Depreciation, Provisions and Reserves

Standard difficulty · 20 questions · 40 marks · Time: 45 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. Under the straight line method, the depreciation each year is:
   (a) a rising amount **(b)** nil after the first year
   (c) a falling amount **(d)** the same amount

2. A machine is bought for ₹2,08,000; installation costs ₹9,500. Its life is 5 years and a scrap value of ₹20,000. What is the yearly depreciation by the straight line method?
   (a) ₹39,500 **(b)** ₹41,600 **(c)** ₹47,500 **(d)** ₹43,500

3. A machine costing ₹30,000 is depreciated at 10% a year by the written down value method. What is the depreciation for year 2?
   (a) ₹6,000 **(b)** ₹3,000 **(c)** ₹300 **(d)** ₹2,700

4. Furniture costing ₹90,000 is bought on 1 January. Depreciation is 20% a year on cost. What is the depreciation for the year ending 31 March?
   (a) ₹4,500 **(b)** ₹18,000 **(c)** ₹13,500 **(d)** ₹9,000

5. A machine bought for ₹1,80,000 is depreciated at 15% a year on cost. After 4 years it is sold for ₹84,000. What is the result of the sale?
   (a) loss ₹12,000 **(b)** profit ₹12,000 **(c)** loss ₹96,000 **(d)** profit ₹39,000

6. “Dividend equalisation reserve” is a:
   (a) capital reserve **(b)** revenue reserve
   (c) provision **(d)** secret reserve

7. When the cost of a trademark is written off over the years, the fall in value is called:
   (a) amortisation **(b)** depreciation **(c)** revaluation **(d)** obsolescence

8. Which of these is true of the written down value method?
   (a) depreciation is charged on the original cost
   (b) the book value can become zero
   (c) the depreciation is the same every year
   (d) it is accepted by the income tax law

Section B — Short answer — 8 × 2 = 16 marks

9. Define depreciation.

10. An asset costs ₹3,75,000 (including installation), has a life of 10 years and no scrap value. Find (a) the yearly depreciation (SLM) (b) the book value after 2 years.

11. A machine costs ₹3,30,000. Find the depreciation for each of 2 years at 25% by the written down value method: (a) year 1 (b) year 2.

12. An asset costing ₹3,00,000 is depreciated at 10% a year on cost. What is the depreciation for a full year, and what is the book value at the end of the third year?

13. A machine costing ₹90,000 is bought on 1 October. Depreciation is 20% a year on cost (SLM), and the year ends on 31 March. Find the depreciation for (a) the first year (b) the second year.

14. A van bought for ₹1,40,000 is depreciated at 15% on cost. It is sold after 3 years for ₹56,000. Find (a) the book value on the date of sale (b) the profit or loss.

15. Depreciation, depletion, amortisation or obsolescence? (a) an old film camera is no longer wanted after digital cameras came (b) a stone quarry is emptied

16. Pass the journal entry for depreciation of ₹27,500 on machinery charged directly to the asset account.

Section C — Word problems — 4 × 4 = 16 marks

17. Compare the straight line and written down value methods.

18. On 1 April a firm buys a machine for ₹3,17,500 and spends ₹9,500 on installing it. Its life is 8 years, with a scrap value of ₹11,000. Prepare the machinery account for 3 years by the straight line method (depreciation charged to the asset account; the year ends on 31 March).

19. Silverline Footwear buys a machine for ₹3,50,000 on 1 April and charges depreciation at 25% a year by the written down value method. Show the depreciation and book value for 2 years, and the total depreciation. Why is this method suited to machinery?

20. A machine bought for ₹3,50,000 on 1 April has been depreciated at 15% a year on cost, through a provision for depreciation account. After 5 years it is sold for ₹77,500 by cheque. Find (a) the accumulated depreciation (b) the book value (c) the profit or loss, and (d) pass the journal entry for the sale.

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Answer key

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Q	Answer	Working
1	**(d) the same amount**	—
2	**(a) ₹39,500**	(₹2,17,500 − ₹20,000) ÷ 5 = ₹39,500
3	**(d) ₹2,700**	Year 1: ₹3,000; book value ₹27,000 × 10%
4	**(a) ₹4,500**	₹90,000 × 20% × 3/12
5	**(b) profit ₹12,000**	Book value ₹1,80,000 − ₹1,08,000 = ₹72,000
6	**(b) revenue reserve**	—
7	**(a) amortisation**	—
8	**(d) it is accepted by the income tax law**	—
9	**A decline in the value of a fixed asset from use, passage of time or obsolescence, charged as an expense over its useful life.**	—
10	**(a) ₹37,500; (b) ₹3,00,000**	(₹3,75,000 − ₹0) ÷ 10
11	**(a) ₹82,500; (b) ₹61,875**	year 1: ₹3,30,000 × 25% = ₹82,500; year 2: ₹2,47,500 × 25% = ₹61,875
12	**₹30,000; ₹2,10,000**	₹3,00,000 × 10%
13	**(a) ₹9,000; (b) ₹18,000**	6 months, then 12 months
14	**(a) ₹77,000; (b) loss ₹21,000**	₹1,40,000 − 3 × ₹21,000
15	**(a) obsolescence (b) depletion**	—
16	**Depreciation A/c Dr. ₹27,500 To Machinery A/c ₹27,500 (Being depreciation charged on machinery)**	The machinery account is reduced
17	**SLM: fixed amount on cost, book value can reach zero, simple, suits assets used evenly; WDV: fixed rate on book value, falling charge, book value never zero, accepted by tax law, suits machinery.**	—
18	**Year 1: opening ₹3,27,000 (price ₹3,17,500 + installation ₹9,500); by depreciation ₹39,500; balance c/d ₹2,87,500 Year 2: opening ₹2,87,500; by depreciation ₹39,500; balance c/d ₹2,48,000 Year 3: opening ₹2,48,000; by**	Yearly depreciation (₹3,27,000 − ₹11,000) ÷ 8 = ₹39,500

Q	Answer	Working
	depreciation ₹39,500; balance c/d ₹2,08,500	
19	**Year 1: opening ₹3,50,000, depreciation ₹87,500, closing ₹2,62,500** **Year 2: opening ₹2,62,500, depreciation ₹65,625, closing ₹1,96,875** **Total depreciation ₹1,53,125; book value ₹1,96,875. Suited because the charge falls as repairs rise, keeping the yearly cost even.**	Each year: book value × rate
20	**(a) ₹2,62,500 (b) ₹87,500 (c) loss ₹10,000** **(d) Bank A/c Dr. ₹77,500** **Provision for Depreciation A/c Dr. ₹2,62,500** **Loss on Sale of Machinery A/c Dr. ₹10,000** **To Machinery A/c ₹3,50,000** **(Being machinery sold at a loss)**	5 × 15% of ₹3,50,000 = ₹2,62,500