

Depreciation Provisions and Reserves

Example: A machine is purchase for Rs. 2,00,000 on April 1,2009. It is decided to charge depreciation on this machine @ 10% p.a. The amounts of depreciation for first four years by using both the methods (Straight line method and Diminishing balance method) are shown as under:

Solution:

| | Straight Line Method | | Diminishing Balance Method | |
|---------|-------------------------|------------|----------------------------|------------|
| Year | Book Value | Dep. @ 10% | Book Value | Dep. @ 10% |
| 2009-10 | 20,000 | 2,000 | 20,000 | 2,000 |
| 2010-11 | 18,000 (20,000 – 2,000) | 2,000 | 18,000 (20,000 – 2,000) | 1,800 |
| 2011-12 | 16,000 (18,000 – 2,000) | 2,000 | 16,200 (18,000 – 1,800) | 1,620 |
| 2012-13 | 14,000 (16,000 – 2,000) | 2,000 | 14,580 (16,200 – 1,620) | 1,458 |

Illustration 1: On January 1, 2013, a firm bought a machine for Rs. 90,000 and spend Rs. 6,000 on its installation and Rs. 4,000 on its carriage. It is decided to charge depreciation @ 10% on straight @ 10% on straight line method. Books are closed on December 31st each year. Show Machinery Account for the year 2013 to 2015.

Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------|-------------|-----|--------|--------|---------------------|------|--------|
| 2013 | | | | | | | |
| Jan 1 | To Bank A/c | | 90,000 | Dec 31 | By Depreciation A/c | | 10,000 |
| Jan 1 | To Cash A/c | | 6,000 | Dec 31 | By Balance c/d | | 90,000 |

| | | | | | | | |
|--------------|----------------|--|-----------------|-------------|---------------------|--|-----------------|
| Jan 1 | To Cash A/c | | 4,000 | | | | |
| | | | 1,00,000 | | | | 1,00,000 |
| 2014 | | | | 2014 | | | |
| Jan 1 | To Balance b/d | | 90,000 | Dec 31 | By Depreciation A/c | | 10,000 |
| | | | | Dec 31 | By Balance c/d | | 80,000 |
| | | | 90,000 | | | | 90,000 |
| 2015 | | | | 2015 | | | |
| Jan 1 | To Balance b/d | | 80,000 | Dec 31 | By Depreciation A/c | | 10,000 |
| | | | | | By Balance c/d | | 70,000 |
| | | | 80,000 | | | | 80,000 |

Illustration 2: On the basis of information given in Illustration I, Show Machinery Account for the year 2013 to 2015 if depreciation is charged @ 10% on diminishing balance method.

Solution :

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------------|--------------------|------------|-----------------|-------------|---------------------|-------------|-----------------|
| 2013 | | | | | | | |
| Jan 1 | To Bank A/c | | 90,000 | Dec 31 | By Depreciation A/c | | 10,000 |
| Jan 1 | To Cash A/c | | 6,000 | Dec 31 | By Balance c/d | | 90,000 |
| Jan 1 | To Cash A/c | | 4,000 | | | | |
| | | | 1,00,000 | | | | 1,00,000 |
| 2014 | | | | 2014 | | | |
| Jan 1 | To Balance b/d | | 90,000 | Dec 31 | By Depreciation A/c | | 9,000 |
| | | | | Dec 31 | By Balance c/d | | 81,000 |
| | | | 90,000 | | | | 90,000 |
| 2015 | | | | 2015 | | | |



| | | | | | | | |
|--------------|----------------|--|---------------|--------|---------------------|--|---------------|
| Jan 1 | To Balance b/d | | 81,000 | Dec 31 | By Depreciation A/c | | 8,100 |
| | | | | | By Balance c/d | | 72,900 |
| | | | 81,000 | | | | 81,000 |

Illustration 3: On April 1, 2013 Kannu bought Machinery costing Rs. 80,000. On July 1, 2015 Machinery was sold for Rs. 40,000. Prepare Machinery Account from April, 1 2013 till July 1, 2015 assuming depreciation was charged @ 10% per annum on March 31, every year on the basis of Original cost method.

Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------------|--------------------|------------|---------------|-------------|------------------------------|-------------|---------------|
| 2013 | | | | | | | |
| Apr 1 | To Bank A/c | | 80,000 | Mar 31 | By Depreciation A/c | | 8,000 |
| | | | | Mar 31 | By Balance c/d | | 72,000 |
| | | | 80,000 | | | | 80,000 |
| 2014 | | | | 2014 | | | |
| Apr 1 | To Balance b/d | | 72,000 | Mar 31 | By Depreciation A/c | | 8,000 |
| | | | | Mar 31 | By Balance c/d | | 64,000 |
| | | | 72,000 | | | | 72,000 |
| 2015 | | | | 2015 | | | |
| Apr 1 | To Balance b/d | | 64,000 | Jul 1 | By Bank A/c | | 40,000 |
| | | | | Jul 1 | By Depreciation A/c | | 2,000 |
| | | | | Jul 1 | By Loss on sale of March A/c | | 22,000 |
| | | | 64,000 | | | | 64,000 |



Illustration 4: On the basis of information given in Illustration 3, prepare Machinery Account assuming depreciation was charged @ 15% per annum on reducing installment method.

Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------------|----------------|-----|---------------|-------------|------------------------------|------|---------------|
| 2013 | | | | | | | |
| Apr 1 | To Bank A/c | | 80,000 | Mar 31 | By Depreciation A/c | | 12,000 |
| | | | | Mar 31 | By Balance c/d | | 68,000 |
| | | | 80,000 | | | | 80,000 |
| 2014 | | | | 2014 | | | |
| Apr 1 | To Balance b/d | | 68,000 | Mar 31 | By Depreciation A/c | | 10,200 |
| | | | | Mar 31 | By Balance c/d | | 57,800 |
| | | | 68,000 | | | | 68,000 |
| 2015 | | | | 2015 | | | |
| Apr 1 | To Balance b/d | | 57,800 | Jul 1 | By Bank A/c | | 40,000 |
| | | | | Jul 1 | By Depreciation A/c | | 2,168 |
| | | | | Jul 1 | By Loss on sale of March A/c | | 15,632 |
| | | | 57,800 | | | | 57,800 |

There is another treatment for charging Depreciation. In this treatment, Provision for Depreciation Account is opened and depreciation is charged in this account instead of Asset Account.

In this treatment the balance of Asset Account remains same throughout its useful life. Provision for Depreciation is shown in the liabilities side of Balance Sheet.



Illustration 5: Vinod limited purchased a machine for Rs. 2,50,000 including installation cost on January 1, 2012. On October 1, 2014, machine was sold for Rs. 1,50,000.

Depreciation was provided @ 10% p.a. on Fixed Installment method and accounts are closed on December 31, each year.

Show the Machinery Account and Provision for Depreciation Account for the year, 2012 to 2014.

Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------|----------------|-----|-----------------|--------|---------------------------|------|-----------------|
| 2012 | | | | 2012 | | | |
| Jan 1 | To Bank A/c | | 2,50,000 | Dec 31 | By Balance c/d | | 2,50,000 |
| | | | 2,50,000 | | | | 2,50,000 |
| 2013 | | | | 2013 | | | |
| Jan1 | To Balance b/d | | 2,50,000 | Dec 31 | By Balance c/d | | 2,50,000 |
| | | | 2,50,000 | | | | 2,50,000 |
| 2014 | | | | 2014 | | | |
| Apr 1 | To Balance b/d | | 2,50,000 | Oct 1 | By Provision for Dep. A/c | | 68,750 |
| | | | | Oct 1 | By Bank A/c | | 1,50,000 |
| | | | | Oct1 | By Profit & Loss A/c | | 31,250 |
| | | | 2,50,000 | | | | 2,50,000 |

Provision for Depreciation Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------|----------------|-----|--------|--------|---------------------|------|--------|
| 2012 | | | | 2012 | | | |
| Dec 31 | To Balance c/d | | 25,000 | Dec 31 | By Depreciation A/c | | 25,000 |
| | | | | | | | |



| | | | | | | | |
|--------|----------------|--|--------|--------|---------------------|--|--------|
| | | | 25,000 | | | | 25,000 |
| 2013 | | | | 2013 | | | |
| Dec 31 | To Balance c/d | | 50,000 | Jan 1 | By Balance b/d | | 25,000 |
| | | | | Dec 31 | By Depreciation A/c | | 25,000 |
| | | | 50,000 | | | | 50,000 |
| 2014 | | | | 2014 | | | |
| Apr 1 | To Machinery | | 68,750 | Jan 1 | By Balance b/d | | 50,000 |
| | | | | Oct 1 | By Depreciation A/c | | 18,000 |
| | | | 68,750 | | | | 68,750 |

Important Point : Total Depreciation charged on Machinery from Jan 1, 2011 to Oct. 1, 2013 :
Rs. 25,000 + Rs. 25,000 + Rs. 18,750 = Rs. 68,750.

Illustration 6: On the basis of information given in Illustration 5, show the Machinery Account and Provision for Depreciation is provided @ 20 % p.a. on Written Down Value Method.

Solution :

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------|----------------|-----|----------|--------|---------------------------|------|----------|
| 2012 | | | | 2012 | | | |
| Jan 1 | To Bank A/c | | 2,50,000 | Dec 31 | By Balance c/d | | 2,50,000 |
| | | | 2,50,000 | | | | 2,50,000 |
| 2013 | | | | 2013 | | | |
| Jan 1 | To Balance b/d | | 2,50,000 | Dec 31 | By Balance c/d | | 2,50,000 |
| | | | 2,50,000 | | | | 2,50,000 |
| 2014 | | | | 2014 | | | |
| Jan 1 | To Balance b/d | | 2,50,000 | Oct 1 | By Provision for Dep. A/c | | 1,14,000 |
| | | | | | | | |



| | | | | | | | |
|--------------|----------------------|--|-----------------|-------|-------------|--|-----------------|
| Oct 1 | To Profit & Loss A/c | | 14,000 | Oct 1 | By Bank A/c | | 1,50,000 |
| | | | 2,64,000 | | | | 2,64,000 |

Provision for Depreciation Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|---------------|----------------|-----|-----------------|-------------|---------------------|------|-----------------|
| 2012 | | | | 2012 | | | |
| Dec 31 | To Balance c/d | | 50,000 | Dec 31 | By Depreciation A/c | | 50,000 |
| | | | 50,000 | | | | 50,000 |
| 2013 | | | | 2013 | | | |
| Dec 31 | To Balance c/d | | 90,000 | Jan 1 | By Balance b/d | | 50,000 |
| | | | | Dec 31 | By Depreciation A/c | | 40,000 |
| | | | 90,000 | | | | 90,000 |
| 2014 | | | | 2014 | | | |
| Oct 1 | To Machinery | | 1,14,000 | Jan 1 | By Balance b/d | | 90,000 |
| | | | | Oct 1 | By Depreciation A/c | | 24,000 |
| | | | 1,14,000 | | | | 1,14,000 |

Important Point : Total Depreciation charged on Machinery from Jan. 1, 2012 to Oct. 1, 2014 :
Rs. 50,000+Rs. 40,000 + 24,000 = Rs. 1,14,000.

Illustration 7: A Company purchased a machine for Rs. 40,000 on April 1, 2014. On October 1, 2015 it was sold for Rs. 13,000. The company charges depreciation @ 10% p.a. on straight line method.

Show Machinery Account, Provision for Depreciation Account and Machinery Disposal account if books are closed on March 31 each year.



Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------|----------------|-----|---------------|--------|---------------------------|------|---------------|
| 2012 | | | | 2012 | | | |
| Apr 1 | To Bank A/c | | 40,000 | Mar 31 | By Balance c/d | | 40,000 |
| | | | 40,000 | | | | 40,000 |
| 2013 | | | | 2013 | | | |
| Apr 1 | To Balance b/d | | 40,000 | Oct 1 | By Machinery Disposal A/c | | 40,000 |
| | | | 40,000 | | | | 40,000 |

Provision for Depreciation Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------|---------------------------|-----|--------------|--------|---------------------|------|--------------|
| 2015 | | | | 2015 | | | |
| Mar 31 | To Balance c/d | | 4,000 | Mar 31 | By Depreciation A/c | | 4,000 |
| | | | 4,000 | | | | 4,000 |
| 2015 | | | | 2015 | | | |
| Oct 31 | To Machinery Disposal A/c | | 6,000 | Apr 1 | By Balance b/d | | 4,000 |
| | | | | Oct 1 | By Depreciation A/c | | 2,000 |
| | | | 6,000 | | | | 6,000 |

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|------|-------------|-----|-------|------|----------------|------|-------|
| 2015 | | | | 2015 | | | |
| | | | | | By Balance c/d | | |



| | | | | | | | |
|-------|------------------|--|---------------|-------|----------------------|--|---------------|
| Oct 1 | To Machinery A/c | | 40,000 | Oct 1 | | | 6,000 |
| | | | | | By Cash A/c | | 13,000 |
| | | | | | By Profit & Loss A/c | | 21,000 |
| | | | 40,000 | | | | 40,000 |

Important Point: Total Depreciation charged on Machine: Rs. 4,000 + Rs. 2,000 = Rs. 6,000

Illustration 8: On Oct. 1, 2012, Arora Auto Limited Purchased Furniture for Rs. 1,00,000 and spent Rs. 4,000 towards its installation. On July 1, 2013, the Furniture was disposed off Rs. 59,820 and on the same day furniture costing Rs. 1,60,000 were purchased. Show the Furniture Account, Provision for Depreciation Account and Furniture Disposal Account for the year 2012, 2013 and 2014 if the rate of Depreciation is 15% per annum by Diminishing Balance method if accounts are closed on 31st march of every year.

Solution:

Furniture Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------------|----------------|-----|-----------------|-------------|---------------------------|------|-----------------|
| 2012 | | | | 2013 | | | |
| Oct 1 | To Bank A/c | | 1,00,000 | Mar 31 | By Balance c/d | | 1,04,000 |
| Oct 1 | To Bank A/c | | 4,000 | | | | |
| | | | 1,04,000 | | | | 40,000 |
| 2013 | | | | 2013 | | | |
| Apr 1 | To Balance b/d | | 1,04,000 | Jul 1 | By Furniture Disposal A/c | | 1,04,000 |
| | | | | 2014 | | | |
| Jul 1 | To Bank A/c | | 1,60,000 | Mar 31 | By Balance c/d | | 1,60,000 |
| | | | 2,64,000 | | | | 2,64,000 |
| 2014 | | | | 2014 | | | |
| Apr 1 | To Balance b/d | | 1,60,000 | Mar 31 | By Balance c/d | | 1,60,000 |
| | | | 1,60,000 | | | | 1,60,000 |



Provision for Depreciation Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|---------------|---------------------------|-----|---------------|---------------|---------------------|------|---------------|
| 2013 | | | | 2013 | | | |
| Mar 31 | To Balance c/d | | 7,800 | Mar 31 | By Depreciation A/c | | 7,800 |
| | | | 7,800 | | | | 7,800 |
| 2013 | | | | 2013 | | | |
| Jul 1 | To Furniture Disposal A/c | | 11,408 | Apr 1 | By Balance b/d | | 7,800 |
| | | | | | By Depreciation A/c | | 3,608 |
| 2014 | | | | 2014 | | | |
| Mar 31 | To Balance c/d | | 18,000 | Mar 31 | By Depreciation A/c | | 18,000 |
| | | | 29,408 | | | | 29,408 |
| | | | | 2014 | | | |
| | | | | Mar 31 | By Depreciation A/c | | 18,000 |
| 2015 | | | | 2015 | | | |
| Mar 31 | To Balance c/d | | 39,300 | Mar 31 | By Depreciation A/c | | 21,300 |
| | | | | | | | |
| | | | 39,300 | | | | 39,300 |

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------------|--------------|-----|----------|--------------|-------------------|------|--------|
| 2013 | | | | 2013 | | | |
| Jul 1 | To Machinery | | 1,04,000 | Jul 1 | By Prov. For Dep. | | 11,408 |



| | | | | | | | |
|--|-----|--|-----------------|--|-------------------------|--|-----------------|
| | A/c | | | | A/c | | |
| | | | | | By Cash A/c | | 59,820 |
| | | | | | By Profit & Loss A/c | | 32,772 |
| | | | 1,04,000 | | | | 1,04,000 |

Important Point: Total Depreciation charged on Machinery sold : Rs. 7,800 + Rs. 3,608 = Rs. 11,408.

Illustration 9: A firm purchased on 1st January, 2012 certain Machinery for Rs. 5,82,000 and spent Rs. 18, 000 on its erection. On 1st July, 2012, additional machinery costing Rs. 2,00,000 was purchased. On 1st July, 2014, the machinery purchased on 1st January, 2012 was auctioned for Rs. 2,86,000 and a fresh machinery for Rs. 4,00,000 was purchased on same date. Depreciation was provided annually on 31st December at the rate of 10% on written down value method. Prepare Machinery account from 2012 to 2014.

Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------|------------------|-----|-----------------|--------|---------------------------------------|------|-----------------|
| 2012 | | | | 2012 | | | |
| Jan 1 | To Bank A/c (i) | | 6,00,000 | Dec 31 | By Depreciation A/c | | 11,408 |
| Jul 1 | To Bank A/c (ii) | | 2,00,000 | | (i) (600,000x10/ 100) 60,000 | | |
| | | | | | (ii) (200,000x10/ 100) 10,000 | | 70,000 |
| | | | | Dec 31 | By Balance c/d (5,40,000+1,90,000) | | 7,30,000 |
| | | | 8,00,000 | | | | 8,00,000 |
| 2013 | | | | 2013 | | | |
| | | | | | By Depreciation A/c | | |



| | | | | | | | |
|-------|---------------------------------------|--|-----------|--------|---|--|-----------|
| Jan 1 | To Balance b/d (5,40,000+1,90,000) | | 7,30,000 | Dec 31 | (i) (5,40,000x10/ 100) 54,000 | | |
| | | | | | (ii) (200,000x10/ 100) 10,000 | | 73,000 |
| | | | | Dec 31 | By Balance c/d (4,86,000+1,71,000) | | 6,57,000 |
| | | | 7,30,000 | | | | 7,30,000 |
| 2014 | | | | 2014 | | | |
| Jan 1 | To Balance b/d (4,86,000+1,71,000) | | 6,57,000 | Jul 1 | By Bank A/c (s ale) | | 2,85,000 |
| Jul 1 | To Bank A/c (iii) | | 4,00,000 | Jul 1 | By Dep. A/c (i) (4,86,000x10/ 100x6/12) | | 24,300 |
| | | | | | By P&L A/c (loss) | | 1,75,700 |
| | | | | Dec 31 | By Dep. A/c (ii) (1,71,000x10/ 100)17,100 | | |
| | | | | | (iii) (4,00,000x10/ 100x6/12) 20,000 | | 37,100 |
| | | | | | By Balance c/d | | 5,33,900 |
| | | | 10,57,000 | | By P&L A/c (loss) | | 10,57,000 |

Illustration 10: The following balances appear in the books of Sankalp on 01-01-2015

Machinery A/c Rs. 8,00,000, Provision for Depreciation a/c Rs. 3,18,000.

On 01-01-2015 they decided to sell a machine for Rs. 34,500. This machine was purchased for Rs. 1,20,000 on 01-01-2011.

Show the machinery A/c, Provision for Depreciation A/c for the year ended Dec 31, 2015 assuming that depreciation was charged at 10% p.a. on Written Down value method.

Solution:

Machinery Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|-------|----------------|-----|----------|--------|-----------------------------------|------|----------|
| 2015 | | | | 2015 | | | |
| Jan 1 | To Balance b/d | | 8,00,000 | Jan 1 | By Bank A/c | | 34,500 |
| | | | | Jan 1 | By Provision for Depreciation A/c | | 41,268 |
| | | | | Jan 1 | By Profit & Loss A/c | | 44,232 |
| | | | | Dec 31 | By Balance c/d | | 6,80,000 |
| | | | 8,00,000 | | | | 8,00,000 |

Provision for Depreciation Account

| Date | Particulars | J.F | (Rs.) | Date | Particulars | J.F. | (Rs.) |
|--------|------------------|-----|----------|--------|---------------------|------|----------|
| 2015 | | | | 2015 | | | |
| Jan 1 | To Machinery A/c | | 41,268 | Jan 1 | By Balance b/d | | 3,18,000 |
| Dec 31 | To Balance c/d | | 3,17,095 | Dec 31 | By Depreciation A/c | | 40,363 |
| | | | | | | | |
| | | | 3,58,363 | | | | 3,58,363 |

