

## Chapter - 7

### Depreciation, Provisions and Reserves

#### Section-B: Short Answer Questions for Two Marks:-

1. What is Depreciation ?
2. State any two features of depreciation.
3. State any two causes of depreciation.
4. State any two reasons for the charging of depreciation .
5. Mention any four factors affecting the amount of annual depreciation.
6. State the two methods of depreciation
7. What is Straight Line Method of depreciation ?
8. What is Written Down Value Method of depreciation ?
9. State any two differences between Straight Line Method and Diminishing Balance Method.
10. What is Provision ?
11. What is Reserve ?
12. State any two types of Reserves.
13. State any two types of Revenue Reserves.
14. What is Capital Reserve ?
15. What is Revenue Reserve?
16. What is General Reserve ?
17. What is Specific Reserve ?
18. Give four examples for Capital Reserves.
19. Give four examples for Revenue Reserves.
20. State any two differences between Provisions and Reserves.

#### Section-D: Twelve Marks Problems:-

##### Straight Line Method:

- 01 Excel Co Ltd., acquired a Machine for Rs. 80,000 on 01.07.2014 and spent Rs.20,000 for its installation. On 01.04.2016 it sold the Machine for Rs.80,000 and on the same day it purchased another Machine for Rs.70,000. The Company writes off depreciation at the rate of 10% on original cost every year. The books of accounts closed on March 31<sup>st</sup> every year. The company charges depreciation to Asset Account. Prepare Machine Account and Depreciation Account for first three years.

**(Ans- Balance of Machine Account on 31.03.2017 Rs.63,000/- and Loss on sale of Machine Rs.2,500)**

- 02 On 1<sup>st</sup> April 2014, Max Co. Ltd., purchased a Machine for Rs. 200,000 and spent Rs. 20,000 on its installation. On 30.09.2015 it purchased another machine for Rs.1,00,000. On 01.01.2017, it sold the Machine which was purchased on 30.09.2015 for Rs.90,000. The company charges depreciation at 10% p.a on Straight Line Method. Prepare Machine Account and Depreciation Account in the books of Max Co. Ltd. for first three years. The accounts are closed on 31<sup>st</sup> March every year.

**(Ans- Balance of Machine Account on 31.03.2017 Rs. 1,54,000/- and Profit on sale of Machine Rs.2,500).**

- 03 On 01-01-2014, a firm purchased Machine costing Rs. 80,000. On 01-07-2016, it sold the Machine for Rs. 60,000 and on same date a new machine was purchased for Rs. 20,000. Depreciation was charged annually @ 10% per annum on Straight Line Method. Accounts are closed on 31<sup>st</sup> March every year.

Show Machinery Account and Depreciation Account for first four years.

**(Ans- Balance of Machinery A/c as on 31.12.2017 Rs.18,500/-  
Profit /loss on sale of machine is Nil)**

- 04 On 01-04-2013, Ajit Ltd. purchased Machine costing Rs.50,000 and spent Rs.10,000 for its installation. On 30-06-2014, it purchased new Machine costing Rs.40,000. On 30-09-2015, the machine which was purchased on 1-4-2013 was sold for Rs.42,300. Depreciation charged annually @ 10% p.a. on SLM. Accounts are closed on 31<sup>st</sup> March every year.

Show Machinery Account and Depreciation Account for first four years.

**(Ans- Balance of Machinery A/c as on 31.03.2017 Rs.29,000/-  
and Loss on sale of machine Rs.2,700)**

- 05 M/s Golden Ltd. purchased a Machine for Rs. 3,60,000 on 1-10-2014 and spent Rs. 40,000 for its transportation. On 01.04.2016, the firm purchased another machine for Rs. 2,50,000. On 31.12.2016 it sold the Machine which was purchased on 01.10.2014 for Rs.2,95,000. Company charges depreciation at the rate of 10% p.a. on Straight Line Method every year. The books of accounts are closed on 31<sup>st</sup> March every year.

Prepare Machine A/c and Depreciation A/c for first 3 years.

**(Ans- Balance of Machine A/c as on 31.03.2017 Rs.2,25,000/-  
Loss on sale of Machine Rs.15,000)**

- 06 1-4-2013, Sai Co. Ltd purchased a Plant costing Rs.80,000 and spent Rs. 20,000 for its erection. On 31-12-2015, the plant was sold for Rs. 65,000. On 01-01-2016, a new plant was purchased for Rs.75,000. The Company charges depreciation at 10% p.a. under Straight Line Method. Accounts are closed on 31<sup>st</sup> March every year. Prepare Plant Account and Depreciation Account for first 4 years.

**(Ans- Balance of Plant A/c Rs.65,625/-,  
Loss on sale of plant Rs.7,500)**

**Diminishing Balance Method:**

- 7] M/s Shaha & Sons acquired a Machine for Rs.90,000 on 01.07.2014 and spent Rs.10,000 for its installation. On 01.10.2016, they purchased another machine for Rs. 60,000. On 31-03-2017 they sold the Machine which was purchased 01-10-2016 for Rs. 58,000. The firm writes off depreciation at the rate of 10% p.a. under Reducing Balance Method.

Books of accounts are closed on 31<sup>st</sup> March every year.

Prepare Machine Account, and Depreciation A/c the first 3 years.

**( Ans : Balance of Machine A/c as on 31.03.2017 Rs 74,925 and  
Profit on sale of machine Rs. 1,000)**

- 08 On 01-04-2013, Shruti Co-Ltd., purchased a Machinery costing Rs.45,000 and spent Rs.5,000 for its installation. On 31-03-2015 the machinery was sold for Rs.40,000. On 01-04-2015, the new machinery was bought for Rs.85,000. Depreciation was charged at 10% p.a. under Diminishing Balance Method. Accounts are closed on 31<sup>st</sup> March every year.  
Prepare - I. Machinery A/c and  
II. Depreciation A/c for 3 years.  
**(Ans- Balance of Machinery A/c on 31.03.2016 Rs.76,500/-  
Loss on Sale of Machine Rs. 500)**
- 09 M/s Narendra Ltd. purchased a Truck for Rs.3,00,000 on 01.01.2014. It was decided to depreciate at 10% p.a on Reducing Balance Method. On 31.03.2015 Truck was sold for Rs.2,60,000. On 01.04.2016, a new Truck was purchased for Rs.4,00,000. Accounts are closed on 31<sup>st</sup> March every year.  
Prepare : I.Truck A/c II. Depreciation A/c for first 3 years  
**Ans- Balance of Truck A/c Rs.3,60,000/- , and  
Loss on sale of truck Rs.3,250 )**
- 10 M/s Patel and Company acquired a Machinery for Rs.5,00,000 on 01-04-2013. On 01-04-2015 it purchased another machinery for Rs.1,50,000. On 30-09-2015 it sold the machinery which was purchased on 01-04 -2013 for Rs. 3,90,000. Depreciation is charged @ 10 % p.a. under Written Down Method.  
Prepare Machinery A/c and Depreciation A/c for 4 years.  
**(Ans- Balance of Machinery A/c on 31.03.2017, Rs.1,21,500.  
Profit on sale of Machinery Rs. 5,250 )**
- 11 M/s Diwan and Company purchased Machine 'A' for Rs.2,00,000 on 01-04-2013. On 01-10-2013 Machine 'B' was purchased for Rs.1,00,000. On 31-07-2015 Machine 'B' was sold for Rs.82,000. It was decided to depreciate the machines @ 10% p.a under Diminishing Balance Method.  
Prepare Machinery A/c And Depreciation A/c for 4 years.  
**(Ans- Balance of machinery A/c on 31-03-2017 Rs.1,31,220,  
Loss on machine 'B' Rs. 650)**
- 12 From the following particulars prepare Machinery A/c and Depreciation A/c for three years ending on 31-03-2017:  
a) Machine 'X' bought on 01-10-2014 for Rs. 45,000.  
b) Machine 'Y' bought on 01-07-2015 for Rs. 30,000.  
c) Machine 'X' was sold on 30-11-2016 for Rs.36,500.

**(Ans- Balance of machinery A/c on 31-03-2017 Rs.24,975,  
Profit on machine 'X' Rs. 590)**

#### **Section-E:Practical Oriented Questions for Five Marks:-**

- 1.Prepare Machinery A/c for 2 years with imaginary figures under Straight Line Method.
- 2.Prepare Machinery A/c for 2 years with imaginary figures under Written Down Value Method.