

Date → 16/03/2025

Marks = 10

Accounts

Chapter → 5 (Depreciation & Amortisation)

Lec-01

1. Tangible Asset :-

Property, Plant & Machinery, Furniture, Motor Vehicle (Trucks)

used for

Tangible Assets help for → Production
Supply of Goods & Services
Rental to other (for Revenue Generation)

used Period

1. Tangible Assets are expected to be used during more than a period of 12 months (Accounting Period)

2. Depreciation :-

The amount of fixed Assets allocated in such a manner to respective Accounting period.

3. Objectives for Providing Depreciation :-

1. True Cost of production.

2. True Income Statement → Profit & Loss

3. True Position Statement → Balance Sheet

Allocation of amount of fixed Assets → in a Accounting Period.

Assets side

Machinery 70,000	Assets
- Dep. @ 20% - 14,000	56,000

4. Fund for Replacement of Assets.

- Reason :-
1. Depreciation is charged Against Profit
 2. Depreciation is non-cash expenses
 3. Non Cash Expenses → Create Fund for Replacement
 4. Depreciation is also help in Tax saving

Profit - Dep. Amt.
80,000 - 20,000
60,000

4. Factor for Depreciation :-

1. Historical Cost
2. Estimated useful life
3. Estimated Residual value (Scrap value)

* 1. Historical Cost → Actual Cost of Purchase

Purchase Price	xxx
+ Non-Refundable Taxes & Duties.	xxx
+ Carriage on Purchase	xxx
+ Direct Cost of Bringing the Asset to its working Condition (unload) (Installation Cost)	xxx
Less :- Trade Discount	(xxx)
<u>Historical cost</u>	xxx

* 2). useful Life :-

- Period one which the a Depreciable Assets is to be used.
- whole life of the Assets in Business (working Condition)

* 3). Residual Value (Scrap Value) :-

- Amount of Disposal of Asset.
- Disposal amount of fixed Assets - at the end of useful life of Assets.

* 4). Depreciable Amount :-

Historical Cost of Assets xxx
— Estimated Residual values (xxx)
(Scrap Value)

5). Methods of Depreciation :-

1). Straight line Method (original cost method)

2). written Down value method

3). Sum of year Digit method

4). Machine Hour method

5). Production unit method

6). Depletion method

1). Accounting Approach
Same.

2). Working note — **Different**

Methods

1. Sum of year Digit Method

[Including Current years]

Formula :

$$\text{Depreciation} = \text{Depreciable Amount} \times \frac{\text{No. of Year's of Balance useful life}}{\text{Total of Digits of the useful life of asset}}$$

Example :-

$$\text{Machinery Cost} = ₹8,00,000$$

$$\text{Residual value} = ₹3,00,000$$

$$\text{useful life} = 5 \text{ years}$$

Depreciation amount for 5 years

$$\rightarrow (5+4+3+2+1)$$

$$= 5+4+3+2+1$$

$$= 15$$

(Solution)

$$\text{A. Depreciable Amount} = ₹8,00,000 - ₹3,00,000$$

$$= ₹5,00,000$$

$$\text{B. Depreciation per year} = ₹5,00,000 \times \frac{3}{15} \left(\begin{array}{l} ₹5 \times \frac{1}{15} \\ = ₹1 \text{ lakh} \end{array} \right)$$

$$\rightarrow ₹1,00,000$$

2. Machine Hour Method :-

Formula

$$\text{Depreciation} = \text{Depreciable Amount} \times \frac{\text{No. of machine Hour During the year}}{\text{Total machine Hour during the entire useful life of machinery}}$$

Example :-

$$\text{Machine Costing} = ₹23,00,000$$

$$\text{Scrap Value} = ₹2,30,000$$

$$\text{Machine useful life Hours} \rightarrow 20,700 \text{ Hours}$$

$$\text{Year 1 to 3} = 2,500 \text{ Machine Hour each}$$

$$\text{Year 4 to 6} = 2,000 \text{ Machine Hour each}$$

$$\text{Year 7 to 10} = 1,800 \text{ Machine Hour each}$$

→ sol :-

$$1). \text{ Depreciable Amount} = 23,00,000 - 2,30,000 \\ = 20,70,000$$

$$\text{Year 1 to 3} \Rightarrow \text{Dep.} = 20,70,000 \times \frac{2,500}{20,700} \\ = \boxed{\text{₹ } 250,000.}$$

$$2). \text{ Depreciable Amount} = 23,00,000 - 2,30,000 \\ = 20,70,000$$

$$\text{Year 4 to 6} \Rightarrow \text{Dep.} = 20,70,000 \times \frac{2,000}{20,700} \\ = \boxed{\text{₹ } 200,000.}$$

$$3). \text{ Depreciable Amount} = 23,00,000 - 2,30,000 \\ = 20,70,000$$

$$\text{Year 7 to 10} \Rightarrow \text{Dep.} = 20,70,000 \times \frac{1,800}{20,700} \\ = \boxed{\text{₹ } 180,000.}$$

3). Production unit method :-

Formula :-

$$\text{Depreciation} = \text{Depreciable Amount} \times \frac{\text{Production Lv. for the Current Year}}{\text{Total Estimated Production Quantity}}$$

Example :-

$$\text{Machine Costing} = 25,00,000$$

$$\text{Scrap Value} = 5,00,000$$

$$\text{Estimated total Production} = 10,00,000 \text{ unit}$$

$$\text{Year 1 to 2} \text{ — } 1,15,000 \text{ unit each}$$

$$\text{Year 3 to 7} \text{ — } 1,00,000 \text{ unit each}$$

$$\text{Year 8 to 10} \text{ — } 90,000 \text{ unit each}$$

— sol —

$$1). \text{ Depreciable Amount} = 25,00,000 - 5,00,000 \\ = 20,00,000$$

$$\text{Year 1 to 2} = 20,00,000 \times \frac{1,15,000}{10,00,000} \\ = 230,000$$

$$2). \text{ Depreciable Amount} = 25,00,000 - 5,00,000 \\ = 20,00,000$$

$$\text{Year 3 to 7} = 20,00,000 \times \frac{1,00,000}{10,00,000} \\ = 200,000$$

$$3). \text{ Depreciable Amount} = 25,00,000 - 5,00,000 \\ = 20,00,000$$

$$\text{Year 8 to 10} = 20,00,000 \times \frac{90,000}{10,00,000} \\ = 180,000$$

4. Depletion Method:

Formula:

oil → mineral oil Based Business
oil Extracted

[Scrap value $\times$]

$$\text{Depreciation} = \text{Depreciable Amount} \times \frac{\text{Quantity mineral c.y / oil Extracted Current year}}{\text{Total Estimated Quantity of the mineral/oil}}$$

Example:

Quarry on lease → 75,00,000

Total Estimated Quantity = 1,00,000 Tonnes

Extraction Pattern → Year 1 = 6,000 tonnes

Year 2 to 5 = 15,000 tonnes each

Year 6 to 7 = 17,000 tonnes each

→ sal →

~~Depreciable Amount = Original Cost × Quantity of Annual~~

$$\begin{aligned} 1). \text{ Depreciable Amount} &= 75,00,000 \times \frac{6,000}{1,00,000} \\ &\cdot \text{year 1} \\ &= 450,000 \end{aligned}$$

$$\begin{aligned} 2). \text{ Depreciable Amount} &= 75,00,000 \times \frac{15,000}{1,00,000} \\ &\cdot \text{year 2 to 5} \\ &= 11,25,000 \end{aligned}$$

$$\begin{aligned} 3). \text{ Depreciable Amount} &= 75,00,000 \times \frac{17,000}{1,00,000} \\ &\cdot \text{year 6 to 7} \\ &= 12,75,000 \end{aligned}$$

Date - 16/03/2025

Accounts

Chapter - 5 → (Depreciation & Amortisation)

Sec - 02

Remaining methods of Depreciation :-

1. Straight line method :-

- Amount of Depreciation Same for all year's
[Except → Date of Purchase & Closing Date.]

2. Written Down Value Method :-

- Amount of Depreciation change (Down) in each year

1,00,000	
W.D.V @ 10% I - 10,000	
90,000	→ Balance → Depreciation is change on Balance Amount.
II - 9,000	
81,000	
III - 8,100	
72,900	

Advance level of Questions :-

1. Date of Purchase → (ii). Date of Preparing the A/c

Example - 1. X Ltd. Purchase a Machinery worth ₹ 50,00,000 on 1st April, 2018.

→ IInd Machinery on 1st May 2019 worth ₹ 8,00,000.

Change Depreciation @ 10% S.L.M/W.D.V

Prepare Dep./Assets A/c for the year 2020, 2021 & 2022

Q1 Prepare Assets A/c for 5 years from 2020.

Working note :-

Date of prepare the A/c → Balance of Assets till Date → Calculate (value)

2018	→	50,00,000	
- 10%		<u>- 5,00,000</u>	
2019	→	45,00,000	
- 10%		<u>- 5,00,000</u>	
31/03/2020	→	40,00,000	→ (1st April, 2020)

2. Methods of Depreciation →

A - S.L.M

B - W.D.V

C - Change in Method from which year →

3. Partial Partion of Assets sold in new future

→ Separate from Starting
→ opening Balance

$$45,000 \times \frac{1}{3}$$

15,000	
<u>30,000</u>	45,000

- Depreciation → 1,500
- closing balance → 13,500

4. Calculation of Profit/Loss on Sale of Assets

Cost of Assets

— Depreciation for Ist year (xx)
Written Down value → xxx

— Depreciation for IInd year (xx)

Written Down Value → xxx

— Depreciation for IIIrd year (xx)
for 3 month

Balance

— Sale Price

Sale 1st July
1st April - 30th June

xxx $\xrightarrow{1}$ 15,000 $\xrightarrow{2}$ 15,000
— 16,000 — 7,000

(xx)

Profit - 1,000

Loss - 8,000

xxx

A/c → Dr.

d.c → Cr.

AK → Cr.

d.c → Dr.

Profit on Sale

Loss on Sale

1. A/c → Dr.

2. Journal Entry

3. Cash Received A⁺ → Dr.

4. Assets sold A⁻ → Cr.

5. Profit on Sale I⁺ → Cr.

1. Cash A/c Dr.

to Assets

to P&L (Profit)

1. A/c → Cr.

2. Journal Entry

3. Cash Received A⁺ Dr.

4. Assets sold A⁻ Cr.

5. Loss on Sale I⁺ Dr.

1. Cash A/c Dr.

P&L A/c (Loss) Dr.

to Assets AK

A/c

Assets A/c

1.

Dr.

to P&L (Profit)

Cr.

By Crd

Assets A/c

Date	Particular	Amount	Date	Particular	Amount

Dr. ← 1. Cost of Assets [Purchase Price + Direct Expenses for

Cr. ← 2. Depreciation

Cr. ← 3. Balance of the year → Balance c/d → Cr.

4. Next year → Balance b/d
Dr. ←

Q1. The M/s LG Transport purchased 10 trucks at Rs. 45,00,000 each on 1st April 2018. On October 1st, 2020 one of the trucks is involved in an accident and is completely destroyed and Rs. 27,00,000 is received from the insurance in full settlement. On the same date another truck is purchased by the company observe the Calendar year as its financial year.

You are required to prepare

the motor truck account for two years ending 31 Dec, 2021.