Department of Commerce (CA).
I B. Com (CA) - II Semester
Financial Accounting - 18BCA23C.
UNIT - 4. - Reddy & Murthy.

Depreciation

It is a loss on value of fixed asset at the time of using that

Causes of Depreciation

1. Wear & Tear.
2. Lapse of Time
3. Obsolescence
4. Accidents
5. Disuse
6. Inadequacy.
7. Depletion.

Objectives of Providing Depreciation

1. Ascertainment of True Profit.
2. Presentation of True financial Position
3. Replacement.
4. No distribution of divisible profits.

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Methods of Depreciation

1. Straight-Line Method / Fixed Method
2. Diminishing Returns Method / written down value method.
3. Annuity Method
4. Insurance policy Method
5. Sinking Fund Method
6. Replacement Method.

Pro. No. 1.

A company purchased a plant for Rs. 50,000. The useful life of the plant is 10 years and the residual value is Rs. 10000. Find out the rate of depreciation under Straightline method

Pro. 2

A machine purchased on 1st July 2018 at a cost of Rs. 15000, and the rate of depreciation is 10% on the original cost every year. The books are closed on 31st Dec. each year. The machine was sold for Rs. 9500 on 31st March 2021. Show the machinery account for all the years

Pro. No. (3).

A company acquired a machine on 1.1.2018 at a cost of Rs. 40,000 and spent Rs. 1000 on its installation. The firm writes off depreciation at 10% p.a. on the diminishing balance. The books are closed on 31st Dec. of each year. Show the Machinery A/c for 3 years.

Pro. No (4).

A company purchased a machine on 1.1.2013 for Rs. 40000. It purchased further machinery on 1st Oct. 2013 for Rs. 20000 and on 1st July 2014 for Rs. 10000. On 1.7.2015, 1/4 th of the machinery installed on 1.1.2013 became obsolete and was sold for Rs. 6,800. Depreciation rate is 10% p.a. under diminishing balance method. Prepare machinery A/c for three years.

Pro. No. 5.

X purchased a machine on 1st Jan. 2012 at Rs. 14,400. The scrap value after 10 years time is expected to be Rs. 3400. If depreciation is written off by equal instalments every Dec 31st. Show the machinery A/c for the first three years. Calculate the rate of depreciation.

$$\text{Amount of Depreciation} = \frac{Rs.\ 14,400 - Rs.\ 3400}{10 \text{ years}}$$

$$= \frac{Rs.\ 11000}{10 \text{ years}} = \underline{\underline{Rs.\ 1,100.}}$$

$$\text{Rate of Depreciation} = \frac{Rs.\ 1100}{Rs.\ 14,400} \times 100$$

$$= \underline{\underline{7.64\%}}$$

Machinery A/c.

2012		2012	
To Bank A/c	14,400	By Dep. A/c	1100
		" Bal. c/d.	13,300
	14,400		14,400
2013		2013	
To Bal. b/d.	13,300	By Dep. A/c	1100
		" Bal. c/d.	12200
	13,300		13,300

2014		2014.		
To Bal. b/d	12,200	By Dep. A/c	1100
		" Bal. c/d.	11100.
	12,200.		12,200
2015			
To Bal. b/d.	11,100.		

Distinction between Straight Line Method and Written Down Value Method.

1. Change in amount of depreciation
2. Balance in Asset A/c.
3. Recognition by Income Tax Authority
4. Profit calculation
5. Overall changes