

DEPRECIATION ACCOUNTING

SOLUTIONS

ANSWER TO Q.NO. 6

Quarry Lease Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|--------------|----------------|---------------------------|----------------|---|---------------------------|
| 2013 | | | 2013 | | |
| Jan | To Bank A/c | 1,00,00,000 | Dec. 31 | By Depreciation A/c [(2,000/2,00,000) × Rs.1,00,00,000] | 1,00,000 |
| | | | | By Balance c/d | 99,00,000 |
| | | <u>1,00,00,000</u> | | | <u>1,00,00,000</u> |
| Jan. 1 14 | To Balance b/d | 99,00,000 | Dec. 31 | By Depreciation A/c | 5,00,000 |
| | | | Dec. 31 | By Balance c/d | 94,00,000 |
| | | <u>99,00,000</u> | | | <u>99,00,000</u> |
| Jan.1, 15 | To Balance b/d | 94,00,000 | Dec. 31, 15 | By Depreciation A/c | 7,50,000 |
| | | | Dec. 31 | By Balance c/d | 86,50,000 |
| | | <u>94,00,000</u> | | | <u>94,00,000</u> |

Depreciation Account

| Date | Particulars | Rs. | Date | Particulars | Rs. |
|---------|---------------------|------------------------|---------|----------------------|------------------------|
| Dec. 31 | To Quarry lease A/c | 1,00,000 | Dec. 31 | By Profit & Loss A/c | 1,00,000 |
| | | <u>1,00,000</u> | | | <u>1,00,000</u> |
| Dec.31 | To Quarry lease A/c | 5,00,000 | Dec.31 | By Profit & Loss A/c | 5,00,000 |
| | | <u>5,00,000</u> | | | <u>5,00,000</u> |
| Dec.31 | To Quarry lease A/c | 7,50,000 | Dec.31 | By Profit & Loss A/c | 7,50,000 |
| | | <u>7,50,000</u> | | | <u>7,50,000</u> |

ANSWER TO Q.NO. 14

Total Cost of Asset = Purchased Price + Cost of Cartage and Installation

= Rs. 7,00,000 + Rs. 3,00,000 = Rs. 10,00,000

SLM Depreciation = Total Cost of Asset × Rate of Depreciation × Time period



Accordingly,

(a) If the machine was purchased on 1st April, 2012:

$$\text{Amount of Depreciation} = \text{Rs. } 10,00,000 \times 20\% \times \frac{12}{12} = \text{Rs. } 2,00,000$$

(b) If the machine was purchased on 1st July, 2012

$$\text{Amount of Depreciation} = \text{Rs. } 10,00,000 \times 20\% \times \frac{9}{12} = \text{Rs. } 1,50,000$$

(c) If the machine was purchased on 1st October, 2012

$$\text{Amount of Depreciation} = \text{Rs. } 10,00,000 \times 20\% \times \frac{6}{12} = \text{Rs. } 1,00,000$$

(d) If the machine was purchased on 1st January, 2013

$$\text{Amount of Depreciation} = \text{Rs. } 10,00,000 \times 20\% \times \frac{3}{12} = \text{Rs. } 50,000$$

ANSWER TO Q.NO. 15

| Dr. | | | Cr. | | |
|--------------------------|-----------------------|-----------------|----------|----------------------|-----------------|
| Machinery Account | | | | | |
| Date | Particulars | Amount Rs. | Date | Particulars | Amount Rs. |
| 01.01.11 | To, Bank A/c | 80,000 | 31.12.11 | By, Depreciation A/c | 8,000 |
| | | | | By Balance c/d | 72,000 |
| | | 80,000 | | | 80,000 |
| 01.01.12 | To, Balance b/d | 72,000 | 31.12.12 | By, Depreciation A/c | 9,200 |
| 01.07.12 | To Bank A/c | 40,000 | | By Balance c/d | 1,02,800 |
| | | 1,12,000 | | | 1,12,000 |
| 01.01.13 | To, Balance b/d | 1,02,800 | 31.3.13 | By, Bank (Sale) A/c | 11,000 |
| 30.06.13 | By P & L A/c (Profit) | 2,076 | | By Depreciation A/c | 285 |
| | By Bank A/c | 20,000 | 30.6.13 | By P & L A/c (Loss) | 115 |
| | | | | By Bank A/c (Sale) | 26,700 |
| | | | 31.12.13 | By Depreciation A/c | 1,296 |
| | | | | By Depreciation A/c | 7,048 |
| | | | | By Balance c/d | 78,432 |
| | | 1,24,876 | | | 1,24,876 |

ANSWER TO Q.NO. 16

The amount of depreciation to be charged in year 2012 = Rs.4,500

Machinery I purchased on 01 Jan 2012:

Cost = Acquisition + Installation charges = Rs.90,000

Depreciation for 2012 @ 10% for 6 months = $90,000 \times 10\% \times 6/12 = \text{Rs.}4,500$

Machinery II is purchased on last day of the year. Therefore, no depreciation shall be charged in this year. Depreciation on this machinery shall commence from next year.

ANSWER TO Q.NO. 20

| | | |
|--|--------------|-------------|
| Cost as per supplier's list | Rs.10,40,000 | |
| Less: Agreed discount | Rs.1,00,000 | Rs.9,40,000 |
| Add: Delivery charges | | Rs.20,000 |
| Add: Erection charges | | Rs.40,000 |
| Add: Additional components to increase capacity of the machine | | Rs.80,000 |
| Cost of the machine | | 10,80,000 |

Depreciation for the third year by WDV:

$10,80,000 - 10\% - 10\% \times 10\% = 87,480$

ANSWER TO Q.NO. 21

Depreciation for the current year: 1,16,700

On old machinery = WDV of old machinery – scrap

Remaining life

= $5,67,000 - \text{nil} / 5 = \underline{1,13,400}$

On new machinery = Cost of machinery – scrap

Remaining life

= $66,000 - \text{nil} / 10 = 6,600$

6 months depreciation = $6,600 / 2 = \underline{3,300}$



ANSWER TO Q.NO. 22

WDV rate for 2012 and 2013 = 20.57%

{Calculation basis: Cost = 20,00,000, Scrap = 2,00,000, Life = 10 years}

WDV as on 01.01.14 = 20,00,000 – 20.57% - 20.57% = 12,61,825

Revaluation rate = 20%

Amount to be credited to revaluation reserve = 12,61,825 X 20% = 2,52,365

Relevant WDV = 12,61,825 + 2,52,365 = 15,14,190

WDV rate for 2014 = 14.23%

{Calculation basis: WDV =15,14,190, Scrap = 2,80,000, Remaining Life = 13 – 2 = 11 years}

Depreciation for 2014 = 15,14,190 X 14.23% = 2,15,469

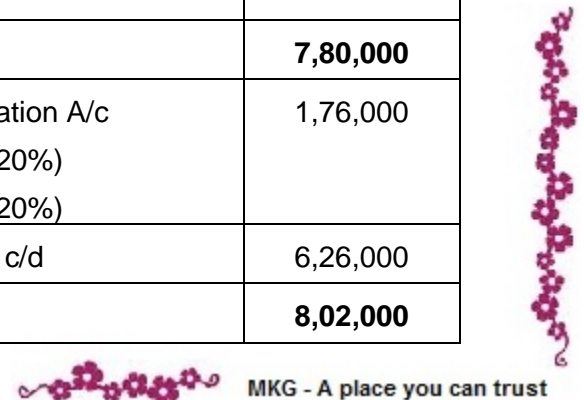
ANSWER TO Q. No. 23

| Particulars | Rs. |
|---|---------------------|
| Depreciation per year = Rs.6,00,000 / 10 | Rs.60,000 |
| Depreciation on SLM for three years = Rs.60,000 x 3 | Rs.1,80,000 |
| Book value of machine at the end of third year = Rs.6,00,000 – Rs.1,80,000 | Rs.4,20,000 |
| Remaining useful life as per revised estimate | 5 years |
| Depreciation from the fourth year onwards = Rs.4,20,000 / 5 = | Rs.84,000 per annum |

ANSWER TO Q.NO. 26

Machinery A/c

| Date | Particulars | Amount | Date | Particulars | Amount |
|--------------|----------------|-----------------|--------------|---|-----------------|
| Jul-01, 2014 | To Bank A/c | 6,40,000 | Dec-31, 2014 | By Depreciation A/c (780000 X 20% X 6/12) | 78,000 |
| Jul-01 | To Bank A/c | 80,000 | Dec-31 | By balance c/d | 7,02,000 |
| Jul-01 | To Bank A/c | 60,000 | | | |
| | | 7,80,000 | | | 7,80,000 |
| Jan-01 | To balance b/d | 7,02,000 | Dec-31 | By Depreciation A/c (780000 X 20%) (100000 X 20%) | 1,76,000 |
| Jan-01 | To Bank A/c | 1,00,000 | Dec-31 | By balance c/d | 6,26,000 |
| | | 8,02,000 | | | 8,02,000 |



| | | | | | |
|--------|----------------|----------|--------|---|----------|
| 2016 | | | 2016 | | |
| Jan-01 | To balance b/d | 6,26,000 | Jul-01 | By Bank A/c | 1,34,800 |
| | To Bank A/c | 50,000 | Jul-01 | By Depreciation A/c (On machinery sold) | 26,000 |
| | | | Jul-01 | By Profit & Loss A/c | 21,200 |
| | | | Dec-31 | By Depreciation A/c (520000 x 20%) (100000 x 20%) (50,000 x 10%) | 1,29,000 |
| | | | Dec-31 | By balance c/d | 3,65,000 |
| | | 6,76,000 | | | 6,76,000 |

The method of machinery sold as on 1.7.2016 may be obtained as follow:

| | Rs. |
|--|-------------------|
| Cost of machinery sold as on 1.7.2014 | 2,60,000 |
| Less: Depreciation for 2014 (for ½ year) | <u>(26,000)</u> |
| | 2,34,000 |
| Less: Depreciation for 2015 | (52,000) |
| | 1,82,000 |
| Less: Depreciation for 2016 (for ½ year) | <u>(26,000)</u> |
| | 1,56,600 |
| Less: Amount received | <u>(1,34,800)</u> |
| | 21,200 |

ANSWER TO Q.NO. 29

Depreciation per year = $12,25,000 - 25,000 / 10 = 1,20,000$

Depreciation for 4 years (2010 – 2013) = $1,20,000 \times 4 = 4,80,000$

Cost to be allocated = $12,25,000 - 4,80,000 + 2,00,000 = 9,45,000$

Depreciation for 2014 = $9,45,000 - 25,000 / 6 = 1,53,333$

