

CH 5 : Depreciation & Amortisation

fall in value of
fixed tangible
asset

(Machine, furniture,
Building etc)

fall in value
of
Intangible
asset

(Goodwill, Patent,
Software)

Depreciation occurs due to :-

a) Normal wear & tear

b) Efflux of time
"passage"

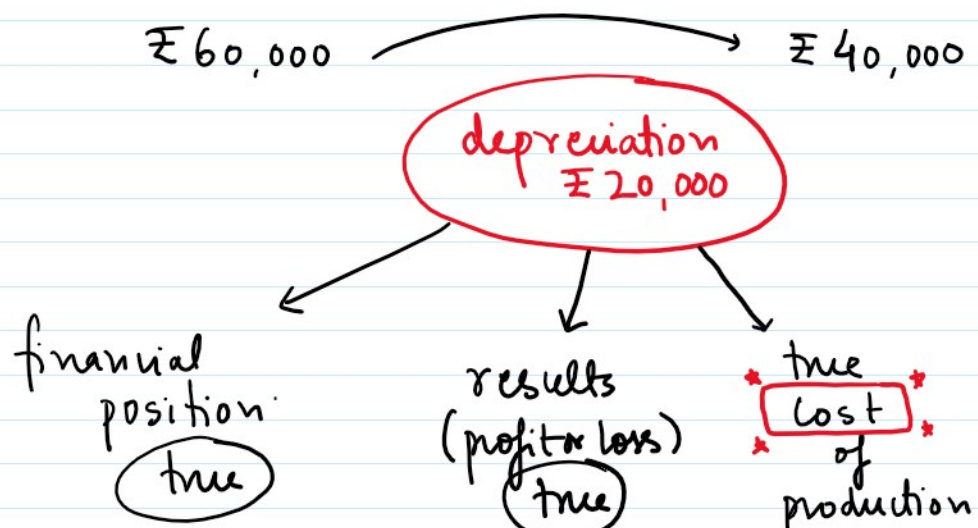
Mobile lock ✓
↳ 10 years
ATQ

c) foreseen obsolescence
"predict"

due to innovation
(technological
upgradation)

117
10 yrs.

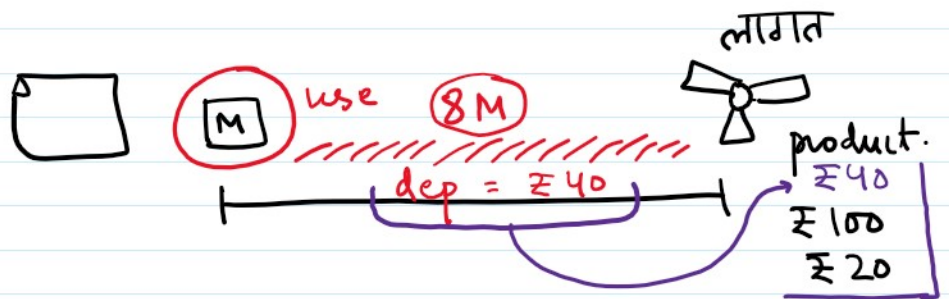
* Objectives of providing depreciation



True

(profit or loss)
True

of production



→ Factors affecting Depreciation

① Estimated **Useful life** of asset

80000

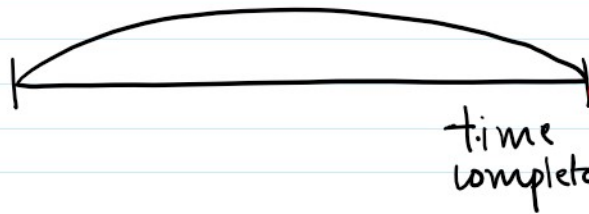
time
5 years
(समय)

OR

time
5000 hrs
(production units)

② Estimated **Scrap Value** (Residual Value)

80000



time
complete

बेच दूंगा
(Scrap)
₹100
=

③ **COST** of asset

→ purchase price (including non refund-
able taxes)

M

→ price 100,000
(+) Tax 20,000

M	→	price	100,000
		(+) Tax 20%	20,000
		Refund of Tax	(3,000)
			<u>117,000</u>

→ Directly attributable cost

- Site preparation £ 5000
- delivery charges £ 3000
- installation expenses £ 10000
- Testing cost £ 2000
- professional fee £ 6000

Total 143,000

→ other lost

- ↳ dismantling cost £ 3,000
- ↳ shifting expense £ 4,000

(COST of Asset  £ 150,000

P&L A/c
Dr.
(खर्च)

- Inauguration lost £ 10,000
- promotion cost £ 5,000
- Staff training £ 2,000
- Administration expenses £ 1,000
- Storage lost £ 4,000

EXCLUSIONS (X)(X)

ACCOUNTING

(Journal ,

Methods of
calculation

<u>(Journal Ledger)</u>	<u>Calculation</u>
①	① SLM
②	② WDV
③	③ SYD
④	④ Production method

Methods of Calculating

① **SLM** (original cost method)



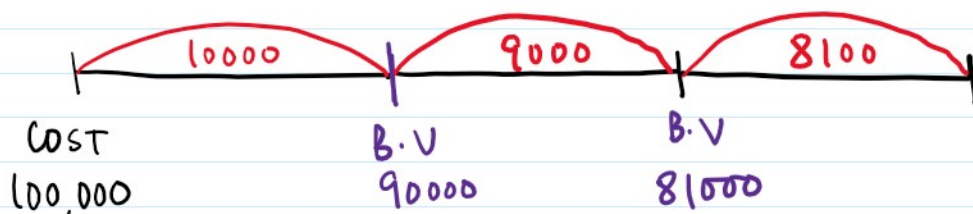
COST
100,000

dep 10% p.a. → 10,000 | 10000 | 10000 | 10000

$$\text{depreciation p.a.} = \frac{(\text{COST} -) \text{Scrap Value}}{\text{useful life.}}$$

Asset becomes **Zero** at end

② **WDV** (Reducing balance method)



COST
100,000

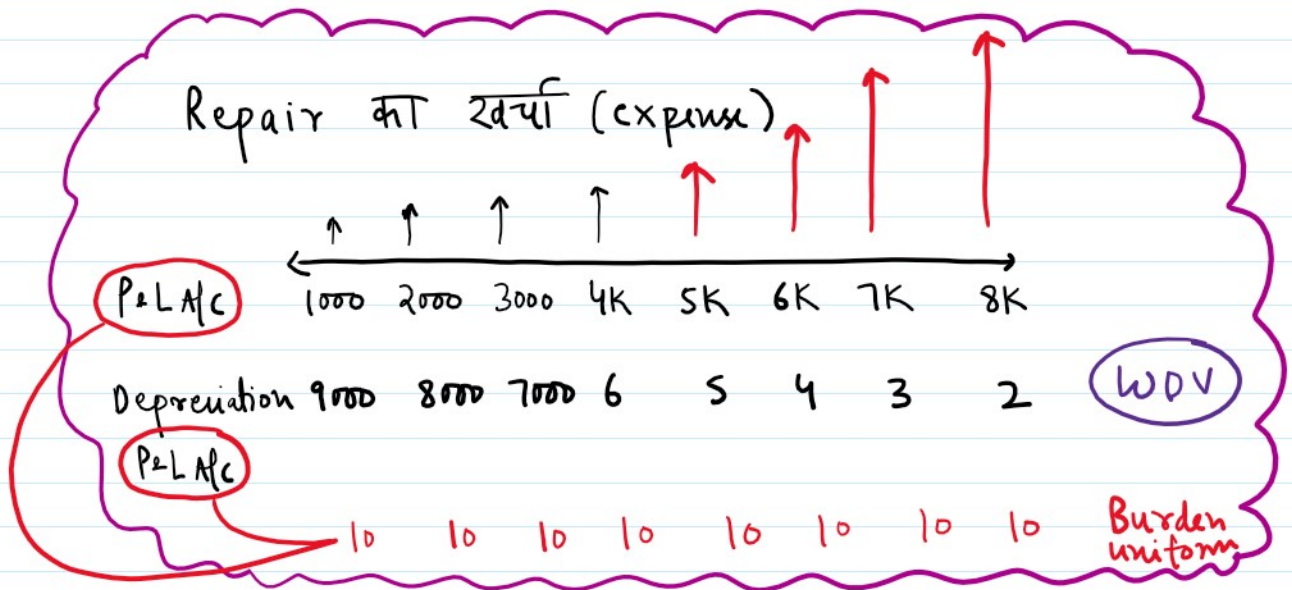
B.V
90000

D.V
81000

depreciation
10%.

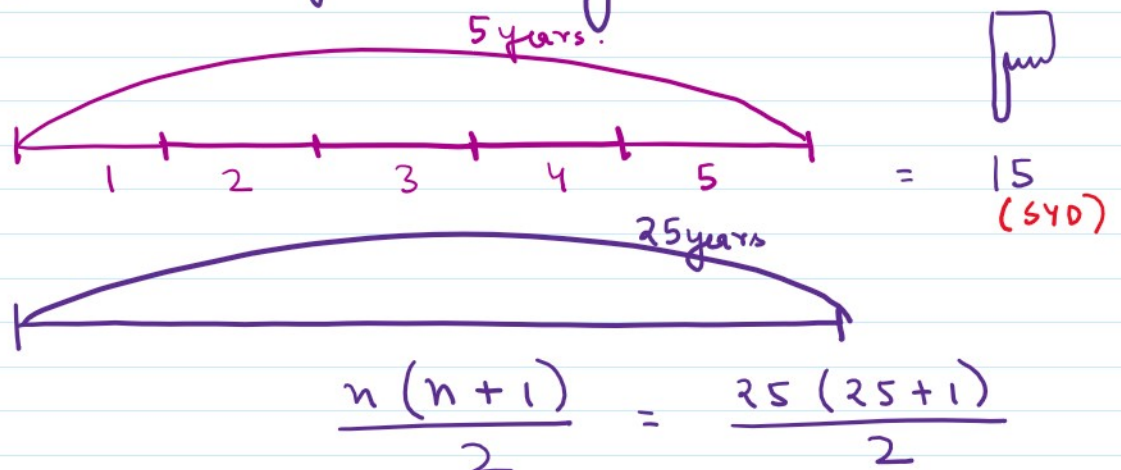
Depreciation $\overline{\text{संचालित}} \rightarrow \rightarrow \rightarrow \overline{\text{अंत}}$

Asset **never becomes zero**



*** { 31/12 Asset $\rightarrow$ Repair $\uparrow \uparrow \uparrow \uparrow \uparrow$
 $\rightarrow$ WDV method $\checkmark$
 $\rightarrow$ P+L A/c burden **uniform** }

(3) **Sum of Year's digit Method (SYD)**



$$\frac{n(n+1)}{2} = \frac{25(25+1)}{2} = 325 \text{ (SYD)}$$

$$\text{SYD} = \frac{n(n+1)}{2}$$

eg

COST 120,000

Scrap Value 30,000

Life 6 years

$$\text{SYD} = 21$$

Depreciable Amount = 90000



"extension of WDV"

$$90,000 \times \frac{6}{21} = 25,714 \quad 1^{\text{st}} \text{ year dep}$$

$$90,000 \times \frac{5}{21} = 21,428 \quad 2^{\text{nd}} \text{ " "}$$

$$90,000 \times \frac{4}{21} = 17,142 \quad 3^{\text{rd}} \text{ " "}$$

$$90,000 \times \frac{3}{21} = 12,857 \quad 4^{\text{th}} \text{ " "}$$

$$90,000 \times \frac{2}{21} = 8,571 \quad 5^{\text{th}} \text{ " "}$$

$$90,000 \times \frac{1}{21} = 4,285 \quad 6^{\text{th}} \text{ " "}$$

eg ② COST 200000

Scrap Value 40,000

Life = 8 years.

$$\text{SYD} = 36$$

Depreciable Amount = 160000

life = 8 years.

Depreciable amount = 160000

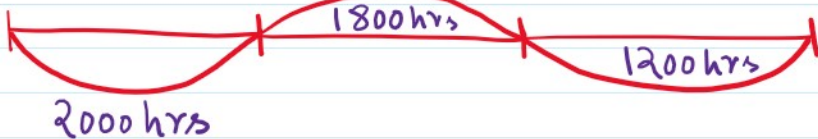
find Depreciation

Sol:- 35555 , 31111 , 26666 , 22222 , 17777 , 13333
= 8,888 , 4444

(4)

Machine Hour , Production Unit, Deploation method

eg :- Cost 300000
Scrap Value = 60,000
life. 5000 hrs

Usage 

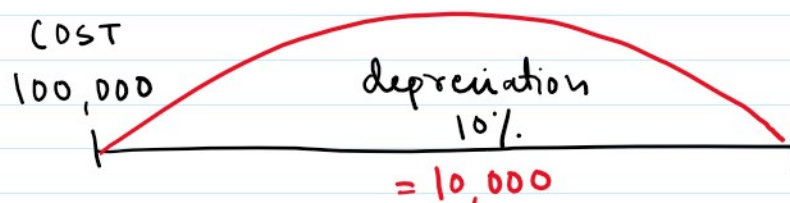
Sol:- Depreciable amount = 240000

$$\text{Dep} = 240000 \times \frac{2000}{5000} = 96,000$$

$$240000 \times \frac{1800}{5000} = 86,400$$

$$240000 \times \frac{1200}{5000} = 57,600$$

ACCOUNTING


COST 100,000
depreciation 10%
= 10,000

= 10,000

1) Asset A/c Dr 100000
 To Bank 100000

2) Depreciation Dr. 10000
 To Asset A/c 10000

3) P&L A/c Dr 10000
 To depreciation 10000

B/s

Capital	90	Machine 100	
		(-) Dep (10)	90
			3

Book value

1) Asset A/c Dr 100000
 To Bank 100000

2) Depreciation Dr 10000
 To Provision for depreciation A/c 10000

3) P&L A/c Dr 10000
 To Depreciation 10000

B/s

Capital	90	Machine 100	
PFD	10	(lost)	
	100		100

* Sale of Asset *

Asset Disposal A/c
 is opened

Asset disposal A/c
 is not opened

eg :-

COST
1.1.2024
100,000

dep 10%
10,000

B.V
90000

dep 10%
5000

B.V
85000

Sold for
18000

∴ Loss 7000

Combi (1)

पहला मुद्रा + Asset disposal A/c ✓

Asset A/c			
1-Jan	To Bank	100,000	
			31-Dec By depreciation 10,000
			31 Dec By Bal fd 90,000
1-Jan	To B/d	90000	
			30-June By dep 5000
			By Asset disposal A/c 85000

Asset disposal A/c			
	To Asset A/c	85000	
			By Bank (sale) 78000
			By P&L A/c (loss) 7000

Combi (2)

पहला मुद्रा (+)

~~Asset Disposal A/c~~

Asset A/c			
1-Jan	To Bank	100,000	
			31-Dec By depreciation 10,000
			31 Dec By Bal fd 90,000
1-Jan	To B/d	90000	
			30-June By dep 5000

1-Jan To Bal	90000	30-June	By dep	5000
			By Bank (Sale)	78000
			By P&L A/c (loss)	7000

Combi (3) मुंदा दूसरा + ~~Asset disposal A/c~~

Asset A/c			
1-Jan To Bank	100000	By Bal	100000
To Bal b/d	100000	By Bank (Sale)	78000
		By P&L (loss)	7000
		By PFD A/c	15000

PFD A/c			
To Bal	10000	By dep	10000
To Asset A/c	15000	By Bal b/d	10000
		By dep	5000
	15000		15000

* Liability is over ✓
Asset is over ✓

PFD A/c Dr 15000
To Asset A/c — 15000

Combi (4) दूसरा मुंदा (+) Asset Disposal A/c (-)

Combi (4)

दूसरा मुद्रा (+) Asset Disposal A/c (-)

Asset A/c				
1-Jan	To Bank	100000	By c/d	100000
		<u> </u>		<u> </u>
	To Bal b/d	100000	By Asset disposals	100000
		<u> </u>		<u> </u>
PFDA/c				Cr
	To c/d	10000	By dep	10000
		<u> </u>		<u> </u>
	To Asset A/c disposal	15000	By Bal b/d	10000
		<u> </u>	By dep	5,000
		<u>15000</u>		<u>15,000</u>
Asset Disposal A/c				Cr
	To Asset A/c	100,000	By Bank (Sale)	78000
		<u> </u>	By P+L (loss)	7000
		<u>100,000</u>	By PFDA/c	15000
				<u>100000</u>

Accounting

Methods

Combi 1

SLM

Combi 2

WDV

Combi 3

Combi 4

8 type

lonbi 4

x ————— x ————— x ————— x