A/c    |      | 12,00,000 | Dec 31 | By Balance c/d                 |      | 35,00,000 |
|        |                |      | 37,00,000 |        | (8,00,000+15,00,000+12,00,000) |      |           |
|        |                |      | 37,00,000 |        |                                |      | 37,00,000 |
| 2015   |                |      |           | 2015   |                                |      |           |
| Jan 01 | To Balance b/d |      | 35,00,000 | Dec 31 | By Balance c/d                 |      | 35,00,000 |
|        |                |      | 35,00,000 |        |                                |      | 35,00,000 |

Provision For Depreciation Account

| Dr.    |                           |      |           | Cr.    |                          |          |           |
|--------|---------------------------|------|-----------|--------|--------------------------|----------|-----------|
| Date   | Particulars               | J.F. | Amount ₹  | Date   | Particulars              | J.F.     | Amount ₹  |
| 2011   |                           |      |           | 2011   |                          |          |           |
| Dec 31 | To Balance c/d            |      | 1,00,000  | Dec 31 | By Depreciation A/c      |          |           |
|        |                           |      | 1,00,000  |        | Machine 1                | 1,00,000 | 1,00,000  |
|        |                           |      |           |        |                          |          | 1,00,000  |
| 2012   |                           |      |           | 2012   |                          |          |           |
|        |                           |      |           | Jan 01 | By Balance b/d           |          | 1,00,000  |
| Dec 31 | To Balance c/d            |      | 3,00,000  | Dec 31 | By Depreciation A/c      |          |           |
|        |                           |      | 3,00,000  |        | Machine 1                | 1,00,000 |           |
|        |                           |      |           |        | Machine 2 (Bimonthly)    | 1,00,000 | 2,00,000  |
|        |                           |      |           |        |                          |          | 3,00,000  |
| 2013   |                           |      |           | 2013   |                          |          |           |
| Dec 31 | To Balance c/d            |      | 5,50,000  | Jan 01 | By Balance b/d           |          | 3,00,000  |
|        |                           |      | 5,50,000  | Dec 31 | By Depreciation A/c      |          |           |
|        |                           |      |           |        | Machine 1                | 1,00,000 |           |
|        |                           |      |           |        | Machine 2                | 1,50,000 | 2,50,000  |
|        |                           |      |           |        |                          |          | 5,50,000  |
| 2014   |                           |      |           | 2014   |                          |          |           |
| Oct 31 | To Machinery Disposal A/c |      | 76,667    | Jan 01 | By Balance b/d           |          | 5,50,000  |
|        |                           |      |           | Oct 31 | By Depreciation A/c      |          |           |
|        |                           |      |           |        | Machine 1                | 16,667   | 16,667    |
|        |                           |      |           |        | (Part costing ₹2,00,000) |          |           |
|        |                           |      |           | Dec 31 | By Depreciation A/c      |          | 2,90,000  |
|        |                           |      |           |        | Machine 1                | 80,000   |           |
|        |                           |      |           |        | (Remaining cost)         |          |           |
|        |                           |      |           |        | Machine 2                | 1,50,000 |           |
| Dec 31 | To Balance c/d            |      | 7,80,000  |        | Machine 3 (6months)      | 60,000   | 2,90,000  |
|        |                           |      | 8,56,667  |        |                          |          | 8,56,667  |
| 2015   |                           |      |           | 2015   |                          |          |           |
|        |                           |      |           | Jan 01 | By Balance b/d           |          | 7,80,000  |
| Dec 31 | To Balance c/d            |      | 11,30,000 | Dec 31 | By Depreciation A/c      |          |           |
|        |                           |      | 11,30,000 |        | Machine 1                | 80,000   |           |
|        |                           |      |           |        | Machine 2                | 1,50,000 |           |
|        |                           |      |           |        | Machine 3                | 1,20,000 | 3,50,000  |
|        |                           |      |           |        |                          |          | 11,30,000 |

Machinery Disposal Account

| Dr.            |                  |      |          | Cr.            |                                   |      |          |
|----------------|------------------|------|----------|----------------|-----------------------------------|------|----------|
| Date           | Particulars      | J.F. | Amount ₹ | Date           | Particulars                       | J.F. | Amount ₹ |
| 2014<br>Oct 31 | To Machinery A/c |      | 2,00,000 | 2014<br>Oct 31 | By Provision for Depreciation A/c |      | 76,667   |
|                |                  |      |          | Oct 31         | By Bank A/c (sale)                |      | 75,000   |
|                |                  |      |          | Oct 31         | By Profit and Loss A/c (Loss)     |      | 48,333   |
|                |                  |      | 2,00,000 |                |                                   |      | 2,00,000 |

Working Note :

Profit or Loss on sale of part of Machinery 1:

|                          | Opening Balance |   | Depreciation |   | Closing balance |
|--------------------------|-----------------|---|--------------|---|-----------------|
| 2011                     | 2,00,000        | - | 20,000       | = | 1,80,000        |
| 2012                     | 1,80,000        | - | 20,000       | = | 1,60,000        |
| 2013                     | 1,60,000        | - | 20,000       | = | 1,40,000        |
| 2014                     | 1,40,000        | - | 16,667       | = | 1,23,333        |
| Accumulated Depreciation |                 |   | 76,667       |   |                 |

|                              |          |
|------------------------------|----------|
| Book Value as on Oct.01,2014 | 1,23,333 |
| Less: Sale on Oct.01,2014    | 75,000   |
| Loss on sale                 | ₹48,333  |

Q12. On July 01, 2011 Ashwani purchased a machine for ₹ 2,00,000 on credit. Installation expenses ₹ 25,000 are paid by cheque. The estimated life is 5 years and its scrap value after 5 years will be ₹ 20,000. Depreciation is to be charged on straight line basis. Show the journal entry for the year 2011 and prepare necessary ledger accounts for first three years.

Solution:

**Books of Ashwani**  
**Journal**

| Date            | Particulars                                                                                                                                           | L.F. | Dr.<br>₹ | Cr.<br>₹           |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|------|----------|--------------------|
| 2011<br>July 01 | Machinery A/c<br>To Creditors for Machinery A/c<br>To Bank A/c<br>(Being machinery bought on credit and ₹25,000 paid for installation through cheque) | Dr.  | 2,25,000 | 2,00,000<br>25,000 |
| 2011<br>Dec 31  | Depreciation A/c<br>To Machinery A/c<br>(Being depreciation charged on Machinery)                                                                     | Dr.  | 20,500   | 20,500             |
| 2011<br>Dec 31  | Profit and Loss A/c<br>To Depreciation A/c<br>(Being depreciation transferred to Profit and Loss Account)                                             | Dr.  | 20,500   | 20,500             |
| 2012<br>Dec 31  | Depreciation A/c<br>To Machinery A/c<br>(Being depreciation charged on Machinery)                                                                     | Dr.  | 41,000   | 41,000             |
| 2012<br>Dec 31  | Profit and Loss A/c<br>To Depreciation A/c<br>(Being depreciation transferred to Profit and Loss Account)                                             | Dr.  | 41,000   | 41,000             |
| 2013<br>Dec 31  | Depreciation A/c<br>To Machinery A/c<br>(Being depreciation charged on Machinery)                                                                     | Dr.  | 41,000   | 41,000             |
| 2013<br>Dec 31  | Profit and Loss A/c<br>To Depreciation A/c<br>(Being depreciation transferred to Profit and Loss Account)                                             | Dr.  | 41,000   | 41,000             |

**Ledger**  
**Machinery Account**

| Dr.             |                               |      |          | Cr.            |                     |      |          |
|-----------------|-------------------------------|------|----------|----------------|---------------------|------|----------|
| Date            | Particulars                   | J.F. | Amount ₹ | Date           | Particulars         | J.F. | Amount ₹ |
| 2011<br>July 01 | To Creditor for Machinery A/c |      | 2,00,000 | 2011<br>Dec 31 | By Depreciation A/c |      | 20,500   |
| July 01         | To Bank A/c                   |      | 25,000   |                |                     |      |          |
|                 |                               |      | 2,25,000 |                |                     |      | 2,25,000 |
| 2012<br>Jan 01  | To Balance b/d                |      | 2,04,500 | 2012<br>Dec 31 | By Depreciation A/c |      | 41,000   |
|                 |                               |      |          | Dec 31         | By Balance c/d      |      | 1,63,500 |
|                 |                               |      | 2,04,500 |                |                     |      | 2,04,500 |
| 2013<br>Jan 01  | To Balance b/d                |      | 1,63,500 | 2013<br>Dec 31 | By Depreciation A/c |      | 41,000   |
|                 |                               |      |          | Dec 31         | By Balance c/d      |      | 1,22,500 |
|                 |                               |      | 1,63,500 |                |                     |      | 1,63,500 |

Working note :

| Calculation of Annual Depreciation |                                                   |
|------------------------------------|---------------------------------------------------|
| Depreciation p.a.                  | = Cost-Scrap Value/ Estimated Useful Life (years) |
|                                    | = (2,00,000+25,000)-20,000/5                      |
|                                    | = ₹41,000 per annum                               |

**Q13.** On October 01, 2010, a Truck was purchased for ₹ 8,00,000 by Laxmi Transport Ltd. Depreciation was provided at 15% p.a. on the diminishing balance basis on this truck. On December 31, 2013 this Truck was sold for ₹ 5, 00,000. Accounts are closed on 31st March

every year. Prepare a Truck Account for the four years.

Solution:

| Books of Laxmi Transport Ltd.<br>Truck Account |                                 |      |          |                |                                |      |          |
|------------------------------------------------|---------------------------------|------|----------|----------------|--------------------------------|------|----------|
| Dr.                                            |                                 |      |          | Cr.            |                                |      |          |
| Date                                           | Particulars                     | J.F. | Amount ₹ | Date           | Particulars                    | J.F. | Amount ₹ |
| 2010<br>Oct 01                                 | To Bank A/c                     |      | 8,00,000 | 2011<br>Mar 31 | By Depreciation A/c (6 months) |      | 60,000   |
|                                                |                                 |      |          | Mar 31         | By Balance c/d                 |      | 7,40,000 |
|                                                |                                 |      | 8,00,000 |                |                                |      | 8,00,000 |
| 2011<br>Apr 01                                 | To Balance b/d                  |      | 7,40,000 | 2012<br>Mar 31 | By Depreciation A/c            |      | 1,11,000 |
|                                                |                                 |      |          | Mar 31         | By Balance c/d                 |      | 6,29,000 |
|                                                |                                 |      | 7,40,000 |                |                                |      | 7,40,000 |
| 2012<br>Apr 01                                 | To Balance b/d                  |      | 6,29,000 | 2013<br>Mar 31 | By Depreciation A/c            |      | 94,350   |
|                                                |                                 |      |          | Mar 31         | By Balance c/d                 |      | 5,34,650 |
|                                                |                                 |      | 6,29,000 |                |                                |      | 6,29,000 |
| 2013<br>Apr 01                                 | To Balance b/d                  |      | 5,34,650 | 2013<br>Dec 31 | By Depreciation A/c (9 months) |      | 60,148   |
| Dec 31                                         | To Profit and Loss A/c (Profit) |      | 25,498   | Dec 31         | By Bank A/c (sale)             |      | 5,00,000 |
|                                                |                                 |      | 5,60,148 |                |                                |      | 5,60,148 |

Working Notes:

Profit or Loss on Sale of Part of Truck:

| Year      | Opening Balance | Depreciation     | Closing Balance |
|-----------|-----------------|------------------|-----------------|
| 2010-2011 | 8,00,000 -      | 60,000 (6 month) | = 7,40,000      |
| 2011-2012 | 7,40,000 -      | 1,11,000         | = 6,29,000      |
| 2012-2013 | 6,29,000 -      | 94,350           | = 5,34,650      |
| 2013-2014 | 5,34,650 -      | 60,148 (9 month) | = 4,74,502      |

|                            |          |
|----------------------------|----------|
| WDV as on Dec 31, 2013     | 4,74,502 |
| Less: Sale on Dec 31, 2013 | 5,00,000 |
| Profit on sale             | 25,498   |

Q14. Kapil Ltd. purchased a machinery on July 01, 2011 for ₹ 3,50,000. It purchased two additional machines, on April 01, 2012 costing ₹ 1,50,000 and on October 01, 2012 costing ₹ 1,00,000. Depreciation is provided @10% p.a. on straight line basis. On January 01, 2013, first machinery become useless due to technical changes. This machinery was sold for ₹ 1,00,000. Prepare machinery account for 4 years on the basis of calendar year.

Solution:

Books of Kapli Ltd.  
Machinery Account

| Dr.            |                |      |          | Cr.            |                                             |        |          |
|----------------|----------------|------|----------|----------------|---------------------------------------------|--------|----------|
| Date           | Particulars    | J.F. | Amount ₹ | Date           | Particulars                                 | J.F.   | Amount ₹ |
| 2011<br>Jul 01 | To Bank A/c    |      | 3,50,000 | 2011<br>Dec 31 | By Depreciation A/c<br>Machine 1 (6 months) | 17,500 | 17,500   |
|                |                |      |          | Dec 31         | By Balance c/d                              |        | 3,32,500 |
|                |                |      | 3,50,000 |                |                                             |        | 3,50,000 |
| 2012<br>Jan 01 | To Balance b/d |      | 3,32,500 | 2012<br>Dec 31 | By Depreciation A/c<br>Machine 1            | 35,000 |          |
| Apr 01         | To Bank A/c    |      | 1,50,000 |                | Machine 2 (9 months)                        | 11,250 |          |
| Oct 01         | To Bank A/c    |      | 1,00,000 |                | Machine 3 (3 months)                        | 2,500  | 48,750   |
|                |                |      |          | Dec 31         | By Balance c/d                              |        | 5,33,750 |
|                |                |      | 5,82,500 |                |                                             |        | 5,82,500 |
| 2013<br>Jan 01 | To Balance b/d |      | 5,33,750 | 2013<br>Jan 01 | By Bank A/c (sale)                          |        | 1,00,000 |
|                |                |      |          | Jan 01         | By Profit and Loss<br>A/c (Loss)            |        | 1,97,500 |
|                |                |      |          | Dec 31         | By Depreciation A/c<br>Machine 2            | 15,000 |          |
|                |                |      |          |                | Machine 3                                   | 10,000 | 25,000   |
|                |                |      |          | Dec 31         | By Balance c/d                              |        | 2,11,250 |
|                |                |      | 5,33,750 |                |                                             |        | 5,33,750 |
| 2014<br>Jan 01 | To Balance b/d |      | 2,11,250 | 2014<br>Dec 31 | By Depreciation A/c<br>Machine 2            | 15,000 |          |
|                |                |      |          |                | Machine 3                                   | 10,000 | 25,000   |
|                |                |      |          | Dec 31         | By Balance c/d                              |        | 1,86,250 |
|                |                |      | 2,11,250 |                |                                             |        | 2,11,250 |
| 2015<br>Jan 01 | To Balance b/d |      | 1,86,250 |                |                                             |        |          |

**Working Note :**

Profit or Loss on sale of part of Machinery 1:

|      | Opening Balance |   | Depreciation |   | Closing balance |
|------|-----------------|---|--------------|---|-----------------|
| 2011 | 3,50,000        | - | 17,500       | = | 3,32,500        |
| 2012 | 3,32,500        | - | 35,000       | = | 2,97,500        |

|                            |          |
|----------------------------|----------|
| WDV as on Jan 01, 2013     | 2,97,500 |
| Less: Sale on Jan 01, 2013 | 1,00,000 |
| Loss on sale               | 1,97,500 |

**Q15.** On January 01, 2011, Satkar Transport Ltd, purchased 3 buses for ₹ 10,00,000 each. On July 01, 2013, one bus was involved in an accident and was completely destroyed and ₹ 7,00,000 were received from the Insurance Company in full settlement. Depreciation is written off @15% p.a. on diminishing balance method. Prepare bus account from 2011 to 2014. Books are closed on December 31 every year.

**Solution:**

## Books of Satkar Transport Ltd.

## Bus Account

| Dr.           |                                    |      |           | Cr.             |                                                                                                                   |                                  |           |
|---------------|------------------------------------|------|-----------|-----------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------|-----------|
| Date          | Particulars                        | J.F. | Amount ₹  | Date            | Particulars                                                                                                       | J.F.                             | Amount ₹  |
| 2011<br>Jan01 | To Bank A/c                        |      | 30,00,000 | 2011<br>Dec31   | By Depreciation A/c<br>Bus 1<br>Bus 2<br>Bus 3                                                                    | 1,50,000<br>1,50,000<br>1,50,000 | 4,50,000  |
|               |                                    |      |           | Dec31           | By Balance c/d<br>Bus 1<br>(10,00,000-1,50,000)<br>Bus 2<br>(10,00,000-1,50,000)<br>Bus 3<br>(10,00,000-1,50,000) | 8,50,000<br>8,50,000<br>8,50,000 | 25,50,000 |
|               |                                    |      | 30,00,000 |                 |                                                                                                                   |                                  | 30,00,000 |
| 2012<br>Jan01 | To Balance b/d                     |      | 25,50,000 | 2012<br>Dec31   | By Depreciation A/c<br>Bus 1<br>Bus 2<br>Bus 3                                                                    | 1,27,500<br>1,27,500<br>1,27,500 | 3,82,500  |
|               |                                    |      |           | Dec31           | By Balance c/d<br>Bus 1<br>(8,50,000-1,27,500)<br>Bus 2<br>(8,50,000-1,27,500)<br>Bus 3<br>(8,50,000-1,27,500)    | 7,22,500<br>7,22,500<br>7,22,500 | 21,67,500 |
|               |                                    |      | 25,50,000 |                 |                                                                                                                   |                                  | 25,50,000 |
| 2013<br>Jan01 | To Balance b/d                     |      | 21,67,500 | 2013<br>July 01 | By Depreciation A/c<br>Bus 1 (6months)                                                                            | 54,188                           | 54,188    |
| July01        | To Profit and Loss A/c<br>(Profit) |      | 31,688    | July 01         | By Bank A/c<br>(Insurance Claim)                                                                                  |                                  | 7,00,000  |
|               |                                    |      |           | Dec31           | By Depreciation A/c<br>Bus 2<br>Bus 3                                                                             | 1,08,375<br>1,08,375             | 2,16,750  |
|               |                                    |      |           | Dec31           | By Balance c/d<br>Bus 2<br>(7,22,500-1,08,375)<br>Bus 3<br>(7,22,500-1,08,375)                                    | 6,14,125<br>6,14,125             | 12,28,250 |
|               |                                    |      | 21,99,188 |                 |                                                                                                                   |                                  | 21,99,188 |
| 2014<br>Jan01 | To Balance b/d                     |      | 12,28,250 | 2014<br>Dec31   | By Depreciation A/c<br>Bus 2<br>Bus 3                                                                             | 92,119<br>92,119                 | 1,84,238  |
|               |                                    |      |           | Dec31           | By Balance c/d<br>Bus 2<br>Bus 3                                                                                  | 5,22,006<br>5,22,006             | 10,44,012 |
|               |                                    |      | 12,28,250 |                 |                                                                                                                   |                                  | 12,28,250 |

## Working Note :

Profit or Loss Due to Accident:

|      | Opening Balance |   | Depreciation    |   | Closing balance |
|------|-----------------|---|-----------------|---|-----------------|
| 2011 | 10,00,000       | - | 1,50,000        | = | 8,50,000        |
| 2012 | 8,50,000        | - | 1,27,500        | = | 7,22,500        |
| 2013 | 7,22,500        | - | 54,188 (6month) | = | 6,68,312        |

|                         |          |
|-------------------------|----------|
| WDV as on July 01, 2013 | 6,68,312 |
| Less: Insurance Claim   | 7,00,000 |
| Profit due to accident  | 31,688   |

**Q16.** On October 01, 2011 Juneja Transport Company purchased 2 Trucks for ₹ 10,00,000 each. On July 01, 2013, One Truck was involved in an accident and was completely destroyed and ₹ 6,00,000 were received from the insurance company in full settlement. On December 31, 2013 another truck was involved in an accident and destroyed partially, which was not insured. It was sold off for ₹ 1,50,000. On January 31, 2014 company purchased a



fresh truck for ₹ 12,00,000. Depreciation is to be provided at 10% p.a. on the written down value every year. The books are closed every year on March 31. Give the truck account from 2011 to 2014.

Solution:

| Books of Juneja Transport Company<br>Truck Account |                |      |           |                 |                                                 |          |      |           |
|----------------------------------------------------|----------------|------|-----------|-----------------|-------------------------------------------------|----------|------|-----------|
| Dr.                                                |                |      |           | Cr.             |                                                 |          |      |           |
| Date                                               | Particulars    | J.F. | Amount ₹  | Date            | Particulars                                     |          | J.F. | Amount ₹  |
| 2011<br>Oct 01                                     | To Bank A/c    |      | 20,00,000 | 2012<br>Mar 31  | By Depreciation A/c<br>Truck 1 (6 months)       | 50,000   |      |           |
|                                                    |                |      |           |                 | Truck 2 (6 months)                              | 50,000   |      | 1,00,000  |
|                                                    |                |      |           | Mar 31          | By Balance c/d<br>Truck 1<br>(10,00,000-50,000) | 9,50,000 |      |           |
|                                                    |                |      |           |                 | Truck 2<br>(10,00,000-50,000)                   | 9,50,000 |      | 19,00,000 |
|                                                    |                |      | 20,00,000 |                 |                                                 |          |      | 20,00,000 |
| 2012<br>Apr 01                                     | To Balance b/d |      | 19,00,000 | 2013<br>Mar 31  | By Depreciation A/c<br>Truck 1                  | 95,000   |      |           |
|                                                    |                |      |           |                 | Truck 2                                         | 95,000   |      | 1,90,000  |
|                                                    |                |      |           | Mar 31          | By Balance c/d<br>Truck 1<br>(9,50,000-95,000)  | 8,55,000 |      |           |
|                                                    |                |      |           |                 | Truck 2<br>(9,50,000-95,000)                    | 8,55,000 |      | 17,10,000 |
|                                                    |                |      | 19,00,000 |                 |                                                 |          |      | 19,00,000 |
| 2013<br>Apr 01                                     | To Balance b/d |      | 17,10,000 | 2013<br>July 01 | By Depreciation A/c<br>Truck 1 (3 months)       | 21,375   |      | 21,375    |
|                                                    |                |      |           | July 01         | By Bank A/c<br>(Insurance Claim)                |          |      | 6,00,000  |
|                                                    |                |      |           | July 01         | By Profit and Loss A/c<br>(Loss)                |          |      | 2,33,625  |
|                                                    |                |      |           | Dec 31          | By Depreciation A/c<br>Truck 2 (9 months)       | 64,125   |      | 64,125    |
|                                                    |                |      |           | Dec 31          | By Bank A/c (Sale)                              |          |      | 1,50,000  |
|                                                    |                |      |           | Dec 31          | By Profit and Loss<br>A/c (Loss)                |          |      | 6,40,875  |
| 2014<br>Jan 31                                     | To Bank A/c    |      | 12,00,000 | 2014<br>Mar 31  | By Depreciation A/c<br>Truck 3 (2 months)       | 20,000   |      | 20,000    |
|                                                    |                |      |           | Mar 31          | By Balance c/d                                  |          |      | 11,80,000 |
|                                                    |                |      | 29,10,000 |                 |                                                 |          |      | 29,10,000 |

Working Note:

Truck - 1 Profit or Loss due to Accident:

|           | Opening Balance | - | Depreciation      | = | Closing balance |
|-----------|-----------------|---|-------------------|---|-----------------|
| 2011-12   | 10,00,000       | - | 50,000 (6 months) | = | 9,50,000        |
| 2012-13   | 9,50,000        | - | 95,000            | = | 8,55,000        |
| 2013-2014 | 8,55,000        | - | 21,375 (3 months) | = | 8,33,625        |

|                        |   |           |
|------------------------|---|-----------|
| Value on July 01, 2013 | = | 8,33,625  |
| Less: Insurance Claim  | = | 6,00,000  |
| Loss on Truck - 1      | = | ₹2,33,625 |

Truck - 2 Profit or Sale on sale:

|              | Opening Balance | - | Depreciation      | = | Closing balance |
|--------------|-----------------|---|-------------------|---|-----------------|
| Oct.01, 2012 | 10,00,000       | - | 50,000 (6 months) | = | 9,50,000        |
| Apr.01, 2012 | 9,50,000        | - | 95,000            | = | 8,55,000        |
| Apr.01, 2013 | 8,55,000        | - | 64,125 (9 months) | = | 7,90,875        |

|                       |   |           |
|-----------------------|---|-----------|
| Value on Dec 31, 2013 | = | 7,90,875  |
| Less: Sold            | = | 1,50,000  |
| Loss on Truck - 2     | = | ₹6,40,875 |



Q17. A Noida based Construction Company owns 5 cranes and the value of this asset in its books on April 01, 2011 is ₹ 40,00,000. On October 01, 2011 it sold one of its cranes whose value was ₹ 5, 00,000 on April 01, 2011 at a 10% profit. On the same day it purchased 2 cranes for ₹ 4, 50,000 each. Prepare cranes account. It closes the books on December 31, 2012 and provides for depreciation on 10% written down value.

Solution:

| Books of Construction Company<br>Cranes Account |                                    |      |           |        |                                                |      |           |  |
|-------------------------------------------------|------------------------------------|------|-----------|--------|------------------------------------------------|------|-----------|--|
| Dr.                                             |                                    |      |           | Cr.    |                                                |      |           |  |
| Date                                            | Particulars                        | J.F. | Amount ₹  | Date   | Particulars                                    | J.F. | Amount ₹  |  |
| 2011                                            |                                    |      |           | 2011   |                                                |      |           |  |
| Apr 01                                          | To Balance c/d                     |      | 40,00,000 | Oct 01 | By Depreciation A/c<br>(Crane ₹5,00,000)       |      | 25,000    |  |
| Oct 01                                          | To Profit and Loss A/c<br>(Profit) |      | 47,500    | Oct 01 | By Bank A/c (sale)                             |      | 5,22,500  |  |
| Oct 01                                          | To Bank A/c                        |      | 9,00,000  | 2012   |                                                |      |           |  |
|                                                 |                                    |      |           | Mar 31 | By Depreciation A/c<br>4 cranes - new 2 Cranes |      | 2,85,000  |  |
|                                                 |                                    |      |           | Mar 31 | By Balance c/d<br>32,37,500 + 8,77,500         |      | 41,15,000 |  |
|                                                 |                                    |      | 49,47,500 |        |                                                |      | 49,47,500 |  |

Working Notes:

Calculation of crane Valued 500000/-

|         | Opening Balance | - | Depreciation     | = | Closing balance |
|---------|-----------------|---|------------------|---|-----------------|
| 2011-12 | 500000          | - | 25000 (6 months) | = | 4,75,000        |

|                             |   |          |
|-----------------------------|---|----------|
| Value on Oct 01, 2011       | = | 4,75,000 |
| +Less: Sale on Oct 01, 2011 | = | 5,22,500 |
| Loss on Sale                | = | 47,500   |

Calculation of depreciation for 4 cranes

|         | Opening Balance | - | Depreciation        | = | Closing balance |
|---------|-----------------|---|---------------------|---|-----------------|
| 2011-12 | 3500,000        | - | 2,62,500 (9 months) | = | 32,37,500       |

Calculation of depreciation for 2 cranes

|         | Opening Balance | - | Depreciation      | = | Closing balance |
|---------|-----------------|---|-------------------|---|-----------------|
| 2011-12 | 900,000         | - | 22,500 (3 months) | = | 8,77,500        |

Q18. Shri Krishan Manufacturing Company purchased 10 machines for ₹ 75,000 each on July 01, 2010. On October 01, 2012, one of the machines got destroyed by fire and an insurance claim of ₹ 45,000 was admitted by the company. On the same date another machine is purchased by the company for ₹ 1,25,000.

The company writes off 15% p.a. depreciation on written down value basis. The company maintains the calendar year as its financial year. Prepare the machinery account from 2010 to 2013.

Solution:

Books of Shri Krishna Manufacturing Company  
Machinery Account

| Dr.             |                |      |          | Cr.            |                                                                                                                                               |                                          |                    |
|-----------------|----------------|------|----------|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|--------------------|
| Date            | Particulars    | J.F. | Amount ₹ | Date           | Particulars                                                                                                                                   | J.F.                                     | Amount ₹           |
| 2010<br>July 01 | To Bank A/c    |      | 7,50,000 | 2010<br>Dec 31 | By Depreciation A/c<br>(75000*15%*6/12)*10                                                                                                    |                                          | 56,250             |
|                 |                |      |          | Dec 31         | By Balance c/d<br>(6,93,750/10 each)                                                                                                          |                                          | 6,93,750           |
|                 |                |      | 7,50,000 |                |                                                                                                                                               |                                          | 7,50,000           |
| 2011<br>Jan 01  | To Balance b/d |      | 6,93,750 | 2011<br>Dec 31 | By Depreciation A/c<br>(69,375*15%)*10                                                                                                        |                                          | 1,04,063           |
|                 |                |      |          | Dec 31         | By Balance c/d<br>(5,89,687/10 each)                                                                                                          |                                          | 5,89,687           |
|                 |                |      | 6,93,750 |                |                                                                                                                                               |                                          | 6,93,750           |
| 2012<br>Jan 01  | To Balance b/d |      | 5,89,687 | 2012<br>Oct 01 | By Depreciation A/c<br>Machine 1 (9 months)                                                                                                   | 6,634                                    | 6,634              |
| Oct 01          | To Bank A/c    |      | 1,25,000 | Oct 01         | By Bank A/c<br>(Insurance Claim)                                                                                                              |                                          | 45,000             |
|                 |                |      |          | Oct 01         | By Profit and Loss A/c<br>(Loss)                                                                                                              |                                          | 7,335              |
|                 |                |      |          | Dec 31         | By Depreciation A/c<br>Other 9 Machine<br>(58968.7*15%)*9/12                                                                                  | 79,608                                   |                    |
|                 |                |      |          |                | New Machine<br>(1,25,000*15%)*3/12                                                                                                            | 4,688                                    | 84,296             |
|                 |                |      |          | Dec 31         | By Balance c/d<br>Other 9 Machine<br>New Machine                                                                                              | 4,51,110<br>1,20,312                     | 5,71,422           |
|                 |                |      | 7,14,687 |                |                                                                                                                                               |                                          | 7,14,687           |
| 2013<br>Jan 01  | To Balance b/d |      | 5,71,422 | 2013<br>Dec 31 | By Depreciation A/c<br>Other 9 Machine<br>(4,51,110*15%)<br>New Machine<br>(1,20,312*15%)<br>By Balance c/d<br>Other 9 Machine<br>New Machine | 67,667<br>18,047<br>3,83,443<br>1,02,265 | 85,714<br>4,85,708 |
|                 |                |      | 5,71,422 |                |                                                                                                                                               |                                          | 5,71,422           |

**Working Note :**

Machine Costing 75,000 sold on Oct.01,2012

|      | Opening Balance | - | Depreciation     | = | Closing balance |
|------|-----------------|---|------------------|---|-----------------|
| 2010 | 75,000          | - | 5,625 (6 months) | = | 69,375          |
| 2011 | 69,375          | - | 10,406           | = | 58,969          |
| 2012 | 58,969          | - | 6634 (9 months)  | = | 52,335          |

|                       |   |        |
|-----------------------|---|--------|
| Value on Oct.01.2012  | = | 52,335 |
| Less: Insurance Claim | = | 45,000 |
| Loss due to accident  | = | ₹7,335 |

**Q19.** On January 01, 2010, a Limited Company purchased machinery for ₹ 20,00,000. Depreciation is provided @15% p.a. on diminishing balance method. On March 01, 2012, one fourth of machinery was damaged by fire and ₹ 40,000 were received from the insurance company in full settlement. On September 01, 2012 another machinery was purchased by the company for ₹ 15,00,000. Write up the machinery account from 2012 to 2013. Books are closed on December 31, every year.

**Solution:**

**Machinery Account**

| Dr.            |                                                 |      |           | Cr.            |                                                                               |                       |      |           |
|----------------|-------------------------------------------------|------|-----------|----------------|-------------------------------------------------------------------------------|-----------------------|------|-----------|
| Date           | Particulars                                     | J.F. | Amount ₹  | Date           | Particulars                                                                   |                       | J.F. | Amount ₹  |
| 2012<br>Jan 01 | To Balance b/d (WN 1)<br>(10,83,750 + 3,61,250) |      | 14,45,000 | 2012<br>Mar 01 | By Depreciation A/c<br>(1/4 Machine for 2 months)                             |                       |      | 9,031     |
|                |                                                 |      |           | Mar 01         | By Bank A/c<br>(Insurance Claim)                                              |                       |      | 40,000    |
| Sept 01        | To Bank A/c                                     |      | 15,00,000 | Mar 01         | By Profit and Loss A/c (Loss)                                                 |                       |      | 3,12,219  |
|                |                                                 |      |           | Dec 31         | By Depreciation A/c<br>3/4 <sup>th</sup> of Machine<br>New Machine (4 months) | 1,62,563<br>75,000    |      | 2,37,563  |
|                |                                                 |      |           | Dec 31         | By Balance c/d<br>3/4 <sup>th</sup> of Machine<br>New Machine                 | 9,21,187<br>14,25,000 |      | 23,46,187 |
|                |                                                 |      | 29,45,000 |                |                                                                               |                       |      | 29,45,000 |
| 2013<br>Jan 01 | To Balance b/d                                  |      | 23,46,187 | 2013<br>Dec 31 | By Depreciation A/c<br>3/4 <sup>th</sup> of Machine<br>New Machine            | 1,38,178<br>2,13,750  |      | 3,51,928  |
|                |                                                 |      |           | Dec 31         | By Balance c/d<br>3/4 <sup>th</sup> of Machine<br>New Machine                 | 7,83,009<br>12,11,250 |      | 19,94,259 |
|                |                                                 |      | 23,46,187 |                |                                                                               |                       |      | 23,46,187 |

**Working note :**

**1. Machine (i)**

| Years | January 01 | - | Depreciation<br>(15 % p.a.) | = | Closing Balance |
|-------|------------|---|-----------------------------|---|-----------------|
| 2010  | 20,00,000  | - | 3,00,000                    | = | 17,00,000       |
| 2011  | 17,00,000  | - | 2,55,000                    | = | 14,45,000       |
| 2012  | 14,45,000  | - |                             |   |                 |

**2. 1/4<sup>th</sup> of machine (i)**

| Years | January 01 | - | Depreciation<br>(15 % p.a.) | = | Closing Balance |
|-------|------------|---|-----------------------------|---|-----------------|
| 2010  | 5,00,000   | - | 75,000                      | = | 4,25,000        |
| 2011  | 4,25,000   | - | 63,750                      | = | 3,61,250        |
| 2012  | 3,61,250   | - | 9,031 (9m)                  | = | 3,52,219        |

|                       |   |           |
|-----------------------|---|-----------|
| Value on 1 Mar.2012   | = | 3,52,219  |
| Less: Insurance Claim | = | 40,000    |
| Loss                  |   | ₹3,12,219 |

**3. 3/4<sup>th</sup> of Machine**

| Years | January 01 | - | Depreciation<br>(15 % p.a.) | = | Closing Balance |
|-------|------------|---|-----------------------------|---|-----------------|
| 2010  | 15,00,000  | - | 2,25,000                    | = | 12,75,000       |
| 2011  | 12,75,000  | - | 1,91,250                    | = | 10,83,750       |
| 2012  | 10,83,750  | - | 1,62,563                    | = | 9,21,187        |
| 2013  | 9,21,187   | - | 1,38,177                    | = | 7,83,009        |

**4.New Machine**

|                                  |
|----------------------------------|
| 15 % depreciation on new machine |
| 15,00,000 *15/100 *4/12= 75,000  |
| 14,25,000 *15/100= 2,13,750      |

**Q20. A Plant was purchased on 1st July, 2010 at a cost of ₹ 3,00,000 and ₹ 50,000 were spent on its installation. The depreciation is written off at 15% p.a. on the straight line**

method. The plant was sold for ₹ 1,50,000 on October 01, 2012 and on the same date a new Plant was installed at the cost of ₹ 4,00,000 including purchasing value. The accounts are closed on December 31 every year.

Show the machinery account and provision for depreciation account for 3 years.

Solution:

| Plant Account   |                                  |      |          |                |                                   |      |          |
|-----------------|----------------------------------|------|----------|----------------|-----------------------------------|------|----------|
| Dr.             |                                  |      |          | Cr.            |                                   |      |          |
| Date            | Particulars                      | J.F. | Amount ₹ | Date           | Particulars                       | J.F. | Amount ₹ |
| 2010<br>July 01 | To Bank A/c<br>(3,00,000+50,000) |      | 3,50,000 | 2010<br>Dec 31 | By Balance c/d                    |      | 3,50,000 |
|                 |                                  |      | 3,50,000 |                |                                   |      | 3,50,000 |
| 2011<br>Jan 01  | To Balance b/d                   |      | 3,50,000 | 2011<br>Dec 31 | By Balance c/d                    |      | 3,50,000 |
|                 |                                  |      | 3,50,000 |                |                                   |      | 3,50,000 |
| 2012<br>Jan 01  | To Balance b/d                   |      | 3,50,000 | 2012<br>Oct 01 | By Provision for Depreciation A/c |      | 1,18,125 |
| Oct 01          | To Bank A/c                      |      | 4,00,000 | Oct 01         | By Bank A/c (sale)                |      | 1,50,000 |
|                 |                                  |      |          | Oct 01         | By Profit and Loss A/c (Loss)     |      | 81,875   |
|                 |                                  |      |          | Dec 31         | By Balance c/d                    |      | 4,00,000 |
|                 |                                  |      | 7,50,000 |                |                                   |      | 7,50,000 |

| Provision for Depreciation Account |                |      |          |                |                                          |      |          |
|------------------------------------|----------------|------|----------|----------------|------------------------------------------|------|----------|
| Dr.                                |                |      |          | Cr.            |                                          |      |          |
| Date                               | Particulars    | J.F. | Amount ₹ | Date           | Particulars                              | J.F. | Amount ₹ |
| 2010<br>Dec 31                     | To Balance c/d |      | 26,250   | 2010<br>Dec 31 | By Depreciation A/c<br>Plant 1           |      | 26,250   |
|                                    |                |      | 26,250   |                |                                          |      | 26,250   |
| 2011<br>Dec 31                     | To Balance c/d |      | 78,750   | 2011<br>Jan 01 | By Balance b/d                           |      | 26,250   |
|                                    |                |      |          | Dec 31         | By Depreciation A/c<br>Plant 1           |      | 52,500   |
|                                    |                |      | 78,750   |                |                                          |      | 78,750   |
| 2012<br>Oct 01                     | To Plant A/c   |      | 1,18,125 | 2012<br>Jan 01 | By Balance b/d                           |      | 78,750   |
|                                    |                |      |          | Oct 01         | By Depreciation A/c<br>Plant 1 (9 month) |      | 39,375   |
| Dec 31                             | To Balance c/d |      | 15,000   | Dec 31         | By Depreciation A/c<br>Plant 2 (3 month) |      | 15,000   |
|                                    |                |      | 1,33,125 |                |                                          |      | 1,33,125 |

Working Note :

Profit or Loss on Sale of Plant:

|      | Opening Balance | - | Depreciation      | = | Closing balance |
|------|-----------------|---|-------------------|---|-----------------|
| 2010 | 3,50,000        | - | 26,250 (6months)  | = | 3,23,750        |
| 2011 | 3,23,750        | - | 52,500            | = | 2,71,250        |
| 2012 | 2,71,250        | - | 39,375 (9 months) | = | 2,31,875        |

|                            |   |          |
|----------------------------|---|----------|
| Value on Oct 01, 2012      | = | 2,31,875 |
| Less: Sale on Oct 01, 2012 | = | 1,50,000 |
| Loss                       | = | 81,875   |

Q21. An extract of Trial balance from the books of Tahiliani and Sons Enterprises on Mar 31 2015 is given below:

| Name of the Account          | Debit Amount ₹ | Credit Amount ₹ |
|------------------------------|----------------|-----------------|
| Sundry debtors               | 50,000         |                 |
| Bad debts                    | 6,000          |                 |
| Provision for doubtful debts |                | 4,000           |

**Additional Information:**

- Bad Debts proved bad but not recorded amounted to ₹ 2,000.
- Provision is to be maintained at 8% of Debtors.

Give necessary accounting entries for writing off the bad debts and creating the provision for doubtful debts account. Also show the necessary accounts.

**Solution:**

| Journal of Tahlilani and Sons Enterprises |                                                                                                                                                   |      |            |            |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|------|------------|------------|
| Date                                      | Particulars                                                                                                                                       | L.F. | Dr.<br>(₹) | Cr.<br>(₹) |
| i.                                        | Bad debts A/c<br>To Debtors A/c<br>(Being further bad debts charged from Debtors Account)                                                         | Dr.  | 2,000      | 2,000      |
| ii.                                       | Provision for Doubtful Debts A/c<br>To Bad debts A/c<br>(Being amount of bad debts transferred to Provision for Doubtful debt Account)            | Dr.  | 8,000      | 8,000      |
| iii.                                      | Profit and Loss A/c<br>To Provision for Doubtful Debt A/c<br>(Being amount of Provision for Doubtful Debt transferred to Profit and Loss Account) | Dr.  | 7,840      | 7,840      |

**Bad debts Account**

| Dr.    |                |      |          | Cr.    |                                     |      |          |
|--------|----------------|------|----------|--------|-------------------------------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date   | Particulars                         | J.F. | Amount ₹ |
| 2015   |                |      |          | 2015   |                                     |      |          |
| Mar 31 | To Balance b/d |      | 6,000    | Mar 31 | By Provision for Doubtful Debts A/c |      | 8,000    |
| Mar 31 | To Debtors A/c |      | 2,000    |        |                                     |      |          |
|        |                |      | 8,000    |        |                                     |      | 8,000    |

**Debtors Account**

| Dr.    |                |      |          | Cr.    |                  |      |          |
|--------|----------------|------|----------|--------|------------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date   | Particulars      | J.F. | Amount ₹ |
| 2015   |                |      |          | 2015   |                  |      |          |
| Mar 31 | To Balance b/d |      | 50,000   | Mar 31 | By Bad debts A/c |      | 2,000    |
|        |                |      |          | Mar 31 | By Balance c/d   |      | 48,000   |
|        |                |      | 50,000   |        |                  |      | 50,000   |

**Provision for Doubtful Debt Account**

| Dr.    |                                     |      |          | Cr.    |                        |      |          |
|--------|-------------------------------------|------|----------|--------|------------------------|------|----------|
| Date   | Particulars                         | J.F. | Amount ₹ | Date   | Particulars            | J.F. | Amount ₹ |
| 2015   |                                     |      |          | 2015   |                        |      |          |
| Mar 31 | To Bad debts A/c<br>(6,000 + 2,000) |      | 8,000    | Mar 31 | By Balance b/d         |      | 4,000    |
| Mar 31 | To Balance c/d<br>(48,000*10%)      |      | 3,840    | Mar 31 | By Profit and Loss A/c |      | 7,840    |
|        |                                     |      | 11,840   |        |                        |      | 11,840   |

**Profit and Loss Account (Extract)**

| Dr.    |                            |      |          | Cr.  |             |      |          |
|--------|----------------------------|------|----------|------|-------------|------|----------|
| Date   | Particulars                | J.F. | Amount ₹ | Date | Particulars | J.F. | Amount ₹ |
| 2015   |                            |      |          | 2015 |             |      |          |
| Mar 31 | To Provision for Bad Debts |      | 7,840    |      |             |      |          |

**Q22.** The following information are extract from the Trial Balance of M/s Nisha traders on 31 March 2015.

|                |          |
|----------------|----------|
| Sundry Debtors | ₹ 80,500 |
| Bad debts      | ₹ 1,000  |
|                |          |

|                         |         |
|-------------------------|---------|
| Provision for bad debts | ₹ 5,000 |
| Additional Information  |         |
| Bad Debts               | ₹ 500   |

Provision is to be maintained at 2% of Debtors.

Prepare bad debts account, Provision for bad debts account and profit and loss account.

Solution:

Bad debts Account

| Dr.    |                |      |          | Cr.    |                                |      |          |
|--------|----------------|------|----------|--------|--------------------------------|------|----------|
| Date   | Particulars    | J.F. | Amount ₹ | Date   | Particulars                    | J.F. | Amount ₹ |
| 2015   |                |      |          | 2015   |                                |      |          |
| Mar 31 | To Balance b/d |      | 1,000    | Mar 31 | By Provision for Bad debts A/c |      | 1,500    |
| Mar 31 | To Debtors A/c |      | 500      |        |                                |      |          |
|        |                |      | 1,500    |        |                                |      | 1,500    |

Provision for Bad debts Account

| Dr.    |                            |      |          | Cr.    |                |      |          |
|--------|----------------------------|------|----------|--------|----------------|------|----------|
| Date   | Particulars                | J.F. | Amount ₹ | Date   | Particulars    | J.F. | Amount ₹ |
| 2015   |                            |      |          | 2015   |                |      |          |
| Mar 31 | To Bad debts A/c           |      | 1,500    | Mar 31 | By Balance b/d |      | 5,000    |
| Mar 31 | To Profit and Loss A/c     |      | 1,900    |        |                |      |          |
| Mar 31 | To Balance c/d (80,000*2%) |      | 1,600    |        |                |      |          |
|        |                            |      | 5,000    |        |                |      | 5,000    |

Profit and Loss Account [Extract]

| Dr.  |             |      |          | Cr.    |                                |      |          |
|------|-------------|------|----------|--------|--------------------------------|------|----------|
| Date | Particulars | J.F. | Amount ₹ | Date   | Particulars                    | J.F. | Amount ₹ |
|      |             |      |          | 2015   |                                |      |          |
|      |             |      |          | Mar 31 | By Provision for Bad Debts A/c |      | 1,900    |