Page No.:
Date:

Chapter-14
Accounting for Fixed Assets

~~As~~ Fixed Assets

→ Purchased for long term use
→ Provides regular income to the organization for a long period of time.
→ Their values generally diminishes with time.

Tangible → Depreciation /year
Intangible → Amortisation / year

Explain causes of depreciation

(i) Wear & tear: Decline in efficiency of fixed assets
(ii) Elapse of time: Reduction of value over time
(iii) Exhaustion: Depletion, eg. mine's case.
(iv) Obsolescence: Useless, for eg. CRT monitor.

Methods of calculation of depreciation

(i) Straight Line Method (Original cost Method) (Fixed Installment Method)

Under this method, the depreciation is deducted from the original value of assets. This method is also known as 'Fixed Installment Method' or 'Original Cost Method'. Since the depreciation is deducted from the original value every year, it is fixed.

If the rate of depreciation is not given, then

$$\text{Amount of depreciation} = \frac{\text{Cost of assets} - \text{Scrap (salvage) value}}{\text{Life of Assets}}$$

Page No.:
Date:

(ii) Diminishing Balance Method (DBM)

Under this method, the depreciation is deducted from the remaining value of assets.

Hwl.

→ ~~1-1-017 / Rs 155,000 (Purchased)~~

Rs 155,000 = Cost of assets

Scrapvalue = Rs 5,000

Need for providing depreciation

The need for providing depreciation arises due to the following reasons:

a. Ascertaining true profits: When fixed assets such as machines are used for producing goods and services, they get gradually worn out and consequently their values go down. The fall in the value of fixed assets due to their constant use is an operating expenses for a business. Therefore, it is essential to provide depreciation on fixed assets to ascertain the true status of profit or loss of the business.

b. Reporting true financial position: The value of fixed assets decrease over time due to some reasons. In order to report the true financial position of the business it is essential to ~~g~~ provide depreciation on fixed assets to show their values in the balance sheet.

Page No.:
Date:

c. Replacement of assets: Fixed assets have operating lives. After their lives are over, they are fully out of use. Therefore, it is essential to ~~p~~ replace fully worn out assets, as business is going concern. As the replacement of assets needs ~~use~~ costs, depreciation provided on fixed assets is set aside and used as a source of fund.

d. Paying fair taxes: The profit ascertained without the provision for depreciation on fixed assets is not true and the tax paid to government on such profit is not fair. Therefore, it is essential to provide depreciation on fixed assets to pay fair amount of tax to the government.

Factors affecting the amount of depreciation

The following are the important factors to be taken into account while determining the amount depreciation:

1. Cost of assets
2. Estimated scrap value
3. Estimated useful life
4. Legal provision

Page No.:
Date:

HW1.

→ Journal Entries

Date	Particulars	Dr. Amount	Cr. Amount
1-1-017	Furniture a/c	155,000	
	To Bank a/c		155,000
	(Being furniture purchased)		
31-12-017	Depreciation a/c	15,000	
	To Furniture a/c		15,000
	(Being dep^n on furniture)		
31-12-017	Profit & Loss a/c	15,000	
	To depreciation a/c		15,000
	(Being dep^n transferred to P/L a/c)		
31-12-018	Depreciation a/c	15,000	
	To Furniture a/c		15,000
	(Being depreciation on furniture)		
31-12-018	Profit & Loss a/c	15,000	
	To Depreciation a/c		15,000
	(Being dep^n transferred to P/L a/c)		
31-12-019	Depreciation a/c	15,000	
	To Furniture a/c		15,000
	(Being depreciation on furniture)		
31-12-019	~~Dep~~ Profit & Loss a/c	15,000	
	To Depreciation		15,000
	(Being dep^n transferred to P/L a/c)		

Dr. Furniture a/c Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-1-017	To Bank a/c	155,000	31-12-017	By depreciation a/c	15,000
			"	By balance c/d	140,000
		155,000			155,000
1-1-018	To Balance b/d	140,000	31-12-018	By dep^n a/c	15,000

HW3. →

HW4. →

			31-12-018	By balance c/d	125,000
		140,000			140,000
1-1-019	By balance b/d	125,000	31-12-019	By depⁿ a/c	15,000
			"	By balance c/d	110,000
		125,000			125,000
1-1-020	By balance b/d	110,000			

HW3.
→

Furniture a/c

Dr. Date	Particulars	Amount	Date	Particulars	Cr. Amount
1-1-074	To Bank a/c	15,000	31-12-074	By depⁿ a/c	1500
			"	By balance c/d	13,500
		15,000			15,000
1-1-075	To Balance b/d	13,500	1-10-075	By depreciation a/c	1125
1-10-075	To Bank a/c	40,000	"	By bank a/c	5,000
			"	By loss on sale a/c	7,375
			31-12-075	By depreciation a/c	1,000
			"	By balance c/d	39,000
		53,500			53,500
1-1-076	To balance b/d	39,000	31-12-077	By depⁿ a/c	4000
			"	By balance c/d	35000
		39,000			39,000
1-1-077	To Balance b/d	35,000			

HW4.
→

Machine a/c

Dr. Date	Particulars	Amount	Date	Particulars	Cr. Amount
1-1-074	To bank a/c	40,000	31-12-074	By depⁿ a/c	4,000
			"	By balance c/d	36,000
		40,000			40,000
1-1-075	To balance b/d	36,000	30-12-075	By depreciation a/c	4,000

			30-12-075	By bank a/c	28,000
			"	By loss on sale a/c	4,000
		36,000	"	~~By~~	36,000
1-1-076	To Bank a/c	20,000	31-12-076	By depⁿ a/c	2,000
			"	By balance c/d	18,000
		20,000			20,000
1-1-077	To balance b/d	18,000			

HW5.

→

Furniture a/c

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
1-1-074	To Bank a/c	40,000	31-12-074	By depⁿ a/c	4,000
			"	By balance c/d	36,000
		40,000			40,000
1-1-075	To Balance b/d (1st)	36,000	31-12-075	By depⁿ a/c (1st)	4,000
1-7-075	To Bank a/c (2nd)	30,000	"	By depⁿ a/c (2nd)	1,500
			"	By balance c/d	60,500
		66,000			66,000
1-1-076	To Balance b/d 32,000 + 28,500	60,500	1-10-076	By depⁿ a/c (2nd)	2250
1-10-076	To Bank a/c (3rd)	60,000	"	By bank a/c	22,000
			"	By loss on sale a/c	4250
			31-12-076	By depⁿ a/c (1st)	4,000
			"	By depⁿ a/c (3rd)	1,500
			"	By balance c/d	86,500
		120,500			120,500
1-1-077	To Balance b/d	86,500			

HW6.

→ ~~X-ray Machine a/c~~

~~Dr.~~ ~~Cr.~~

Amount of depreciation (1^{st}) = $\frac{\text{Cost} - \text{Scrap value}}{\text{life}}$

$= \frac{4,50,000 - 90,000}{5}$

$= \cancel{432,000}\ 72,000$

Amount of depreciation (2^{nd}) = $\frac{600,000 - 0}{10} = 60,000$

Dr. X-Ray Machine a/c Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-4-074	To bank a/c	450,000	31-12-074	By dep^n a/c	~~324~~ 54,000
			"	By balance c/d	396,000
		450,000			450,000
1-1-075	To balance b/d	396,000	31-12-075	By dep^n a/c	72,000
31-12-075	To Profit on sale a/c	26,000	"	By bank a/c	3,50,000
"	To bank a/c (2^{nd})	600,000	"	By balance c/d	600,000
		1022,000			1,022,000
1-1-076	To balance b/d	600,000	31-12-076	By dep^n a/c	60,000
			"	By balance c/d	540,000
		600,000			600,000
1-1-077	To balance b/d	540,000			

Page No.:
Date:

HW7

→

Machine a/c

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-1-017	To Bank a/c (1st)	20,000	31-12-017	By dep^n a/c (1st)	2000
1-10-017	To Bank a/c (2nd)	17,000	"	By dep^n a/c (2nd)	425
			"	By balance c/d	34,575
		37,000			37000
1-1-018	To balance b/d	34,575	31-9-018	By dep^n a/c (1st)	1500
31-9-018	To Profit on Sale a/c	500	"	By bank a/c (1st)	17000
"	To Bank a/c (3rd)	30,000	31-12-018	By dep^n a/c (2nd)	1700
			"	By dep^n a/c (3rd)	750
			"	By balance c/d	44125
		65,075			65075
1-1-019	To Balance b/d	44,125	31-12-019	By dep^n a/c (2nd)	1700
			"	By dep^n a/c (3rd)	3 000
		~~44,125~~	"	By balance c/d	39425
		44,125			44,125
1-1-020	To Balance b/d	39,425			

Page No.:
Date :

Hw 8.

1-7-017 Rs 60,000 (Purchase)
31-12-018 Rs 1,200 (Sold profit)
" Rs 20,000 (Purchase)
Machine a/c, Depⁿ @ 10%, SLM

→ Machine a/c

Dr.					Cr.
Date	Particulars			Particulars	Amount
1-7-017	To Bank a/c	60,000	31-12-017	By dep^n a/c	3,000
			"	By balance c/d	57,000
		60,000			60,000
1-1-018	To Balance b/d	57,000	31-12-018	By dep^n a/c	6000
31-12-018	To Profit on sale a/c	1,200	"	By bank a/c	52,200
"	To Bank a/c (2nd)	20,000	"	By balance c/d	20 000
		78200			78200
1-1-019	To Balance b/d	20,000	31-12-018	By dep^n a/c	2,000
			"	By balance c/d	18,000
		20,000			20,000
1-1-020	To balance b/d	18,000			

Date :

HW2

1-4-074 Rs 200,000 (Purchased) 1st
1-10-074 Rs 300,000 (Purchased) 2nd
1-7-076 Rs 200,000 (Sold) 1st
" Rs 120,000 (Purchased) 3rd

Vehicle a/c, Depⁿ @ 10%, 74-76

Vehicle a/c

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-4-074	To Bank a/c (1st)	200,000	32-12-074	By depⁿ a/c (1st)	15,000
1-10-074	To Bank a/c (2nd)	300,000	"	By depⁿ a/c (2nd)	7,500
			"	By balance c/d	477,500
		500,000			500,000
1-1-075	To balance b/d	477,500	31-12-075	By depⁿ a/c (1st)	20,000
			"	By depⁿ a/c (2nd)	30,000
			"	By balance c/d	427,500
		477,500			477,500
1-1-076	To balance b/d 165,000+	427,500	1-7-076	By depⁿ a/c (1st)	10,000
1-7-076	To profit on sale a/c	45,000	"	By Bank a/c (1st)	200,000
"	To Bank a/c (3rd)	120,000	31-12-076	By depⁿ a/c (2nd)	30,000
			"	By depⁿ a/c (3rd)	6,000
			"	By balance c/d	346,500
		592,500			592,500
1-1-077	To Balance b/d	346,500			

Date :

HW10

1-7-017 Rs 60,000 (Purchase)

Salvage value = Rs 10,000 $\Rightarrow Dep^n = \frac{60,000-10,000}{10} = 5000$

Life : 10 yrs

1-10-017 Rs 45,000 (Purchase)

Salvage value = 15,000, Life = ~~15,000~~ 10 yrs $\Rightarrow Dep^n = 3,000$

31-12-019 Rs ~~50~~ 40,000 (Sold) 1st

" Rs 30,000 (Purchase) $\Rightarrow Dep^n = 6,000$

Salvage = Rs 0, Life = 5 yrs

→ Dr. Furniture a/c Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-7-017	To Bank a/c (1st)	60,000	31-12-017	By dep^n a/c (1st)	2500
1-10-017	To Bank a/c (2nd)	45,000	"	By dep^n a/c (2nd)	750
			"	By balance c/d	101,750
		105,000			105,000
1-1-018	To balance b/d	101,750	31-12-018	By dep^n a/c (1st)	5000
			"	By dep^n a/c (2nd)	3,000
			"	By balance c/d	93,750
		101,750			101,750
1-1-019	To balance b/d	93,750	31-12-019	By dep^n a/c (1st)	5000
31-12-019	To bank a/c (3rd)	30,000	"	By bank a/c	40,000
			"	By loss on sale a/c	7,500
			"	By dep^n a/c (2nd)	3,000
			"	By balance c/d	68,250
		123,750			123,750
1-1-020	To Balance b/d	68,250			

HW11

1-7-017 Rs 70,000 (Purchase) 1st

Salvage = 10,000, Life = 6yrs ⇒ $Dep^n = \frac{70000 - 10,000}{6} = 10,000$

1-1-018 Rs 30,000 (Purchase) 2nd

Salvage value = 0, Life = 5yrs ⇒ Dep^n = 6000

30-9-019 Rs 25,000 (Sold, 2nd)

" Rs 40,000 (Purchase) 3rd

Scrap = 10,000, Life = 10yrs ⇒ Dep^n = 3000

Computer a/c, Dep^n OCM

→

Computer a/c

Checked

Dr. Cr.

Date	Particular	Amount	Date	Particulars	Amount
1-7-017	To Bank a/c (1st)	70,000	31-12-017	By depreciation a/c (1st)	5,000
			"	By balance c/d	65,000
		70,000			70,000
1-1-018	To balance b/d (1st)	65,000	31-12-018	By depreciation a/c (1st)	10000
"	To Bank a/c (2nd)	30,000	"	By depreciation a/c (2nd)	6,000
			"	By balance c/d	79,000
		95,000			95,000
1-1-019	To balance b/d	79,000	30-9-019	By depreciation a/c (2nd)	4,500
30-9-019	To Profit on sale a/c	5,500	"	By bank a/c (2nd)	25,000
"	To Bank a/c	40,000	31-12-019	By depreciation a/c	10,000
			"	By depreciation a/c	750
			"	By balance c/d	84,250
		124,500			124,500
1-1-020	To Balance b/d	84,250			

HW12.

⇒ 1

1

Page No.:
Date:

Diminishing Balance Method

HW12.

⇒ 1-1-074 Rs 40,000 (Purchased) - 1st
1-7-075 Rs 20,000 (Purchased) - 2nd

Machine a/c, 15%, DBM, 3yrs

Machine a/c

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-1-074	To Bank a/c	40,000	31-12-074	By ~~bala~~ depn a/c	6,000
			"	By balance c/d	34,000
		40,000			40,000
1-1-075	To Balance b/d	34,000	31-12-075	By depn a/c (1st)	5,100
1-7-075	To Bank a/c (2nd)	20,000	"	By depn a/c (2nd)	1,500
			"	By balance c/d	47,400
		54,000			54,000
1-1-076	To Balance b/d 28,900 + 18,500	47,400	31-12-076	By depn a/c (1st)	4,335
			"	By depn a/c (2nd)	2,775
			"	By balance c/d	49290
		47,400			47,400
1-1-077	To Balance b/d	40,290			

Page No.:
Date:

HW13

1-1-017 Rs 50,000 (Purchased)
30-6-019 Rs 40,000 (Sold)
" Rs 20,000 (Purchased) - 2nd

Machinery a/c, 3 yrs, 10%, ~~SMS~~ DBM

→

Machinery a/c

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-1-017	To Bank a/c	50,000	31-12-017	By depreciation a/c	5,000
			"	By balance c/d	45,000
		50,000			50,000
1-1-018	To Balance b/d	45000	31-12-018	By depreciation a/c	4,500
			"	By balance c/d	40,500
		45,000			45,000
1-1-019	To Balance b/d	40,500	30-6-019	By depreciation a/c	2025
30-6-019	To Profit on sale a/c	1,525	"	By Bank a/c	40,000
"	To Bank a/c	20,000	30-12-019	By depreciation a/c	1,000
			"	By balance c/d	19,000
		62,025			62,025
1-1-020	To Balance b/d	19,000			

Page No.:
Date :

H.O 24.

1-7-017 . Rs 15,000 (Purchased)
30-6-019 Rs 14,000 (Sold)
" Rs ~~20~~22,000 (Purchased) 2nd

Furniture a/c, DBM@10%, 3 yrs; a/c closed at the end of June

→

Furniture a/c

Dr.					Cr.
Date	Particulars	Amount	Date	Particulars	Amount
1-7-017	To Bank a/c	Rs 15,000	31-6-018	By depn a/c	1500
		/	"	By balance c/d	13500
		15,000			15,000
1-7-018	To Balance b/d	13,500	30-6-019	By depn a/c	1350
30-6-019	To Profit on sale a/c	1850	"	By Bank a/c	14,000
"	To Bank a/c (2nd)	22,000	"	By balance c/d	22,000
		37,350			37,350
1-7-019	To Balance b/d	22,000	30-6-020	By depn a/c	2,200
		/	"	By balance c/d	19800
		22,000			22,000
1-7-020	To Balance b/d	19,800			

HW15

1-1-074 Rs 50,000 (Purchased) - 1st
1-7-075 Rs 30,000 (Purchased) - 2nd
1-10-076 Rs 28,000 (Sold) - 2nd
" Rs 60,000 (Purchase) - 3rd

Furniture a/c, Dep^n @ 10%, DBM, 3 yrs.

->

Furniture a/c

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
1-1-074	To Bank a/c	50,000	31-12-074	By dep^n a/c	5,000
			"	By balance c/d	45,000
		50,000			50,000
1-1-075	To Balance b/d	45,000	31-12-075	By depreciation a/c (1st)	4500
1-7-075	To Bank a/c (2nd)	30,000	"	By dep^n a/c (2nd)	1,500
			"	By balance c/d	69,000
		75,000			75,000
1-1-076	To balance b/d 40,500 + 28,500	69,000	1-10-076	By dep^n a/c (2nd)	2137.5
1-10-076	To Profit on sale a/c	1637.5	"	By bank a/c	28,000
"	To Bank a/c (3rd)	60,000	31-12-076	By dep^n a/c (1st)	4050
			"	By dep^n a/c (3rd)	1500
			"	By balance c/d	94,950
		130,637.5			130,637.5
1-1-077	To balance b/d	94,950			

HW16.
1-1-0
1-7-0
31-3-
1-4-
Mach
->
Dr.
Date
1-1-074
1-1-074
1-1-075
1-7-075
1-1-07
1-4-0
1-1-

Page No.:
Date :

HW16.

1-1-074 Rs 80,000 (Purchased) - 1st
1-7-075 Rs 30,000 (Purchase) - 2nd
31-3-076 Rs 26,500 (Sold) - 2nd
1-4-076 Rs 60,000 (Purchase) - 3rd

Machinery a/c, DBM @ 10%.

→

Machinery a/c

Dr. Cr.

Date	Particular	Amount	Date	Particulars	Amount
~~1-1-074~~					
1-1-074	To Bank a/c	80,000	31-12-074	By dep^n a/c	8000
			"	By balance c/d	72,000
		80,000			80,000
1-1-075	To Balance b/d	72,000	31-12-075	By dep^n a/c (1st)	7200
1-7-075	To Bank a/c (2nd)	30,000	"	By dep^n a/c (2nd)	1,500
			"	By balance c/d	93300
		102,000			102,000
1-1-076	To Balance b/d 64800+28500	93,300	31-3-076	By dep^n a/c (2nd)	712.5
1-4-076	To Bank a/c (3rd)	60,000	"	By bank a/c (2nd)	26,500
			"	By loss on sale a/c	1287.5
			31-12-076	By dep^n a/c (1st)	6480
			"	By dep^n a/c (3rd)	4500
			"	By balance c/d	113,820
		153,300			153,500
1-1-077	To balance b/d	113,820			