MASTER QUESTION

ACCOUNTANCY

CLASS-11

Depreciation

MASTER QUESTIONS . our aim of the master question(s) is/are to cover or summarised the whole chapters in one or two or more numerical questions

Important points and entries

1.At the time of purchase of any fixed assets if we spent any expenses on it those expenses will be added into the purchase price of assets.

2. At the time of sale of any fixed assets if we spent any expenses on it those expenses will be deducted from the sale value of the assets .

3. if we make any repair after the date of purchase of assets that will not be debited to the assets account.

4. under the straight line method or original cost method or fixed instalment method depreciation is always calculated on original cost

5. under diminishing balance method or reducing balance method or written down value method depreciation is always calculated on reducing balance method

rate of depreciation = 1- $\sqrt[n]{net\ residual/cost}$ **for example cost of an assets 10000 residual value Rs 1296 and estimated life of an assets is 4 years**

rate of depreciation = 1- $\sqrt[4]{\frac{1296}{10000}}$ **=1-** $\{(6/10)^4\}$ $^{1/4}$**= 1- 6/10=40%**

6. under the sum of year digit method depreciation is calculated on the basis of expected life of assets for example expected life of an assets is 5years original cost 160000

Scrap value 10000

Depreciation=amount to be written off ×No of years of the remaining life of assets

$$\frac{\text{including current year}}{\text{total of all digits}}$$

5+4+3+2+1=15

Original cost –scrap value= 150000

First year depreciation 5/15×150000= 50000

Second year depreciation 4/15×150000= 40000

third year depreciation 3/15×150000= 30000

forth year depreciation 2/15×150000= 20000

fifth year depreciation 1/15×150000= 10000

7. under the working hours method or machine hour method depreciation is calculated hourly basis

Formula :-

hourly depreciation= cost price of an assets – scrap value /expected life of an assets in terms of an hours

8. under the production unit method or depletion method

Depreciation per unit = cost price –scrap value/expected total no of units produced during whole life of an assets

9. under the mileage method

Depreciation per kms/meter = cost price –scrap value/expected total no of kms run by a vechicle during whole life of an assets

10 sinking fund method or Depreciation fund method

Under this method Depreciation amount is set aside and drawn from the profit and loss account and amount set aside is further invested in some fixed income bearing securities. On that investment we will get the interest on it and whatever the amount of interest received further re- invested and transfer to sinking fund or Depreciation fund account And in the year in which we are interested to replace the assets we sell the investment and buy the another asset.

Amount to be charged to profit and loss account and set aside =
(Cost- estimated scrapvalue)×sinking fund value
If sinking fund value is not given then it is calculated by this formula

MASTER QUESTION

CLASS-11

ACCOUNTANCY

Depreciation

$$\frac{r}{(1+r)^n - 1}$$

There are the following journal entries

Date	particulars	l/f	Dr amount	Cr amount
Date of purchased	Assets account __________________Dr To bank account At the end of 1st accounting year Profit and loss account_____________Dr To sinking fund (being set aside the amount of depreciation it is calculated on the basis sinking fund table and same every year) Sinking fund investment account__________Dr To bank account Being the investment purchased At the end of subsequent years except last year in which asset sold Bank__________________________________Dr To interest on sinking fund investment (Being the interest received on investment) interest on sinking fund investment_______Dr To sinking fund Profit and loss account_____________Dr To sinking fund (being set aside the amount of depreciation it is calculated on the basis sinking fund table) Sinking fund investment account__________Dr To bank account (Being the investment purchased i.e annual withdrawn +interest) At the end of last year Bank__________________________________Dr To interest on sinking fund investment			

	(Being the interest received on investment) interest on sinking fund investment_______Dr To sinking fund Profit and loss account____________Dr To sinking fund (being set aside the amount of depreciation it is calculated on the basis sinking fund table) For sale of investment Bank_______________________________Dr sinking fund(if loss)___________________Dr To Sinking fund investment account To sinking fund (if profit) (Being Investment sold and Profit and loss on sale of investment transfer to sinking fund) Bank________________________________Dr To assets (being the old assets sold) Prepare sinking fund account or accumulated depreciation and the balance transfer to old assets Sinking fund________________________Dr To assets account prepare assets account and the balance transfer to profit and loss account i.e for closure of assets account entry will be Profit and loss account_________________Dr To assets account or Assets account ______________________Dr To profit and loss account			

	New assets purchased from the realisation of investment sold Assets account __________________Dr To bank account			

QUESTION NO 1.

Sandeep singh purchased a Truck on july 1st 2014 for Rs 170000 freight, packing and installation expenses incurred for Rs 10000, transit insurance paid on it for Rs 15000, commission paid to broker for Rs 5000.

October 1 2015 one more truck purchased for Rs 150000. The truck purchased on july 1st 2014 sold on December 31st 2015 for Rs 92000. Brokerage paid to broker for Rs 2000 on sale of this truck. On july 1st 2016 second truck is involved in an accident and is completely destroyed and insurance company pays the claim of this of Rs 12000. On October 1st 2016 another used truck purchased for Rs 50000 . and spends Rs 10000 on its overhauling. On December 31st 2017 some repairs are made on used truck and incurred Rs 3000 on it.

Prepare the machinery account , depreciation account and provision for Depreciation account in case of (C) and (D) till 31-3-2018 also show the necessary working notes

- **(A) Charge depreciation @10%p.a. on the basis of straight line method .**
- **(B) Charge depreciation @10%p.a. on the basis of written down value method.**
- **(C) Charge depreciation @10%p.a. on the basis of straight line method and provision for depreciation is maintained.**
- **(D) Charge depreciation @10%p.a. on the basis of written down value method and provision for depreciation is maintained.**

Question no 2.

A machinery purchased for Rs 220000 on april 1st 2013 its working life is 6 years and salvage value is estimated Rs 10000. Prepare machinery account under the sum of years digit method

Question no 3.

A machinery purchased for Rs 220000 on april 1st 2013 its working life is 400000 hours and salvage value is estimated Rs 20000.machinery worked

20000 hours in 2013-14

10000hours in 2014-15

7000hours in 2015-16

20000hours in 2016-17

Prepare machinery account for four years.

Question no 4.

A truck purchased for Rs 220000 on april 1st 2013 its working life is 400000 kms and salvage value is estimated Rs 20000.Truck milage

20000 kms in 2013-14

10000 kms in 2014-15

7000 kms in 2015-16

20000 kms in 2016-17

Prepare Truck account for four years.

Question 5.

Sandeep singh purchased a plant on 1.1.2014 for a sum of Rs 2,00,000 useful life is 5years. It is estimated that the plant will have a scrap value of Rs 32000 at the end of its useful life. Annual depreciation fund is invested in 5% p.a secruties. And the invest ment sold at the 5th year for a sum of Rs 1,30,000 Apply sinking fund method invested in 5 years at 5% p.a will produce Re 1 a new plant purchased for Rs 2,40,000 0n 1.1.2019. The scrap value of old plant realises Rs 34,000 . pass journal entries and prepare accounts in the books of sandeep singh . Investment is made in multiple 100 rupees. Account closed on December every year

Question 6.

DCM industries purchased a machinery for Rs 180000 on 1.1.2008. depreciation fund was established to provide for replacement investment produced 5% interest annually. On 1st April 2018 the depreciation fund balance stood invested at Rs 1,56,000 the annual amount credited to the depreciation fund was Rs 8,400 on 31st march 2019 the company sold machinery at Rs 21,000 depreciation fund investment sold for Rs 1,63,000. Show the necessary ledger accounts for the year ended 31-3-2019.

Question 7.

PVR industries maintain sinking fund for replacement of machine. The balance in the relevant accounts as on 1.4.2018

Sinking fund	**80000**
5% sinking fund investments (nominal value 1,00,000)	**80000**
Cost of machinery	**1,00,000**

Annual contribution to sinking fund is Rs 15000. The investment sold on 31-3-2019 at 70% The old machinery sold on 31-3-2019 for Rs 15000 and a new machinery purchased for Rs 2,40,000 on 1.4.2019 show the necessary ledger accounts

Question 8.

(Change in the method of depreciation)

On sep 30th 2015 DCM company purchased a plant for Rs 20,000 depreciation charged @10% p.a as per straight line method with effect from 1st april 2017 the company changed the method from straight line method to diminishing balance method @15% .On the sep 30th 2018 the plant sold for Rs 12,000 prepare the plant account till 31-3-2019

Question 9.

(Change in the method of depreciation and retrospectively effect from the previous year)

On sep 30th 2015 DCM company purchased a plant for Rs 20,000 depreciation charged @10% p.a as per straight line method with effect from 1st april 2017 the company changed the method from straight line method to diminishing balance method @15% .On the sep 30th 2018 the plant sold for Rs 12,000. If the firm decides on 1st april 2017 to charge the depreciation according to diminishing balance method @15% w.e.f sept 30th 2015. And to make the necessary adjustments for arrears of depreciation in the year of 2017-2018. prepare the plant account till 31-3-2019.