

CH: DEPRECIATION

(V.V.V. Imp)
(8-10 Marks)

गिरावट (Fall
in value of asset)
(Fixed)

→ Depreciation is the reduction in value of asset due to its wear and tear or with efflux of time or due to obsolescence*

Normal wear + tear

जीत जाना
(passage) of time

* Obsolescence - If a better and most effective machine becomes available, old machine may have to be discarded even though it is capable of being used. (Innovations)



→ Characteristics of Depreciation

- Depreciation is fall in value of "tangible" fixed assets
- It is a process of allocating cost of asset over its expected useful life
- It is an expense (which does not involve cash) - ie NON CASH expense

→ Depreciation and Amortisation and Depletion

fall in value of Tangible fixed asset

fall in value of Intangible fixed asset

fall in value of Natural Resources

(Wasting assets)

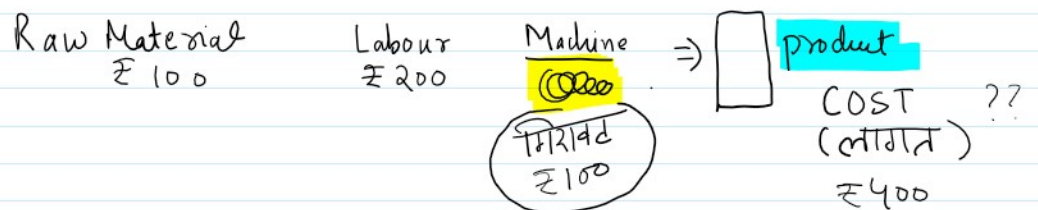
(Wasting assets)

→ Causes or Reasons of Depreciation

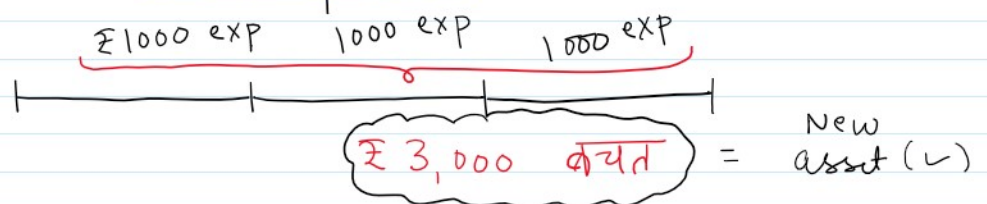
- (i) Normal wear & tear due to use of asset
- (ii) Efflux of time
- (iii) Obsolescence
- (iv) Accidents

→ Objectives or Need for providing Depreciation

- (i) To determine correct profit or loss
- (ii) To show True & fair view of the financial position
- (iii) To determine cost of production



- (iv) To provide funds for replacement of asset in future since depreciation is a non cash expense.



→ Factors affecting Depreciation OR Factors or basis of providing depreciation

- ① COST of the Asset
- Imp = Purchase price (+) Freight & other cost (+) Installation expenses

price

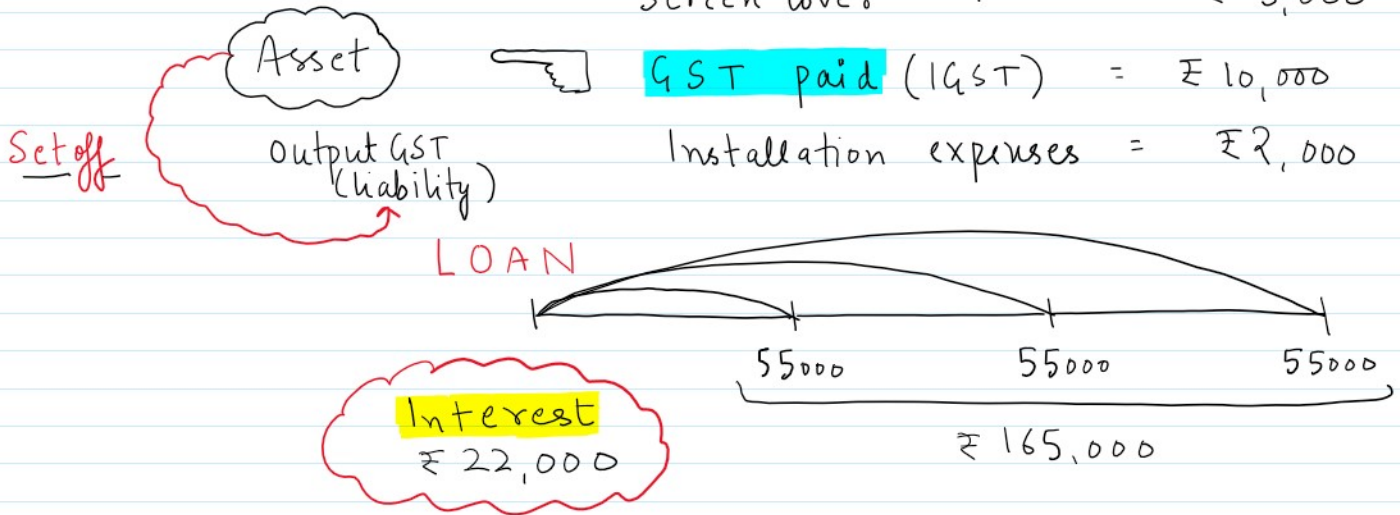
other cost

expenses

* **GST** paid (i.e. **Input GST**) on purchase of asset is NOT a part of cost.

* COST does not include **interest** component

eg :-
iphone 14 pro max (1TB) purchase price = ₹ 1,28,000
Screen cover price = ₹ 3,000



Now, COST of iphone = 1,28,000 + 3,000 + 2,000 = ₹ 1,33,000

(2) **Estimated Residual Value**

अनुमान
₹ 0.000

After 4 years
> कितने में बेच पाओगे ??
₹ 25,000
₹ 30,000
₹ 40,000

Residual value is an estimated realisable value of the asset at the end of its estimated useful life. It is also known as scrap value.

* **Depreciable amount** = COST of asset (-) Estimated Residual Value
{ Amount to be written off }

Depreciation ~~is~~ remains same

→ **Merits** :

(a) It is a simple method

(b) Every year, P+L A/c is debited by same amount

→ **Demerits**

⊛ (a) With the passage of time, work efficiency of asset decreases & repair expenses increase. As a result, in later years there is more load on P+L A/c

(b) Sometimes in this method, the book value of asset becomes NIL, still the asset is being used in business.

$$\rightarrow \text{Amount of Depreciation (p.a)} = \frac{\text{COST} - \text{Scrap Value}}{\text{Useful life of asset}}$$

$$\rightarrow \text{Rate of Depreciation (\%)} = \frac{\text{Amount of Depreciation (p.a)}}{\text{COST}} \times 100$$

② **Written Down Value Method (WDV)** or Reducing Balance method or Diminishing Balance Method

→ In this method, amount of depreciation is charged every year on **Book value** at prescribed rate.

→ The amount of depreciation **continuously falls** as we proceed ahead.

→ Value of asset **never becomes zero**.

→ **Merits** :

⊛ (a) There is **same load on P+L A/c** in later years of asset since repair expenses increase and amount of depreciation decreases.

(b) This method is **accepted** under Income Tax Act.

→ **DEMERITS** :

(a) In this method, the value of asset never

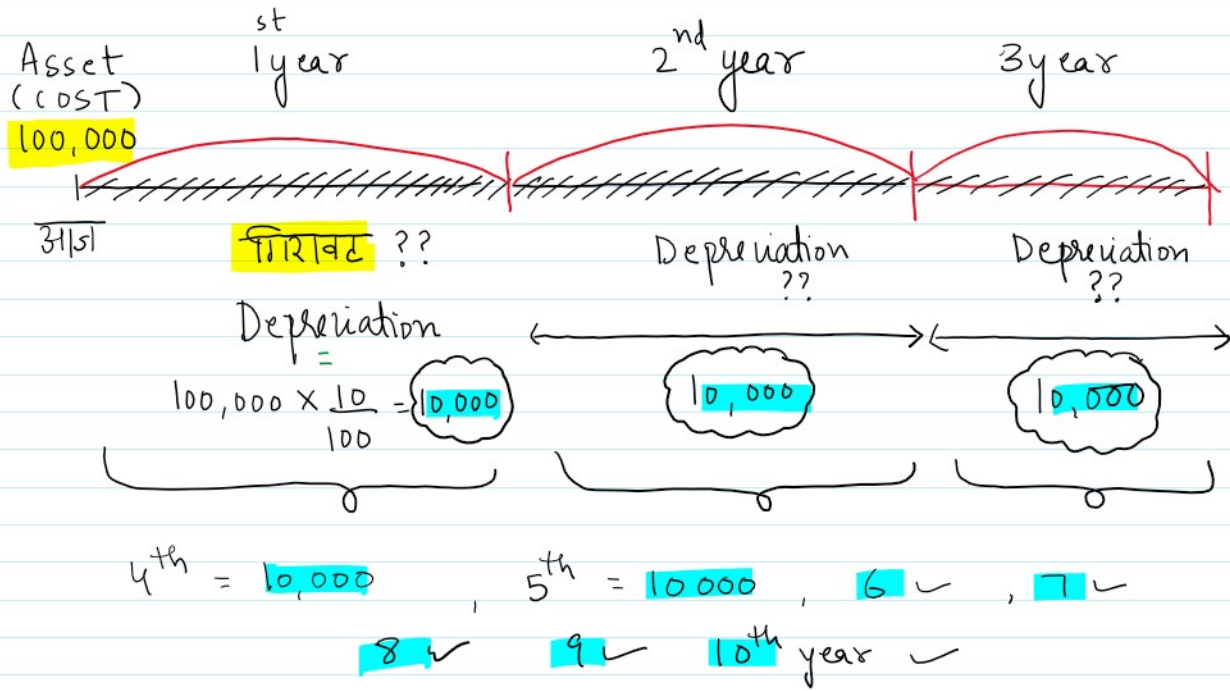
(a) In this method, the value of asset never becomes zero.

(b) It is not simple to ascertain rate of depreciation

$$\rightarrow \text{Rate of depreciation (\%)} = \left[1 - \sqrt[n]{\frac{\text{Scrap Value}}{\text{COST}}} \right] \times 100$$

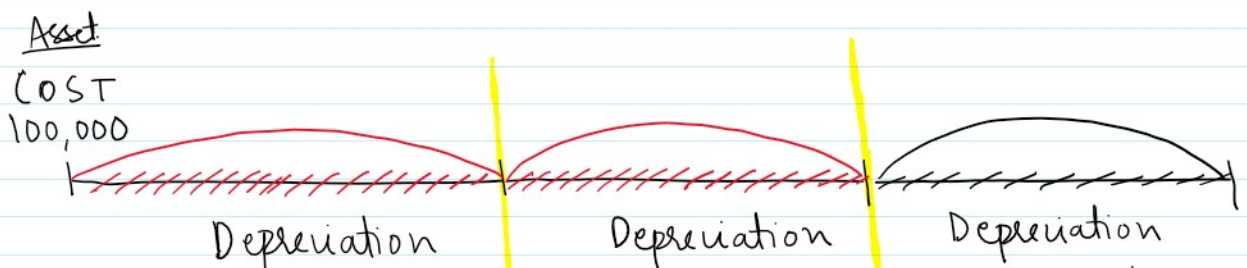
Here, n = useful life of asset

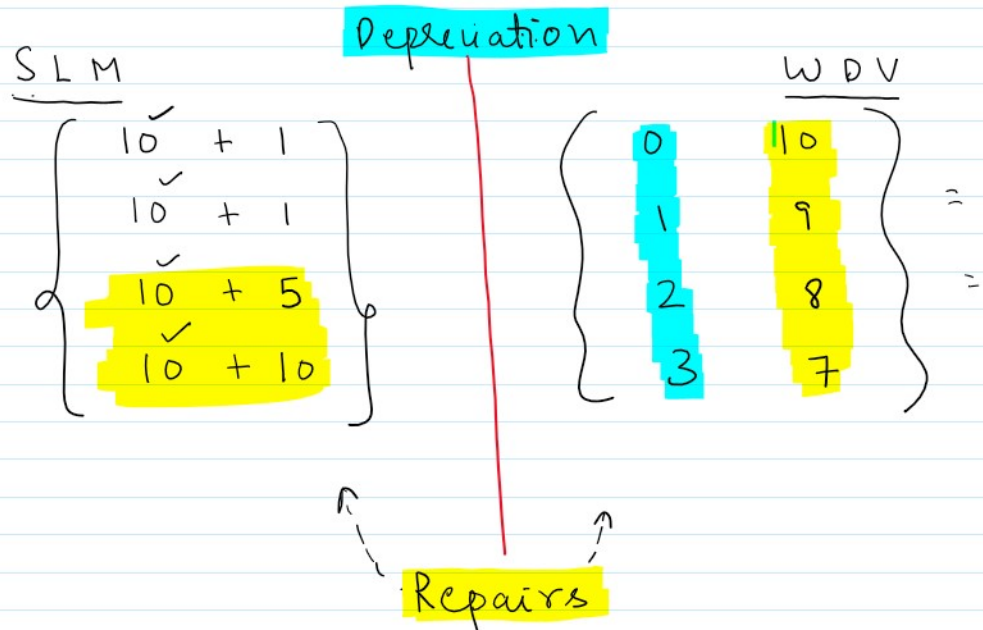
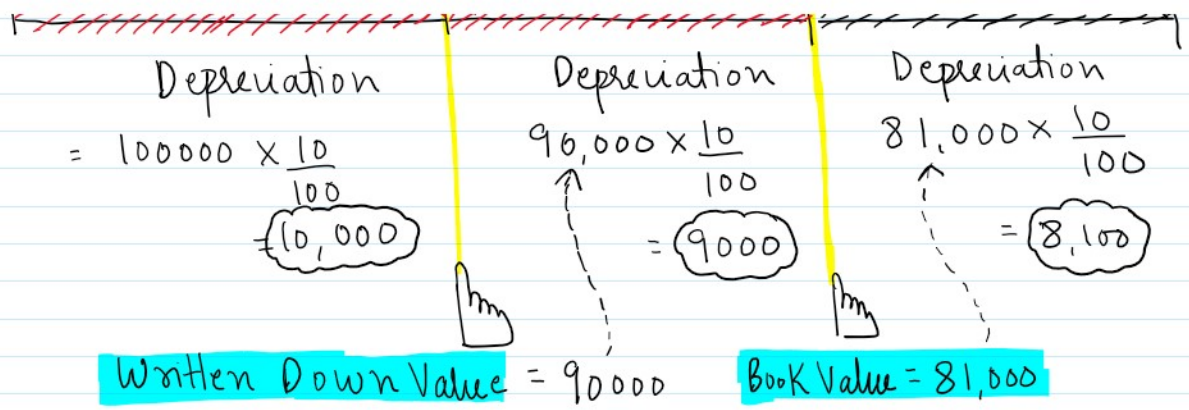
x ————— x ————— x ————— x ————— x ————— x ————— x
 * SLM * Depreciation = 10% p.a



WDV

Depreciation = 10% p.a





eg ① COST of asset = ₹ 10,10,000
 Useful life = 10 years
 Scrap Value = ₹ 10,000

Find (i) Amount of Depreciation (SLM method)
 (ii) Rate of Depreciation (SLM method)

Sol:- (i) Amount of Depreciation (p.a) = $\frac{\text{COST} - \text{S.V}}{\text{useful life}}$

$$= \frac{10,10,000 - 10,000}{10}$$

$$= \frac{10,00,000}{10}$$

$$= ₹ 1,00,000 \text{ p.a}$$

(ii) Rate of depreciation (%) = $\frac{\text{Amount of depreciation (p.a)}}{\text{COST}} \times 100$

$$= \frac{1,00,000}{10,10,000} \times 100$$

$$= 9.9\%$$

eg ② Date 1st April 2012 :- Machine purchased for ₹ 10,00,000
 Depreciation is ₹ 1,00,000 p.a. 1 April 2012 to 31 March 2013
 Pass journal entries for the year 2012-13 and 2013-14

Case (i) Depreciation is charged to asset
 Case (ii) Depreciation is charged to provision for depreciation.

Sol:-	Case (i)	Case (ii)
1 April 2012	Machine A/c Dr. 10,00,000 To Bank A/c — 10,00,000 (being asset purchased)	1 April 2012 Machine A/c Dr. 10,00,000 To Bank A/c — 10,00,000 (being Machine purchased)
31 March 2013	Depreciation A/c Dr. 1,00,000 To Machine A/c — 1,00,000	31 March 2013 Depreciation A/c Dr. 1,00,000 To Provision for dep A/c — 1,00,000 (PFD)
31 March 2013	P&L A/c Dr. 1,00,000 To Depreciation A/c — 1,00,000	31 March 2013 P&L A/c Dr. 1,00,000 To Depreciation — 1,00,000
31 March 2014	Depreciation A/c Dr. 1,00,000 To Machine A/c — 1,00,000	31 March 2014 Depreciation A/c Dr. 1,00,000 To PFD A/c — 1,00,000
31 March 2014	P&L A/c Dr. 1,00,000 To Depreciation A/c — 1,00,000	31 March 2014 P&L A/c Dr. 1,00,000 To Depreciation A/c — 1,00,000

Case (i)

Dr		Machine A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹
1 April 2012	To Bank A/c (Machine purchased)	10,00,000	31 March 2013	By Depreciation A/c	1,00,000
			31 March 2013	By Balance c/d	9,00,000
		10,00,000			10,00,000
1 April 2013	To Balance b/d	9,00,000	31 March 2014	By Depreciation A/c	1,00,000
			31 March	By Balance c/d	8,00,000

2013		31 March 2014	By depreciation A/c	1,00,000
		31 March 2014	By Balance b/d	80,000
	900,000			900,000

Dr		Depreciation A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹
31 March 2013	To Machine A/c	1,00,000	31 March 2013	By P&L A/c	100,000
		1,00,000			100,000
31 March 2014	To Machine A/c	100,000	31 March 2014	By P&L A/c	100,000
		100,000			100,000

Case ②

Dr.		PFD A/c		Cr.	
Date	Particulars	₹	Date	Particulars	₹
31 March 2013	To Balance b/d	100,000	31 March 2013	By depreciation A/c	100,000
		100,000			100,000
31 March 2014	To Balance b/d	200,000	1 April 2013	By Balance B/d	100,000
		200,000	31 March 2014	By depreciation A/c	100,000
		200,000			200,000

x ————— x ————— x ————— x ————— x ————— x

1. Calculate annual depreciation and rate of depreciation under Straight Line Method in each of the alternative cases:

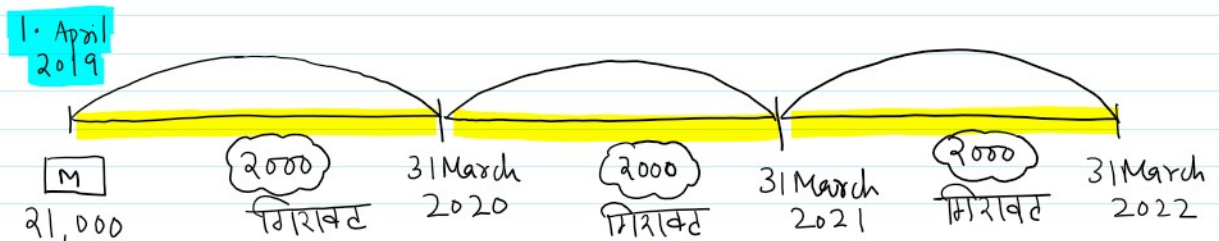
Case	Purchase Price of Machinery ₹	Installation Charges ₹	Estimated Scrap Value ₹	Estimated Useful Life (in Years)
(a)	1,80,000	20,000	10,000	5
(b)	4,75,000	25,000	50,000	5
(c)	90,000	10,000	20,000	10
(d)	3,40,000	60,000	40,000	10
(e)	90,000	10,000	20,000	4

Q1

Case	Annual Depreciation	Rate of depreciation
	$\text{Depreciation p.a} = \frac{\text{COST} (-) \text{S.V}}{\text{useful life}}$	$= \frac{\text{Depreciation p.a}}{\text{COST}} \times 100$
(a)	$= \frac{200000 (-) 10000}{5}$ $= 38000$	$= \frac{38000}{200000} \times 100 = 19\%$
(b)	$= \frac{500000 (-) 50000}{5}$ $= 90,000$	$= \frac{90000}{500000} \times 100 = 18\%$
(c)	$= \frac{100000 (-) 20000}{10}$ $= 8000$	$= \frac{8000}{100,000} \times 100 = 8\%$
(d)	$= \frac{400000 (-) 40000}{10}$ $= 36000$	$= \frac{36000}{400000} \times 100 = 9\%$
(e)	$= \frac{100000 (-) 20000}{4}$ $= 20,000$	$= \frac{20000}{100,000} \times 100 = 20\%$

2. Ram & Co. purchased machinery for ₹ 21,000 on 1st April, 2019. The estimated useful life of the machinery is 10 years, after which its realisable value will be ₹ 1,000. Determine the amount of annual depreciation according to the Straight Line Method and prepare Machinery A/c for the first three years. The books of account are closed on 31st March every year. [Balance of Machinery A/c on 1st April, 2022—₹ 15,000.]

Q2 -



useful life = 10
S.V = 1,000

$$\text{Depreciation p.a} = \frac{\text{COST} - \text{S.V}}{\text{useful life}} = \frac{21000 - 1000}{10} = 2,000$$

(Annual depreciation)

Machinery A/c

Dr		Machinery A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹
1 April 2019	To Bank A/c (purchase)	21,000	31 March 2020	By depreciation A/c	2,000
			31 March 2020	By balance c/d	19,000
		21,000			21,000
1 April 2020	To Balance b/d	19,000	31 March 2021	By depreciation A/c	2,000
			31 March 2021	By balance c/d	17,000
		19,000			19,000
1 April 2021	To Balance b/d	17,000	31 March 2022	By depreciation A/c	2,000
			31.3.22	By Bal c/d	15,000
		17,000			17,000
1 April 2022	To Balance b/d	15,000			

3. Calculate the Amount of annual Depreciation and Rate of Depreciation under Straight Line Method (SLM) from the following:

Purchased a second-hand machine for ₹ 96,000, spent ₹ 24,000 on its cartage, repairs and installation, estimated useful life of machine 4 years. Estimated residual value ₹ 72,000.

[Annual Depreciation—₹ 12,000; Rate of Depreciation—10%.]

Q3-

Annual Depreciation

$$= \frac{\text{COST} - \text{S.V}}{\text{useful life}}$$

$$= \frac{120,000 - 72,000}{4}$$

$$= 12,000 \text{ p.a}$$

Rate of Depreciation

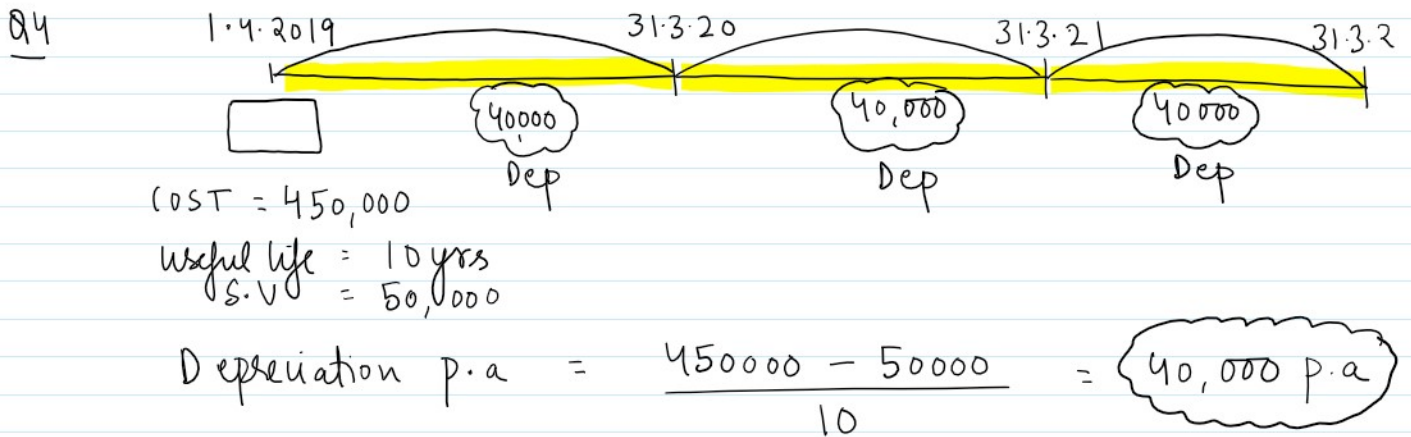
$$= \frac{\text{Annual Depreciation}}{\text{COST}} \times 100$$

$$= \frac{12,000}{120,000} \times 100$$

$$= 10\%$$

4. On 1st April, 2019, X Ltd. purchased a machine costing ₹ 4,00,000 and spent ₹ 50,000 on its installation. The estimated life of the machinery is 10 years, after which its residual value will be ₹ 50,000. Find the amount of annual depreciation according to the Fixed Instalment Method and prepare Machinery Account for the first three years. The books are closed on 31st March every year.

[Annual Depreciation—₹ 40,000; Balance of Machinery A/c on 1st April, 2022—₹ 3,30,000.]



Q2

Machinery A/c

Dr			Cr		
Date	Particulars	₹	Date	Particulars	₹
1 April 2019	To Bank A/c (purchase)	45 000	31 March 2020	By depreciation A/c	40 000
			31 March 2020	By balance c/d	41 000
		45 000			45 000
1 April 2020	To Balance b/d	41 000	31 March 2021	By depreciation A/c	40 000
			31 March 2021	By balance c/d	37 000
		41 000			41 000
1 April 2021	To Balance b/d	37 000	31 March 2022	By depreciation A/c	40 000
			31.3.22	By bal c/d	33 000
		37 000			37 000
1 April 2022	To Balance b/d	33 000			

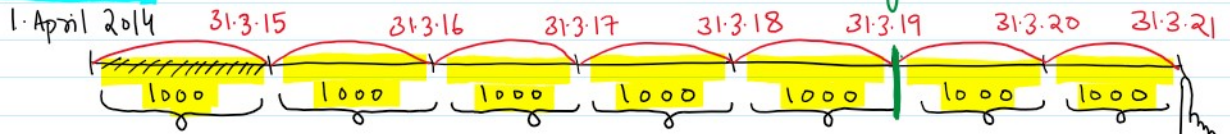
SLM Method - "Sale of Asset"

7. An asset was purchased for ₹ 10,500 on 1st April, 2014. The scrap value was estimated to be ₹ 500 at the end of asset's 10 years' life. Straight Line Method of depreciation was used. The accounting year ends on 31st March every year. The asset was sold for ₹ 600 on

7. An asset was purchased for ₹ 10,500 on 1st April, 2014. The scrap value was estimated to be ₹ 500 at the end of asset's 10 years' life. Straight Line Method of depreciation was used. The accounting year ends on 31st March every year. The asset was sold for ₹ 600 on 31st March, 2021. Calculate the following:

- (i) The Depreciation expense for the year ended 31st March, 2015.
 (ii) The net book value of the asset on 31st March, 2019.
 (iii) The gain or loss on sale of the asset on 31st March, 2021.

COST = 10500



Depreciation (p.a) =

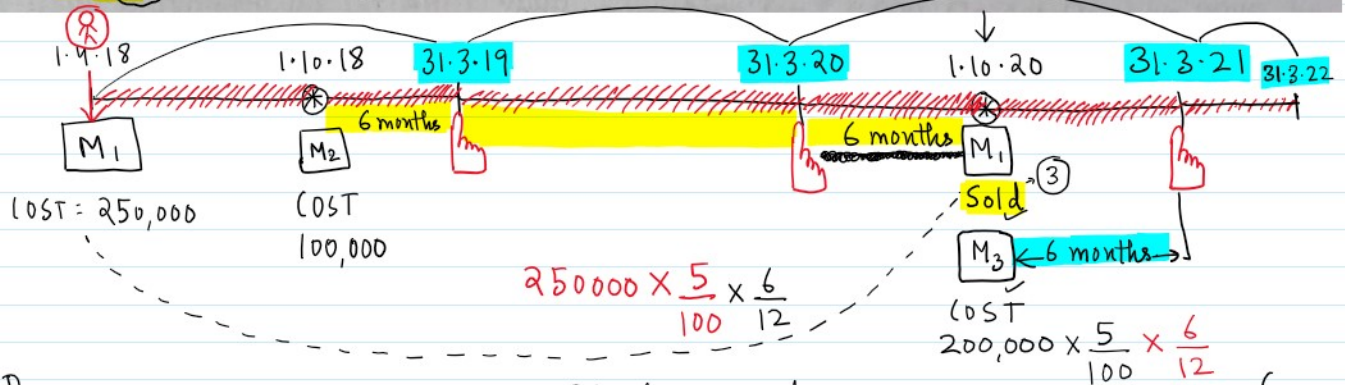
$$\frac{\text{COST} - \text{SV}}{\text{useful life}} = \frac{10500 - 500}{10} = 1,000 \text{ p.a}$$

(ii) 10,500 (-) 1000 (-) 1000 (-) 1000 (-) 1000 (-) 1000 = 5,500

(iii) Book Value on 31. March 2021 = 3,500
 Sale Value = 600 (given)
 ∴ LOSS on Sale = 2,900

9. On 1st April, 2018, A Ltd. purchased a machine for ₹ 2,40,000 and spent ₹ 10,000 on its erection. On 1st October, 2018, an additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2020, the machine purchased on 1st April, 2018 was sold for ₹ 1,43,000 and on the same date, a new machine was purchased at a cost of ₹ 2,00,000.

Show the Machinery Account for the first four financial years after charging Depreciation at 5% p.a by the Straight Line Method.



B.

Machinery A/c

Cr

Date	Particulars	₹	Date	Particulars	₹
1.4.18	To Bank A/c (M ₁)	250,000	31.3.19	By depreciation A/c	15,000
1.10.18	To Bank A/c (M ₂)	100,000		{ M ₁ : 12,500	
				{ M ₂ : 2,500	
			31.3.19	By Balance b/d	335,000
				{ M ₁ : 237,500	
				{ M ₂ : 97,500	
		3,50,000			350,000
1.4.19	To Balance B/d		31.3.20	By depreciation A/c	17,500

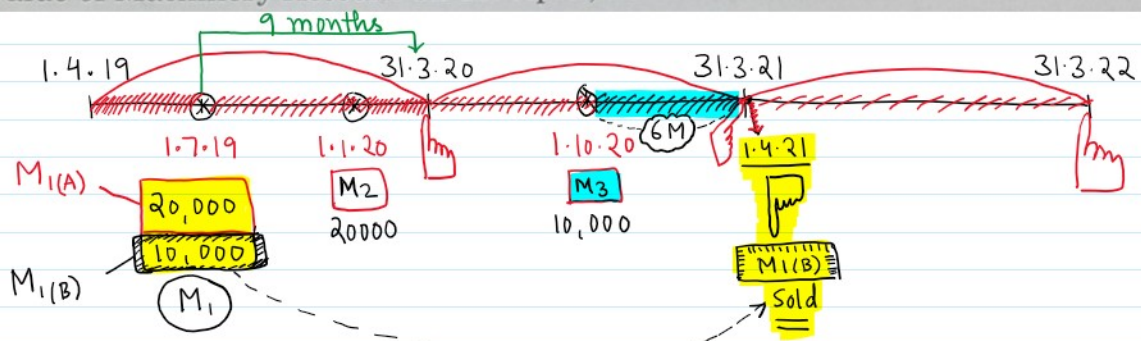
1.4.19	To Balance B/d { M ₁ : 237,500 { M ₂ : 97,500	335,000	31.3.20	By depreciation A/c { M ₁ : 12,500 { M ₂ : 5,000	17,500
		335,000	31.3.20	By Balance b/d { M ₁ : 225,000 { M ₂ : 92,500	317,500
1.4.20	To Balance b/d { M ₁ : 225,000 { M ₂ : 92,500	317,500	1.10.20	By depreciation A/c (M ₁)	6,250
		317,500	1.10.20	By Bank A/c (Sale)	143,000
1.10.20	To Bank A/c (M ₃)	200,000	1.10.20	By P + L A/c (Loss)	75,750
		200,000	31.3.21	By depreciation A/c { M ₂ : 5,000 { M ₃ : 5,000	10,000
		5,17,500	31.3.21	By Balance b/d { M ₂ : 87,500 { M ₃ : 195,000	282,500
1.4.21	To Balance b/d { M ₂ : 87,500 { M ₃ : 195,000	282,500	31.3.22	By depreciation A/c { M ₂ : 5,000 { M ₃ : 10,000	15,000
		282,500	31.3.22	By Balance b/d { M ₂ : 82,500 { M ₃ : 185,000	267,500
		282,500			282,500

11. A company whose accounting year is a financial year, purchased on 1st July, 2019 machinery costing ₹ 30,000. (1 April - 31 March)

It purchased further machinery on 1st January, 2020 costing ₹ 20,000, and on 1st October, 2020 costing ₹ 10,000.

On 1st April, 2021, one-third of the machinery installed on 1st July, 2019 became obsolete and was sold for ₹ 3,000.

Show how Machinery Account would appear in the books of the company. It being given that machinery was depreciated by Fixed Instalment Method at 10% p.a. What would be the value of Machinery Account on 1st April, 2022?



Dr	Machinery A/c		Cr

Dr

Machinery A/c

Cr

1.7.2019	To Bank A/c { M ₁ (A) : 20,000 M ₁ (B) : 10,000 }	30,000	31.3.2020	By depreciation A/c { M ₁ (A) : $20,000 \times \frac{10}{100} \times \frac{9}{12}$ = 1500 M ₁ (B) : $10,000 \times \frac{10}{100} \times \frac{9}{12}$ = 750 M ₂ : $20,000 \times \frac{10}{100} \times \frac{3}{12}$ = 500 }	2,750
1.1.2020	To Bank A/c (M ₂)	20,000			
			31.3.20	By Balance b/d { M ₁ (A) : 18,500 M ₁ (B) : 9,250 M ₂ : 19,500 }	47,250
		50,000			50,000
1.4.20	To Balance b/d { M ₁ (A) : 18,500 M ₁ (B) : 9,250 M ₂ : 19,500 }	47,250	31.3.21	By depreciation A/c { M ₁ (A) : 2,000 M ₁ (B) : 1,000 M ₂ : 2,000 M ₃ : 500 }	5,500
1.10.20	To Bank A/c (M ₃)	10,000			
			31.3.21	By Balance b/d { M ₁ (A) : 16,500 M ₁ (B) : 8,250 M ₂ : 17,500 M ₃ : 9,500 }	51,750
		57,250			57,250
1.4.21	To Bal b/d { M ₁ (A) : 16,500 M ₁ (B) : 8,250 M ₂ : 17,500 M ₃ : 9,500 }	51,750	1.4.21	By Depreciation A/c ^①	NIL
			1.4.21	By P&L A/c (Loss) ^②	5,250
			1.4.21	By Bank A/c ^③ - Sale Value	3,000
			31.3.22	By depreciation A/c { M ₁ (A) : 2,000 M ₂ : 2,000 M ₃ : 1,000 }	5,000

				M ₃ : 1,000	
			31.3.22	By Balance b/d	38,500
				M _{1A} : 14,500	
				M ₂ : 15,500	
				M ₃ : 8,500	
		51750			51750
1.4.22	To Balance b/d	38,500			

**

$$M_1 = 23,000 \text{ (cost)}$$

13. On 1st July, 2017, A Co. Ltd. purchases second-hand machinery for ₹ 20,000 and spends ₹ 3,000 on reconditioning and installing it. On 1st January, 2018, the firm purchases new machinery worth ₹ 12,000. On 30th June, 2019, the machinery purchased on 1st January, 2018, was sold for ₹ 8,000 and on 1st July, 2019, a fresh plant was installed. (M₂)

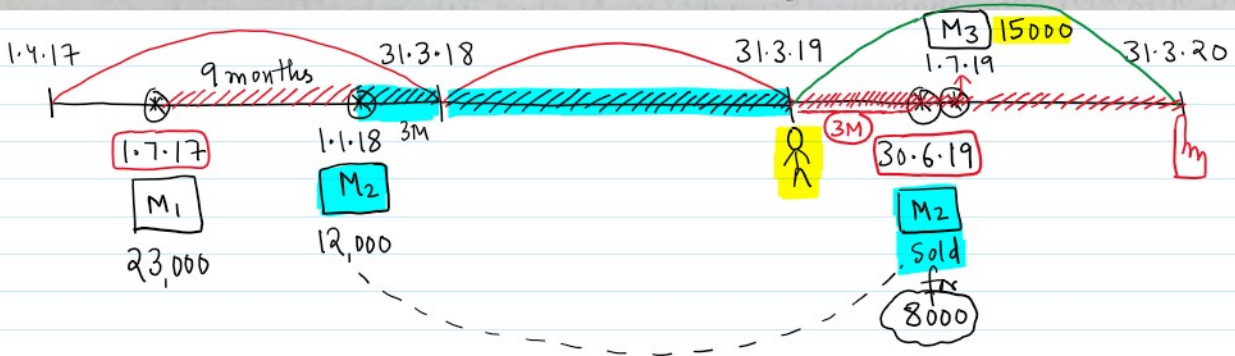
Payments for this plant was to be made as follows:

1st July, 2019	₹ 5,000	} = 16,500 (-) 1,000 (-) 500 <u>15,000</u> ← COST
30th June, 2020	₹ 6,000	
30th June, 2021	₹ 5,500	

Payments in 2020 and 2021 include interest of ₹ 1,000 and ₹ 500 respectively.

The company writes off 10% p.a. on the original cost. The accounts are closed every year on 31st March. Show the Machinery Account for the year ended 31st March, 2020.

[Balance in Machinery A/c—₹ 30,550.]



Dr		Machine A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹
1.4.2019	To Balance b/d	29,475	30.6.19	By Depreciation A/c	300
	{ M ₁ : 18,975 M ₂ : 10,500 }		30.6.19	By P+L A/c (loss)	2200
			30.6.19	By Bank A/c	8000
1.7.2019	To Bank A/c (M ₃)	15,000*	31.3.2020	By depreciation A/c	3,425
				{ M ₁ : 2,300 }	

	{ M ₂ : 300,000 }	500,000		{ M ₂ : 300,000 }	500,000
1.4.2018	To Balance b/d	5,00,000	30.6.18	By Bank A/c (S.V)	60,000
	{ M ₁ : 200,000 }		30.6.18	By P.L A/c (Loss)	95,000
	{ M ₂ : 300,000 }		30.6.18	By PFD A/c (M ₁)	45,000
		500,000	31.3.19	By Balance fd	300,000
					500,000

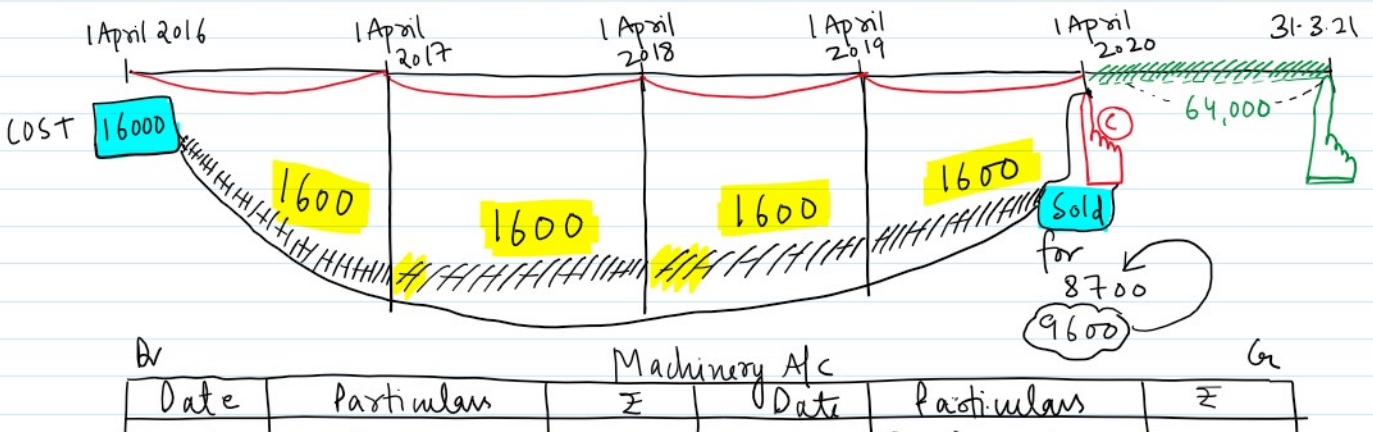
Dr			PFD A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹	
31.3.17	To Balance fd	42,500	31.3.17	By depreciation A/c	42,500	
		42,500		{ M ₁ : 20,000 }		
				{ M ₂ : 22,500 }	42,500	
31.3.18	To Balance fd	92,500	1.4.17	By Balance B/d	42,500	
		92,500	31.3.18	By depreciation A/c	50,000	
				{ M ₁ : 20,000 }		
30.6.18	To Machine A/c (M ₁)	45,000		{ M ₂ : 30,000 }	92,500	
31.3.19	To Balance fd	82,500	1.4.2018	By Balance b/d	92,500	
		127,500	31.3.2019	By depreciation (M ₁)	5,000	
			31.3.2019	By depreciation (M ₂)	30,000	
					127,500	

14. Following balances appear in the books of Hari Bros.:

1st April, 2020 → Machinery A/c ————— ₹ 80,000
 (Balance B/d) → Provision for Depreciation A/c ————— 36,000

On 1st April, 2020, they decided to sell a machine for ₹ 8,700. This machine was purchased for ₹ 16,000 in April, 2016. Prepare the Provision for Depreciation Account and Machinery Account on 31st March, 2021, assuming the firm has been charging Depreciation at 10% p.a. on Straight Line Method.

[Loss on Sale of Machinery—₹ 900; Balance of Provision for Depreciation A/c—₹ 36,000; Balance of Machinery A/c—₹ 64,000.]



Dr			Machinery A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹	

Dr			Machinery A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹			
1 April 2020	To Balance B/d	80,000	1 April 2020	By Bank A/c (Sale)	8,700			
			1 April 2020	By P&L A/c (Loss)	900			
			1 April 2020	By PFD A/c	6,400			
			31.3.21	By Balance c/d	64,000			
		80,000			80,000			

Dr			PFD A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹			
1 April 2020	To Machine A/c	6,400	1 April 2020	By Balance b/d	36,000			
			31.3.2021	By depreciation (64000 x 10%)	6,400			
31.3.21	To Balance c/d	36,000						
		42,400			42,400			

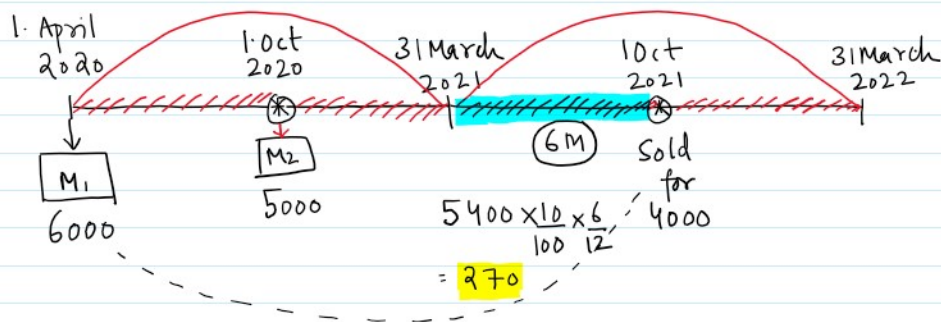
* Written Down Value Method *

18. Babu purchased on 1st April, 2020, a machine for ₹ 6,000. On 1st October, 2020, he also purchased another machine for ₹ 5,000. On 1st October, 2021, he sold the machine purchased on 1st April, 2020 for ₹ 4,000.

It was decided that Depreciation @ 10% p.a. was to be written off every year under Diminishing Balance Method.

Assuming the accounts were closed on 31st March every year, show the Machinery Account for the years ended 31st March, 2021 and 2022.

[Balance on 31st March, 2022—₹ 4,275; Loss on Sale of Machine—₹ 1,130.]



Dr			Machinery A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹			
1.4.2020	To Bank A/c (M ₁)	6000	31.3.2021	By depreciation A/c (M ₁ : 600)	850			
1.10.2020	To Bank A/c (M ₂)	5000						

1.4.2020	To Bank A/c (M ₁)	6,000	31.3.2021	By depreciation A/c	850
1.10.2020	To Bank A/c (M ₂)	5,000		{ M ₁ : 600 }	
				{ M ₂ : 250 }	
			31.3.2021	By Balance dd	10,150
				{ M ₁ : 5,400 }	
				{ M ₂ : 4,750 }	
		11,000			11,000
1.4.2021	To Balance b/d	10,150	1.10.2021	By Depreciation A/c	270
	{ M ₁ : 5,400 }		1.10.2021	By Bank A/c (S.V)	4,000
	{ M ₂ : 4,750 }		1.10.2021	By P+L A/c (Loss)	1,130
			31.3.2022	By depreciation A/c (M ₂)	475
		10,150	31.3.2022	By Balance dd (M ₂)	4,275
					10,150

19. X bought a machine for ₹ 25,000 on which he spent ₹ 5,000 for carriage and freight, ₹ 1,000 for brokerage of the middleman, ₹ 3,500 for installation and ₹ 500 for an iron pad. The machine is depreciated @ 10% p.a. on Written Down Value basis. After three years, the machine was sold to Y for ₹ 30,500 and ₹ 500 was paid as commission to the broker through whom the sale was effected. Find out the profit and loss on sale of machine. [Gain (Profit) on Sale of Machine—₹ 4,485.]



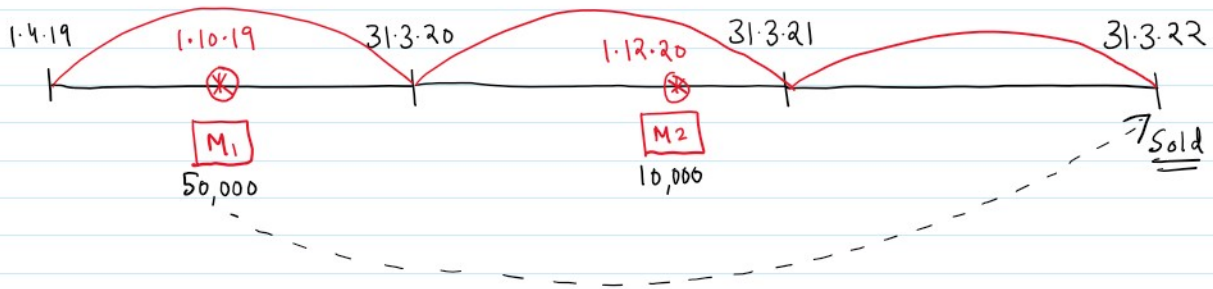
Sol:-

COST of machine	35,000
(-) Depreciation (1 st year)	(3,500)
WDV after 1 st year	31,500
(-) Depreciation (2 nd year)	(3,150)
WDV after 2 nd year	28,350
(-) Depreciation (3 rd year)	(2,835)
WDV after 3 rd year	25,515
Sold for	30,000
∴ (GAIN)	4,485

∴ GAIN

4,485

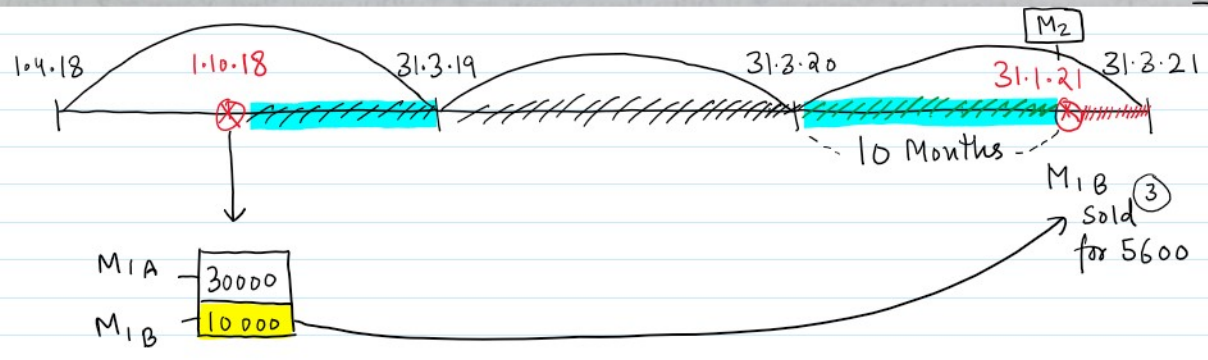
20. A company purchased a machine for ₹ 50,000 on 1st October, 2019. Another machine costing ₹ 10,000 was purchased on 1st December, 2020. On 31st March, 2022, the machine purchased in 2019 was sold at a loss of ₹ 5,000. The company charges depreciation @ 15% p.a. on Diminishing Balance Method. Accounts are closed on 31st March every year. Prepare the Machinery Account for 3 years.
 [Balance of Machinery A/c (31st March, 2022) (Mach. II) — ₹ 8,075.]
 [Hint: Sale Price Realised = ₹ 28,415; Book Value of Machinery (31st March, 2022) = ₹ 33,415.]



Dr. Machinery A/c Cr.					
Date	Particulars	₹	Date	Particulars	₹
1.10.19	To Bank A/c (M ₁)	50,000	31.3.20	By Depreciation (M ₁)	3,750
				$\left\{ 50000 \times \frac{15}{100} \times \frac{6}{12} \right\}$	
			31.3.20	By Balance b/d (M ₁)	46,250
		50,000			50,000
1.4.20	To Bal B/d (M ₁)	46,250	31.3.21	By depreciation A/c	7,438
1.12.20	To Bank A/c (M ₂)	10,000		$\left\{ \begin{array}{l} M_1: 46250 \times \frac{15}{100} = 6938 \\ M_2: 10000 \times \frac{15}{100} \times \frac{4}{12} = 500 \end{array} \right\}$	
			31.3.21	By Balance b/d	48,812
		56,250		$\left\{ \begin{array}{l} M_1: 39,312 \\ M_2: 9,500 \end{array} \right\}$	56,250
1.4.21	To Balance b/d (M ₁ : 39,312)	48,812	31.3.22	By depletion	7,322
				$\left(M_1: 39312 \times \frac{15}{100} \right)$	

$\left\{ \begin{array}{l} M_1 : 39312 \\ M_2 : 9500 \end{array} \right\}$	48812	$\left\{ \begin{array}{l} M_1 : 39312 \times \frac{15}{100} \\ = 5897 \\ M_2 : 9500 \times \frac{15}{100} \\ = 1425 \end{array} \right\}$	

22. M/s. P & Q purchased machinery for ₹ 40,000 on 1st October, 2018. Depreciation is provided @ 10% p.a. on the Diminishing Balance. On 31st January, 2021, one-fourth of the machinery was found unsuitable and disposed off for ₹ 5,600. On the same date new machinery at a cost of ₹ 15,000 was purchased. Write up the Machinery Account for the years ended 31st March, 2019, 2020 and 2021. Accounts are closed on 31st March each year.
 [Loss on Sale of Machinery—₹ 2,237; Balance in Machinery A/c—₹ 37,835.]



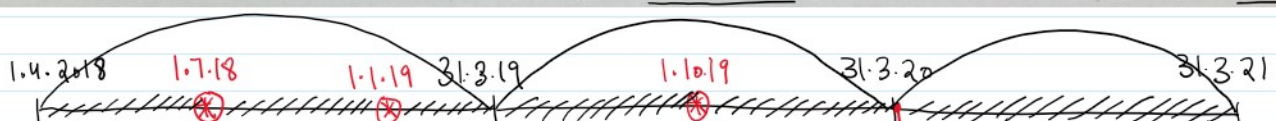
Dr			Machinery A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹	
1.10.18	To Bank A/c $\left\{ \begin{array}{l} M_{1A} : 30,000 \\ M_{1B} : 10,000 \end{array} \right\}$	40,000	31.3.19	By depreciation A/c $\left\{ \begin{array}{l} M_{1A} : 1500 \\ M_{1B} : 500 \end{array} \right\}$	2000	
			31.3.19	By Balance c/d $\left\{ \begin{array}{l} M_{1A} : 28500 \\ M_{1B} : 9500 \end{array} \right\}$	38000	
		40,000			40,000	

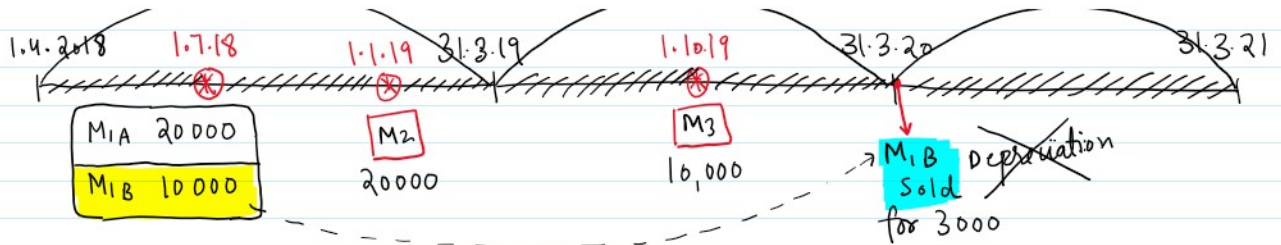
		40,000		40,000
1.4.19	To Balance b/d { M _{1A} : 28,500 M _{1B} : 9,500 }	38,000	31.3.20	By Depreciation A/c { M _{1A} : 2,850 M _{1B} : 950 }
			31.3.20	By Balance fd { M _{1A} : 25,650 M _{1B} : 8,550 }
		38,000		38,000
1.4.20	To Balance b/d { M _{1A} : 25,650 M _{1B} : 8,550 }	34,200	31.1.21	By Depreciation (M _{1B}) [8,550 × 10% × 10/12]
			31.1.21	By Bank A/c (S.V.)
			31.1.21	By P&L A/c (Loss) [8,550 - 713 - 5,600]
31.1.21	To Bank A/c (M ₂)	15,000	31.3.21	By depreciation A/c { M _{1A} : 2,565 M ₂ : 250 }
			31.3.21	By Balance fd { M _{1A} : 23,085 M ₂ : 14,750 }
		49,200		49,200

24. A company purchased on 1st July, 2018 machinery costing ₹ 30,000. It further purchased machinery on 1st January, 2019 costing ₹ 20,000 and on 1st October, 2019 costing ₹ 10,000. On 1st April, 2020, **one-third** of the machinery installed on 1st July, 2018 became obsolete and was sold for ₹ 3,000. The company follows financial year as accounting year.

Show how the Machinery Account would appear in the books of company if depreciation is charged @ **10% p.a.** on Written Down Value Method.

[Balance of Machinery A/c—₹ 39,330 (Mach. I: ₹ 14,985; Mach. II: ₹ 15,795; Mach. III: ₹ 8,550); Loss on Sale of Machine (Mach. I) (1/3): ₹ 5,325.]





Dr			Machinery A/c		Cr	
Date	Particulars	₹	Date	Particulars	₹	
1.7.18	To Bank A/c { M1A : 20000 M1B : 10000 }	30,000	31.3.19	By depreciation A/c { M1A : 1500 M1B : 750 M2 : 500 }	2,750	
1.1.19	To Bank A/c (M2)	20,000	31.3.19	By Balance dd { M1A : 18,500 M1B : 9,250 M2 : 19,500 }	47,250	
		<u>50,000</u>			<u>50,000</u>	
1.4.19	To Balance b/d { M1A : 18500 M1B : 9250 M2 : 19500 }	47,250	31.3.20	By depreciation A/c { M1A : 1850 M1B : 925 M2 : 1950 M3 : 500 }	5,225	
1.10.19	To Bank A/c (M3)	10,000	31.3.20	By Balance dd { M1A : 16,650 M1B : 8,325 M2 : 17,550 M3 : 9500 }	52,025	
		<u>57,250</u>			<u>57,250</u>	
1.4.20	To Balance B/d { M1A : 16,650 M1B : 8,325 M2 : 17,550 M3 : 9,500 }	52,025	1.4.20	By Bank A/c	3,000	
			1.4.20	By P&L A/c (Loss) (8325 - 3000)	5,325	
			31.3.21	By depreciation A/c (M1A : 1665)	4,370	

l M ₃ : 9,500 J	31.3.21	By Depreciation A/c } { M _{1A} : 1665 M ₂ : 1755 M ₃ : 950 } By Balance dd } { M _{1A} = 14,985 M ₂ = 15,795 M ₃ = 8,550 }	4310
52,025			39,330
			52,025

* Machinery DISPOSAL A/c *

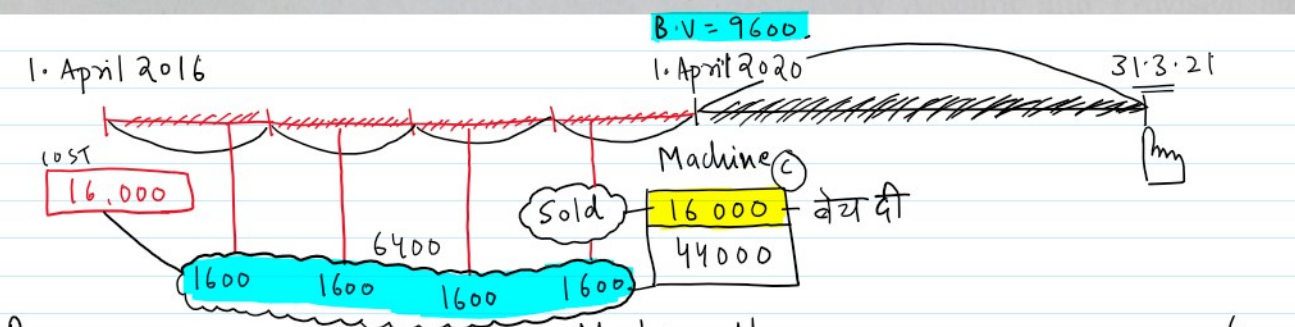
25. Following balances appear in the books of M/s Amrit as on 1st April, 2020:

	<table border="1" style="margin: auto;"> <tr> <td style="width: 50%; text-align: center;">16000</td> <td style="width: 50%; text-align: center;">44000</td> </tr> </table>	16000	44000	₹	
16000	44000				
1st April	Machinery A/c	60,000			
	Provision for Depreciation A/c	36,000	PFD		

On 1st April, 2020, they decided to dispose off a machinery for ₹ 8,400 which was purchased on 1st April, 2016 for ₹ 16,000.

You are required to prepare the Machinery Account, Provision for Depreciation Account and Machinery Disposal Account for the year ended 31st March, 2021. Depreciation was charged at 10% p.a. on Cost following Straight Line Method.

[Balance of Machinery A/c (31st March, 2021)—₹ 44,000; Provision for Depreciation A/c (31st March, 2021)—₹ 34,000; Loss on Sale of Machinery—₹ 1,200.]



Date	Particulars	₹	Date	Particulars	₹
1.4.2020	To Balance b/d { M _{1A} : 16000 M _{1B} : 44000 }	60,000	1.4.20	By Machine Disposal A/c	16,000
			31.3.21	By Balance dd (M _{1B})	44,000
		60,000			60,000

Dr PFD A/c Cr

Dr		PFD A/c		Cr	
Date		£	Date		£
1.4.20	To Machine Disposal A/c	6400	1.4.2020	By Balance B/d	36,000
			31.3.2021	By Depreciation { MIB: 4400 }	4,400
31.3.2021	To Balance fd	34,000			
		<u>40,400</u>			<u>40,400</u>

Dr		Machine Disposal A/c		Cr	
Date		£	Date		£
1.4.2020	To Machine A/c (2)	16,000	1.4.2020	By Bank A/c	8,400
			1.4.2020	By P&L A/c (Loss)	1,200
			1.4.2020	By PFD A/c	6,400
		<u>16,000</u>			<u>16,000</u>

NO Balance in this A/c