

# Depreciation

1. Depreciation is the gradual and permanent decrease in the value of an asset.
2. Under Fixed Instalment Method depreciation is charged on the cost of the asset. In this method, depreciation every year remains the same.
3. Under Reducing Balance Method depreciation is charged on the WDV of the asset. In this method amount of Depreciation every year keeps on changing. (WDV = Cost - Depreciation.)  
Cost = Purchase Price + all Expenses Incurred for purchase of asset.
4. Depreciation should be provided only for the period for which the asset has been utilised.
  - (a) For Purchase of Asset  
From the date of purchase till the year end
  - (b) For Sale of Asset  
From 1<sup>st</sup> day of the year to the date of sale
  - (c) If date of purchase/sale is not given then assume that asset is purchased/sold on 1<sup>st</sup> day of the year  
For Purchase ⇒ charge full year's depreciation and  
For Sale ⇒ charge No. Depreciation
5. Balance in Depreciation A/c should be transferred to Profit & Loss A/c at the end of the year.
6. **SALE OF AN ASSET :**  
**Steps :**
  1. Find out Profit/Loss on sale of asset.
  2. Record depreciation on asset sold for the period used in the year of sale.
  3. Record sale value.
  4. Record Profit/Loss on sale.
7. **Change in method of depreciation with retrospective effect :**  
**Steps :**
  1. Prepare working note to find out WDV under new method upto the year of change.
  2. Compare old WDV and new WDV.
  3. Record the difference due to change in method through P & L A/c.

## IDEAL / CPT / ACCOUNTS / DEPRECIATION

### Journal Entries

<b>1.</b>	<b>When the asset is purchased.</b> Asset A/c                      Dr. To Cash/Bank A/c	<b>2.</b>	<b>Exps paid on pur. of asset</b> Asset A/c                      Dr. To Cash / Bank A/c
<b>3.</b>	<b>When Depreciation is provided.</b> Depreciation A/c          Dr. To Asset A/c	<b>4.</b>	<b>Transfer of Depreciation</b> Profit & Loss A/c      Dr. To Depreciation A/c
<b>5.</b>	<b>When asset is sold</b> Cash/Bank A/c              Dr. To Asset A/c	<b>6.</b>	<b>Loss on sale of asset.</b> Profit & Loss A/c      Dr. To Asset A/c
<b>7.</b>	<b>Profit on Sale of Asset</b> Asset A/c                      Dr. To Profit & Loss A/c		

**UNDER CHANGE OF METHOD : In the year of change.**

<b>1.</b>	<b>When old WDV is more than new WDV.</b> Profit & Loss A/c      Dr. To Asset A/c	<b>2.</b>	<b>When new WDV is more than old WDV</b> Asset A/c                      Dr. To Profit & Loss A/c
-----------	---	-----------	--

### Methods of providing Depreciation:

- I     Fixed Instalment Method:** In this method the amount of depreciation every year remains the same as depreciation is charged on the cost of the Asset. At the end of its life the value of the asset will be either zero or scrap value.

$$\text{Depreciation} = \frac{\text{Cost} - \text{Scrap}}{\text{Life of the Asset}}$$

$$\text{Rate of Depreciation} = \frac{\text{Depreciation on Amount}}{\text{Cost of the Asset}} \times 100$$

- II     Reducing Balance Method :** In this method the amount of depreciation every year keeps on reducing. Depreciation is provided on the W.D.V. of the asset. In this method the value of the asset does not become zero. This method of depreciation is more suitable for those assets which have a heavy repairs and renewal expenses. In this method there is equitable distribution of depreciation and repairs as in the initial years depreciation is high and repairs is low . In the later years depreciation will be low and repairs will be high.

Calculation of rate under Reducing Balance Method

$$\text{Rate of Depreciation} = 1 - \sqrt[n]{\frac{\text{Scrap}}{\text{Cost}}} \times 100$$

n = life of the asset, C = cost of the asset, r = rate of depreciation

## IDEAL / CPT / ACCOUNTS / DEPRECIATION

- III. **Annuity Method** : This method considers the interest lost due to the money invested to buy the asset, over the life of the asset. It is assumed that if the same amount had been invested elsewhere we would have received some interest on it. This interest lost is considered as an increase in the cost of the asset. The value of the asset is periodically increased by the amount of interest. Depreciation is calculated on the basis of annuity tables. This interest is regularly shown as an Income in the Profit & Loss A/c. Interest is calculated every year on the value of the asset. Depreciation every year remains the same. The amount of interest every year keeps on changing. The interest is debited to the asset every year. This method is suitable for Assets taken on Lease basis.

### Journal Entries

(1)	<b>For charging interest on asset account</b> Asset Account To Interest Account	Dr.
(2)	<b>Providing depreciation on asset</b> Depreciation Account To Asset Account	Dr.
(3)	<b>Transferring depreciation to Profit &amp; Loss Account</b> Profit and Loss Account To Depreciation Account	Dr.
(4)	<b>For transferring interest to Profit and Loss Account</b> Interest Account To Profit & Loss Account	Dr.

- IV. **Sinking Fund Method** : In this method the amount of depreciation is invested in securities which are sold at the end of the life of the asset and the amount received is used to purchase the new asset. The amount of Depreciation every year is credited to Sinking Fund and is invested in Govt. Securities. At the end of the life of the asset these securities are sold and the amount received is used for the replacement of the asset. Balance in Sinking Fund Investment A/c is transferred to Sinking Fund A/c and balance in Sinking Fund should be transferred to P & L A/c or General Reserve A/c. Interest on Sinking Investment received every year will be credited to Sinking Fund.

1 <sup>st</sup> Year	2 <sup>nd</sup> Year	Last Year
(1) Asset Purchased	(1) Int. is recd. on S.F. Inv.	(1) Int. is recd. on S.F. Inv.
(2) Dep. is provided	(2) Trf. of Int. to S.F.	(2) Dep. is provided
(3) S.F. Inv. is made	(3) Dep. is provided	(3) Sale of S.F. Inv.
(4) Transfer of Dep.	(4) Inv. is made	(4) Trf. of Profit or Loss on sale of S.F. Inv.
	(5) Trf. of Dep.	(5) Asset is sold
		(6) S.F. trfd. to Asset
		(7) Close S.F. Account
		(8) Trf. of Dep.

**Amt. of Invest. every year = Depn. Amt. + Int. on S. F. Invest.**

## IDEAL / CPT / ACCOUNTS / DEPRECIATION

### Journal Entries

(1)	<b>Asset is purchased</b> Asset Account To Cash / Bank / Party A/c	Dr.
(2)	<b>Depreciation is provided</b> Depreciation Account To Sinking Fund A/c	Dr.
(3)	<b>Transfer of Depreciation</b> Profit & Loss A/c To Depreciation A/c	Dr.
(4)	<b>Sinking Fund Investment is made</b> Sinking Fund Investment A/c To Cash / Bank A/c	Dr.
(5)	<b>Interest is received on Sinking Fund Investment</b> Cash / Bank A/c To Interest on Sinking Fund Investment A/c	Dr.
(6)	<b>Transfer of Interest to Sinking Fund</b> Interest on Sinking Fund Investment A/c To Sinking Fund A/c	Dr.
(7)	<b>Sale of Sinking Fund Investment</b> Cash / Bank A/c To Sinking Fund Investment A/c	Dr.
(8)	<b>Transfer of Profit or Loss on Sale of Sinking Fund Invt.</b> (a) <b>Profit on Sale</b> Sinking Fund Investment A/c To Sinking fund A/c (b) <b>Loss on Sale</b> Sinking fund A/c To Sinking Fund Investment A/c	Dr.  Dr.
(9)	<b>Asset is sold</b> Cash / Bank A/c To Asset A/c	Dr.
(10)	<b>Sinking Fund is trfd. to Asset A/c</b> Sinking Fund A/c To Asset A/c	Dr.
(11)	<b>Close Sinking Fund Account</b> (a) <b>Surplus in Sinking Fund Account</b> Sinking Fund A/c To General Reserve A/c (b) <b>Deficit in Sinking Fund A/c</b> Profit or Loss A/c To Sinking Fund A/c	Dr.  Dr.

## IDEAL / CPT / ACCOUNTS / DEPRECIATION

- V. **Machine Hour Rate Method** : In this method the life of the asset is ascertained in terms of hours. Depreciation every year is calculated on the basis of the hours actually used by the machine.

$$\text{Depreciation} = \frac{\text{Actual Hrs.}}{\text{Total Hrs.}} \times (\text{Cost} - \text{Scrap})$$

- VI. **Depletion Method** : This method is used for calculating depreciation on wasting assets like mines & quarries. Depreciation depends upon the actual quantity extracted every year.

$$\text{Depreciation} = \frac{\text{Actual Quantity}}{\text{Total Quantity}} \times (\text{Cost} - \text{Scrap})$$

- VII. **No. of Units Production Method** : Here expected life is in terms of total no. of units produced.

$$\text{Depreciation} = \frac{\text{Actual Units}}{\text{Total Units}} \times (\text{Cost} - \text{Scrap})$$

- \* Cost of Machine = ₹2,00,000  
Scrap Value = Nil  
Life = 40,000 units

Years	Production In Units	
1	12,000	$\Rightarrow \frac{12,000}{40,000} \times 2,00,000 = 60,000$
2	4,500	$\Rightarrow \frac{4,500}{40,000} \times 2,00,000 = 22,500$
3	8,900	$\Rightarrow \frac{8,900}{40,000} \times 2,00,000 = 44,500$

- VIII. **Sum of the years Digit Method** : It is a variation in reducing Balance Method. In this method the amount of depreciation is higher in the earlier years and at a lower in the later years.

$$\text{Depreciation for the year} = \frac{\text{Remaining Life (including current year)}}{\text{Sum of digits}} \times \text{Cost} - \text{Scrap}$$

$$\text{Sum of digits} = \frac{n(n+1)}{2} \text{ where } n \text{ is no. of years of Depreciation}$$

- IX. **Repairs Provision Method** :

In this method the total repairs & renewal expenses are estimated and a fixed amount is debited to Profit & Loss A/c & credited to the Provision for Repairs A/c. The actual expenses on repairs when incurred are debited to the Provision A/c.

- X. **Revaluation Of Life of Asset** : Every year the useful life of the Asset is estimated . If it is found that the life of the Asset is changed then the remaining W.D.V. of the Asset should be spread over the remaining life of the asset. The new depreciation amount should be provided on the Asset.

$$\text{Depreciation} = \frac{\text{Remaining W.D.V.}}{\text{Remaining Revised Life}}$$

- XI. **Revaluation Of Value of Asset** : Sometimes the value of an Asset may be revalued also. In such a case the New W.D.V. should be spread over the life of the Asset.

When an Asset is revalued the revaluation may be upward or downward. In case of downward revaluation the difference should be debited to Profit & Loss A/c . In case of upward revaluation the difference should be credited to Revaluation Reserve A/c.

$$\text{Depreciation} = \frac{\text{Revised W.D.V.}}{\text{Remaining Life}}$$

## **IDEAL / CPT / ACCOUNTS / DEPRECIATION**

### **\* Provision for Depreciation**

Fixed Assets A/c can be maintained at cost or at WDV.

When Assets A/c is maintained at cost, Depreciation is recorded in provision for depreciation A/c

▪ Depreciation A/c	Dr	XXX
To Provision for depreciation A/c		XXX

Every year Amt. of Depreciation is credited in PFD A/c This A/c indicates total depreciation charged on the Asset and hence it is also called as accumulated depreciation A/c. When the Asset is sold total depreciation charged on the Asset is cancelled.

▪ Provision for Depreciation A/c	Dr	XXX
To Fixed Assets A/c		XXX

- \* On 1<sup>st</sup> January 2003 Mach is purchased for ₹1,25,000 is it is depreciated by WDV method @ 8% p.a. What will be the Amt. for acumulated Depreciation as on 1/1/2008.

- \* On 1/1/ 2004 Mach is purchased for ₹4,50,000 Depreciation is charged @ 9% p.a. by SLM. Find out the balance for Depreciation fund A/c as on 31<sup>st</sup> December 2009

### **CHANGE IN METHOD:**

- \* A limited purchased Machinery for ₹1,50,000 on 1<sup>st</sup> January 2002 and dicided to depreciate it @ 10% p.a. by WDV Method. On 31<sup>st</sup> December 2007. The company decided to charge depreciation @ 8% p.a. by S.L.M. Find out Profit or loss due to change in the method of depreciation.

- \* A limited purchased Machinery for ₹75,000 on 1<sup>st</sup> January 2002 and dicided to depreciate it @ 12% p.a. by SLM Method. On 1<sup>st</sup> January 2007 the company decided to charge depreciation @ 12% p.a. by WDV. Find out Profit or loss due to change in the method of depreciation.

## **MULTIPLE CHOICE QUESTIONS**

1. Fixed assets are
  - (a) Fictitious assets
  - (b) Kept in the business for use over a long period
  - (c) Meant for resale
  - (d) Meant for conversion into cash as quickly as possible
2. The assumption underlying the fixed instalment method of depreciation is that of \_\_\_\_\_ of the asset over its useful life
  - (a) Equal usage
  - (b) Usage
  - (c) Charge
  - (d) None of the above
3. Which of the following is not true with regard to fixed assets?
  - (a) They are acquired for using them in the conduct of business operations
  - (b) They are not meant for resale to earn profit
  - (c) They can easily be converted into cash
  - (d) Depreciation at specified rates is to be charged on most of the fixed assets
4. The depreciation is an expense occurring -
  - (a) From the consumption of some readily consumable assets
  - (b) From the use of fixed assets
  - (c) From the use of various services
  - (d) None
5. Depreciation is related to:
  - (a) Current Assets
  - (b) Investments
  - (c) All Fixed Assets
  - (d) All Fixed Tangible Assets
6. The objectives of providing depreciation include:
  - (a) To ascertain true financial performance
  - (b) To ascertain true financial position
  - (c) To accumulate funds for replacement of assets
  - (d) All of the above
7. Scrap value of an asset means the amount that it can fetch on sale at the \_\_\_\_\_ of its useful life :
  - (a) Beginning
  - (b) End
  - (c) Middle
  - (d) None
8. The amount charged to depreciation declining in -
  - (a) Depreciation fund method
  - (b) Annuity method
  - (c) Written-down value method
  - (d) None
9. Fixed assets are stated in the Balance Sheet \_\_\_\_\_
  - (a) at cost
  - (b) at market value
  - (c) at net realizable value
  - (d) at cost less depreciation till date

## IDEAL / CPT / ACCOUNTS / DEPRECIATION

10. In January 2003, a trader purchased machinery for ₹1,00,000, depreciation is charged @ 20% by diminishing balance method. At the end of the third year it was sold for ₹31,000. Profit or loss on sale will be  
(a) Loss ₹20,200 (b) Loss ₹40,000  
(c) Profit ₹20,000 (d) Profit ₹20,200
11. Amit Ltd. purchased a machine on 1.1.2003 for ₹1,20,000. Installation expenses were ₹10,000. Residual value after 5 years ₹5,000. On 1.7.2003, expenses for repairs were incurred to the extent of ₹2,000. Depreciation is provided under straight line method. Depreciation rate = 10%. Annual Depreciation = \_\_\_\_\_.  
(a) 13,000 (b) 17,000 (c) 21,000 (d) 25,000
12. Original Cost = ₹1,00,000. Life = 5 years. Expected salvage value = ₹2,000  
(i) Depreciation for 3<sup>rd</sup> year as per straight line method is  
(a) ₹12,800 (b) ₹19,600 (c) ₹20,000 (d) ₹20,400  
(ii) rate of depreciation p.(a) = \_\_\_\_\_.  
(a) 20.0% (b) 19.8% (c) 19.6% (d) 19.4%
13. Date of purchase 1.7.2006, purchase price of Machine ₹80,000, Installation charges ₹20,000, Residual value ₹40,960, useful life 4 years. Accounting year is financial year. The depreciation under SLM for the year 2006-2007 will be:  
(a) ₹12,500 (b) ₹11,070 (c) ₹7,380 (d) None of these
14. Purchase price of Machine ₹75,000, Installation charges ₹25,000, Residual value ₹40,960. The SLM rate of depreciation is 14.76% p.a. The useful life of machine is \_\_\_\_\_  
(a) 6 years (b) 5 years (c) 4 years (d) None of these
15. Purchase price of Machine ₹80,000, Installation charges ₹20,000, Residual value ₹40,960, useful life 4 years, the rate of depreciation under WDV Method is:  
(a) 25% (b) 20% (c) 14.76% (d) None of these
16. Date of purchase 1.7.2006, Purchase price of Machine ₹90,000, Installation charges ₹10,000, Accounting year – Financial year, Date when the Machine was put to use – 1.10.2006. Useful life – 4 years, Depreciation under WDV for the year 2006-2007 ₹10,000. The residual value of Machine is -  
(a) ₹70,480 (b) ₹60,640 (c) ₹40,960 (d) None of these
17. On 1.4.2006, the balance of Machinery Account ₹4,71,200. It was discovered during 2006-2007 that ₹50,000 being the cost of generator purchased on 1<sup>st</sup> Oct., 2003 had been written off to Stores. After rectification and depreciation @ 20% p.a. on reducing balances, the balance of Machinery Account as at 31.3.2007 will be:  
(a) ₹4,16,960 (b) ₹3,44,960 (c) ₹4,00,000 (d) None of these
18. Original Cost = ₹1,26,000  
Salvage Value = ₹6,000  
Useful Life = 6 Year  
What will be the book value of the asset as at the beginning of fourth year :  
(a) ₹1,03,143 (b) ₹66,000 (c) ₹45,987 (d) ₹99,256



### IDEAL / CPT / ACCOUNTS / DEPRECIATION

19. Machinery costing ₹5,00,000 was purchased on 1.4.2005. The installation charges amounting ₹20,000 were incurred. The depreciation at 10% per annum on straight the method. Calculate depreciation for the year ended 31<sup>st</sup> March, 2007 will be  
(a) ₹5,00,000      (b) ₹50,000      (c) ₹52,000      (d) ₹45,000
20. Original cost = ₹2,52,000. Salvage value = 12,000.  
Depreciation for 3<sup>rd</sup> year @ 5% p.a. under WDV method  
(a) ₹12,600      (b) ₹11,382      (c) ₹11,372      (d) ₹11,970
21. A machinery purchased for ₹30,000 had its book value ₹18,000 was sold for ₹40,000 the capital profit will be  
(a) ₹22,000      (b) ₹10,000      (c) ₹48,000      (d) ₹58,000
22. A machinery is purchased for ₹60,000. Depreciation is to be provided annually on the basis of fixed instalment method. Useful life of the asset is 8 years and the residual value is ₹10,000. Rate of depreciation will be  
(a) 10.416%      (b) 10%      (c) 9.416%      (d) 11%
23. Purchase price of Machine ₹1,50,000, Installation charges ₹50,000, Residual value ₹81,920, useful life 4 years, the amount of depreciation under WDV Method for the third year will be:  
(a) ₹40,000      (b) ₹32,000      (c) ₹25,600      (d) ₹20,480
24. X Ltd. which depreciated its Machinery at 10% p.a. on Straight line basis had on 1<sup>st</sup> April, 2006 some balance to the debit of Machinery Account.  
It purchased a new Machine for ₹1,90,000 on 1.8.2006 and installed the same on 1.10.2006 after incurring ₹10,000. After providing depreciation, the closing balance of Machinery Account as at 31.3.2007 is ₹10,30,000. The original cost of old machines purchased on 1.4.2004 is -  
(a) ₹8,40,000      (b) ₹10,50,000      (c) ₹12,00,000      (d) None of these
25. Date of purchase 1.1.2005, Purchase price of Machine ₹80,000, Installation charges ₹20,000. On 30<sup>th</sup> Sept. 2006, this Machine was sold for ₹50,000. Depreciation is to be provided @ 20% p.a. according to Straight Line Method. Accounts are closed on 31<sup>st</sup> March each year. The loss on sale of Machine is -  
(a) ₹10,000      (b) ₹15,000      (c) Nil      (d) None of these
26. In the books of D Ltd. the Machinery Account shows a debit balance of ₹1,20,000 as on April 1, 2005. The Machinery was sold on September 30, 2006 for ₹60,000. The company charges depreciation @ 20% p.a. on Diminishing Balance Method.  
Depreciation for 2006-2007 and loss on sale will be:  
(a) ₹12,000 and ₹26,400      (b) ₹18,000 and ₹26,400  
(c) ₹9,600 and ₹26,400      (d) ₹9,600 and ₹13,600
27. The portion of the acquisition cost of the asset, yet to be allocated to P/L A/c is known as  

---

  
(a) Book value      (b) Accumulated value      (c) Realisable value      (d) Salvage value

## **IDEAL / CPT / ACCOUNTS / DEPRECIATION**

28. Out of four floors of a building, ground floor is used as a store house for trading goods, first and second floor is used for office purpose and third floor is used for residential purposes. Total depreciation of a building amounts to ₹80,000. The depreciation of building to be shown in the business books will be \_\_\_\_\_  
(a) ₹80,000                      (b) ₹60,000                      (c) ₹40,000                      (d) ₹20,000
29. The value of an asset after reducing depreciation from the historical cost is known as  
(a) Fair value                      (b) Book value                      (c) Market value                      (d) Net realizable value
30. In the provision method of depreciation, the asset always appears at \_\_\_\_\_ price.  
(a) cost                      (b) market                      (c) average                      (d) None
31. In case of depreciation fund method, the profit on sale of depreciation fund investments is transferred to \_\_\_\_\_ account.  
(a) profit and loss                      (b) depreciation fund (c) asset                      (d) None
32. Depreciation fund method is designed to -  
(a) Only provide for depreciation of an asset  
(b) Provide for depreciation as also to accumulate the amount for its replacement  
(c) Provide for the payment of some liability  
(d) None of the above
33. The profit on depreciation policy is transferred to -  
(a) Depreciation fund account                      (b) Asset account  
(c) Profit and loss account.                      (d) None of the above
34. Date of purchase of Machine 1.4.2004, cost ₹12,00,000, Rate of Depreciation: 10% p.a. on Written Down Value Method Basis. The closing balance of Provision for Depreciation Account as at 31.3.2007 will be:  
(a) ₹1,20,000                      (b) ₹2,28,000                      (c) ₹3,25,200                      (d) ₹3,60,000
35. Date of purchase of Machine 1.4.2004, Cost: ₹12,00,000, Rate of Depreciation: 10% p.a. on Straight Line Basis. On 1.10.2006, a part of Machinery purchased on 1.4.2004 for ₹80,000 was sold for ₹45,000. The closing balance of Provision for Depreciation Account as at 31.3.2007 will be:  
(a) ₹3,36,000                      (b) ₹2,28,000                      (c) ₹3,10,000                      (d) ₹3,44,000
36. Depreciation on plants & machinery whose cost is ₹80,000 with an accumulated depreciation reserve of ₹12,000 at 30% p.a. on written down value will be:-  
(a) ₹12,000                      (b) ₹20,000                      (c) ₹24,000                      (d) ₹20,400
37. Date of purchase of Machine 1.4.2004, cost ₹12,00,000, Rate of Depreciation: 10% p.a. on Straight Line Basis. On 1.10.2006, a new Machinery was purchased for ₹80,000. The closing balance of Provision for Depreciation Account as at 31.3.2007 will be:  
(a) ₹1,20,000                      (b) ₹2,28,000                      (c) ₹3,25,200                      (d) ₹3,64,000

**IDEAL / CPT / ACCOUNTS / DEPRECIATION**

38. Date of purchase of Machine 1.4.2004, cost ₹12,00,000, Rate of Depreciation: 10% p.a. on Written Down Value Basis. On 1.10.2006, a new Machinery was purchased for ₹80,000. The closing balance of Provision for Depreciation Account as at 31.3.2007 will be:  
 (a) ₹1,20,000      (b) ₹2,28,000      (c) ₹3,25,200      (d) ₹3,64,000
39. Annuity method \_\_\_\_\_ funds for replacement of asset.  
 (a) does not provide      (b) provides      (c) both      (d) None
40. Interest is debited to asset account in -  
 (a) Annuity method      (b) Depreciation Fund method  
 (c) Insurance policy method      (d) None
41. Cost of Lease paid ₹20,000, Annuity factor @ 5% interest for 4 years is ₹0.2820. The net charges to Profit & Loss Account is:  
 (a) ₹5,640      (b) ₹1,000      (c) ₹4,640      (d) None of these
42. Useful life is \_\_\_\_\_  
 (a) the period over which a depreciable asset is expected to be used by the enterprise, or  
 (b) the number of production or similar units expected to be obtained from the use of the asset by the enterprise  
 (c) (a) or (b)  
 (d) None of these
43. For depreciating mines, the suitable method is:  
 (a) Straight Line      (b) WDV      (c) Depletion      (d) Annuity Method
44. Original cost = ₹1,26,000, Salvage value = 6,000. Depreciation for 2<sup>nd</sup> year @ units of production method, if units produced in 2<sup>nd</sup> year was 5,000 and total estimated production 50,000.  
 (a) 10,800      (b) 11,340      (c) 12,600      (d) 12,000
45. X Ltd. purchased a machine for ₹2,20,000 on 1<sup>st</sup> January, 2001 and incurred ₹40,000 towards freight, insurance, carriage inwards and installation charges. It was estimated that the machinery will have a scrap value of ₹20,000 at the end of its useful life which is 10 years of 12,000 hours each. X Ltd. decided to depreciate the machines on 'Machine Hour Rate Method'. The machine hours during first six years were as under:
- | Year          | 2001  | 2002  | 2003   | 2004   | 2005   | 2006   |
|---------------|-------|-------|--------|--------|--------|--------|
| Machine Hours | 6,000 | 8,000 | 10,000 | 14,000 | 14,000 | 12,000 |
- The depreciation for the year 2006 will be:  
 (a) ₹20,000      (b) ₹28,000      (c) ₹24,000      (d) None of these
46. The number of production or similar units expected to be obtained from the use of an asset by an enterprise is called as \_\_\_\_\_  
 (a) Unit life      (b) Useful life      (c) Production life      (d) Expected life

## **IDEAL / CPT / ACCOUNTS / DEPRECIATION**

47. H Ltd purchased a machinery on April 01, 2000 for ₹3,00,000. It is estimated that the machinery will have a useful life of 5 years after which it will have no salvage value. If the company follows sum-of-the-years'-digits method of depreciation, the amount of depreciation charged during the year 2004 - 05 was:  
(a) ₹1,00,000      (b) ₹80,000      (c) ₹60,000      (d) ₹20,000
48. In the case of downward revaluation of an asset which is for the first time revalued, the account to be debited is  
(a) Fixed Asset    (b) Revaluation Reserve    (c) Profit & Loss Account    (d) General Reserve
49. A Building purchased on 1<sup>st</sup> January, 2003 at ₹15,00,000 having useful life of 15 years was depreciated on straight line basis. On 1<sup>st</sup> January, 2006 the same building was revalued upward by ₹3 lakhs. The revised amount of depreciation for the year 2006 will  
(a) ₹1,33,000      (b) ₹1,26,000      (c) ₹1,25,000      (d) ₹1,30,000

