



ACCOUNTS

NCERT - NCERT ACCOUNTS(HINGLISH)

DEPRECIATION , PROVISIONS AND RESERVES

Illustration

1. M/s Singhania and Bros. purchased a plant of *Rs.* 5,00,000 on April 01.2017. and spent *Rs.*50,000 for its installation. The salvage value of the after its useful life of 10 years is estimated to be *Rs.* 10,000. Record journal entries for the year 2016-17 and draw up Plant account and Depreication Account for first three given that the depreciation is

charged using straight line method if :

- (i) The books of account close on March 31 every year, and
- (ii) The firm charges depreciation to the asset account



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2. M/s Mehra and Sons acquired a machine for *Rs.* 1,80,000 on October 01,2016 and spent *Rs.* 20,000 for its installation. The firm writes -off depreciation at the rate of 10 % on original Account and Depreciation Account ofr first three years given that :

- (i) The book of accounts closes on March 31 every year, and
- (ii) The firm charges depreciation to aaset account.



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3. Based on data given in question number 2 record journal entries and prepare Machine account, Depreciation account and Provision for Depreciation account for the first 3 years if provision for depreciation account is maintained by the firm.

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4. M/s. Dalmia Textile Mills purchased machinery on April 01, 2016 *Rs.* 2,00,000 on credit from M/s Ahuja and sons and spent *Rs* 10,000 for its installation. Depreciation is Depreciation, Provisions and Reserves provided @10% p.a. on written down value basis. Prepare Machinery Account for the first three years. Books are closed on March 31, every year.

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5. M/s Sahani Enterprises acquired a printing machine for *Rs.* 40,000 on July 01, 2014 and spent *Rs.* 5,000 on its transport and installation, Another machine for *Rs.* 35,000 was purchased on January 01. 2016 . Depreciation is charged at the rate of 20 % on written down value. Prepare Printing Machine account



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6. On January 01, 2015, Khosla Transport Co. purchased five trucks for *Rs.* each. Depreciation has been provided at the rate of 10 % p.a. using straight line method and accumulated in provision for depreciation account. On January 01, 2016, one truck was sold for *Rs.* 15,000 . On July 01, 2017 , another truck

(Purchased for *Rs.* 20,000 on Jan, 01, 2014) was sold for *Rs.* 18,000 . . A new truck costing *Rs.* 30,000 was purchased on October 01, 2016. You are required to prepare trucks account, Provision for depreciation account and Truck disposal account for the years ended on December 2015, 2016 and 2017 assuming that the firm closes its accounts in December every year.



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7. On April 01, 2015, following balances appeared in the books of M/s Kanishka Traders: Furniture account *Rs.* 50,000, Provision for depreciation of furniture *Rs.* 22,00. On October 01, 2015 a part of furniture purchased for Rupees 20,000 in April 01, 2011 was sold for *Rs.* 5,000. On the same date a few furniture costing *Rs.* 25,000 was purchased. the

depreciation was provided @ 10 % p.a. on original cost of the asset and no depreciation was charged on the asset on the year of sale. Prepare furniture account and provision for depreciation account for the year ending March 31, 2016

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8. Solve illustration 07, if the firm maintains furniture disposal account prepared along with furniture account and provision for depreciation on furniture account.

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9. On Jan 01, 2012 Jain & Sons purchased a second hand plant costing *Rs.* 2,00,000 and spent *Rs.* 10,000 on its overhauling. It also spent *Rs.* on transportation and

installation of the plant. It was decided to provide for depreciation @ 20% on written down value. The plant was destroyed by fire on July 31, 2015 and an insurance claim of *Rs.* 50,000 was admitted by the insurance company. Prepare plant account, accumulated depreciation account and plant disposal account assuming that the company closes its books on December 31, every year.



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10. M/s Digital Studio bought a machine for *Rs.* 8,00,000 on April 01, 2013 . Depreciation was provided on straight-line basis at the rate of 20% on original cost. On April 01, 2015 a substantial modification was made in the machine to make it more efficient at a cost of *Rs.* 80,000. This amount is to be depreciated @ 20% on straight line basis. Routine

maintenance expenses during the year 2013-14 were *Rs.* 2,000

Draw up the Machine account, Provision for depreciation account and charge to profit and loss account in respect of the accounting year ended on March 31, 2016.



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11. M/s Nishit printing press bought a printing machine for *Rs.* 6,80,000 on April 01, 2015. Depreciation was provided on straight line basis at the rate of 20% on original cost. On April 01, 2017 a modification was made in the machine to increase its technical reliability for *Rs.* 70,000. On the same date, an important component of the machine was replaced for Depreciation, Provisions and Reserves

Rs. 20,000 due to excessive wear and tear. Routine

maintenance expenses during the year are *Rs.* 5, 00

Prepare machinery account, provision for depreciation account. Show the working notes accordingly for the year ending March 31, 2018.

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Test Your Understanding I

1. State whether the following statements are true or false:

Depreciation is a non-cash expense

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2. Depreciation is also charged on current assets

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3. Depreciation is decline in the market value of tangible fixed assets

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4. The main cause of depreciation is wear and tear caused by its usage.

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5. Depreciation must be charged so as to ascertain true profit or loss of the business

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6. Depletion term is used in case of intangible assets

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7. Depreciation provides fund for replacement

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8. When market value of an asset is higher than book value, depreciation is not charged.

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9. Depreciation is charged to reduce the value of asset to its market value



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10. If adequate maintenance expenditure is incurred, depreciation need not be charged.



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Test Your Understanding I

1. Basaria Confectioner bought a cold storage plant on July 01, 2014 for *Rs.* 1,00,000. Compare the amount of depreciation

charged for first three years using:

Rate of depreciation @ 10 % on original cost basis,

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2. Rate of depreciation @ on written down value basis,

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3. Also, plot the computed amount of depreciation on a graph.

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Test Your Understanding Iii

1. State with reasons whether the following statements are True or False ,

(i) Making excessive provision for doubtful debits builds up the secret reserve in the business.

(ii) Capital reserves are normally created out of free or distributable profits.

(iii) Dividend equalisation reserve is an example of general reserve

(iv) General reserve can be used only for some specific purposes.

(v) 'Provision' is a charge against profit.

(vi) Reserves are created to meet future expenses or losses the amount of which is not certain.

(vii) Creation of reserve reduces taxable profits of the business.



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2. Fill in the correct words :

(i) Depreciation is decline in the value of

(ii) Installation, freight and transport expenses are a part of

(ii) Provision is a against profit.

(iv) Reserve created for maintaining a stable rate of dividend is termed as.....

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Questions For Practice Short Answers

1. What is 'Depreciation'?

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2. State briefly the need for providing depreciation

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3. What are the causes of depreciation?

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4. Explain basic factors affecting the amount of depreciation.

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5. Distinguish between straight line method and written down value method of calculating depreciation.



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6. “In case of a long term asset, repair and maintenance expenses are expected to rise in later years than in earlier year”.

Which method is suitable for charging depreciation if the management does not want to increase burden on profits and loss account on account of depreciation and repair.



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7. What are the effects of depreciation on profit and loss account and balance sheet?

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8. Distinguish between 'provision' and 'reserve'

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9. Give four examples each of 'provision' and 'reserves'.

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10. Distinguish between 'revenue reserve' and 'capital reserve'.



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11. Give four examples each of 'revenue reserve' and 'capital reserves'.

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12. Distinguish between 'general reserve' and 'specific reserve'

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13. Explain the concept of 'secret reserve'.

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Questions For Practice Long Answeres

1. Explain the concept of depreciation. What is the need for charging depreciation and what are the causes of depreciation?



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2. Discuss in detail the straight line method and written down value method of depreciation. Distinguish between the two and also give situations where they are useful.



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3. Describe in detail two methods of recording depreciation.

Also give the necessary journal entries.

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4. Explain determinants of the amount of depreciation

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5. Name and explain different types of reserves in details

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6. What are 'provisions'. How are they created? Give accounting treatment in case of provision for doubtful Debts



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Numerical Problems

1. On April 01, 2010, Bajrang Marbles purchased a Machine for *Rs.* 1,80,000 and spent *Rs.* 10,000 on its carriage and *Rs.* on its installation. It is estimated that its working life is 10 years and after 10 years its scrap value will be *Rs.* 20,000

(a) Prepare Machine account and Depreciation account for the first four years by providing depreciation on straight line method. Accounts are closed on March 31st every year

(b) Prepare Machine account, Depreciation account and

Provision for depreciation account (or accumulated depreciation account) for the first four years by providing depreciation using straight line method accounts are closed on March 31 every year.



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2. On July 01, 2010, Ashok Ltd. Purchased a Machine for *Rs.* 1,80,000 and spent *Rs.* 12,000 on its installation. At the time of purchase it was estimated that the effective commercial life of the machine will be 12 years and after 12 years its salvage value will be *Rs.* 12,000

Prepare machine account and depreciation Account in the books of Ashok Ltd. For first three years, if depreciation is written off according to straight line method. The account are closed on December 31st, every year



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3. Reliance Ltd. Purchased a second hand machine for *Rs.* 56,000 on October 01, 2011 and spent *Rs.* 28,000 on its overhaul and installation before putting it to operation. It is expected that the machine can be sold for *Rs.* 6,000 at the end of its useful life of 15 years. Moreover an estimated cost of *Rs.* 1,000 is expected to be incurred to recover the salvage value of *Rs.* 6,000 Prepare machine account and Provision for depreciation account for the first three years charging depreciation by fixed installment Method. Accounts are closed on March 31, every year.



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4. Berlia Ltd. Purchased a second hand machine for *Rs.* 56,000 on July 01, 2015 and spent *Rs.* 24, 000 on its repair and installatio and *Rs.* 5,000 for its carriage. On September 01, 2016, it purchased another machine *Rs.* 2,50,000 and spent *Rs.* 10,000 on its installation.

(a) Depreciation is provided on machinery @10% p.a on original cost method annually on December 31. Prepare machinery account and depreciation account from the year 2015 to 2018.

(b) Prepare machinery account and depreciation account from the year 2011 to 2018, if depreciation is provided on machinery @10% p.a. on written down value method annually on December 31.



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5. Ganga Ltd. purchased a machinery on January 01, 2014 for *Rs.* 5,50,000 and spent *Rs.* 50,000 on its installation. On September 01, 2014 it purchased another machine for *Rs.* 3,70,000. On May 01, 2015 it purchased another machine for *Rs.* 8,40,000 (including installation expenses).

(a) Machinery account and depreciation account for the years 2014, 2015, 2016 and 2017.

(b) If depreciation is accumulated in provision for Depreciation account then prepare machine account and provision for depreciation account for the years 2014, 2015, 2016 and 2017.



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6. Azad Ltd. purchased furniture on October 01, 2014 for *Rs.* 4,50,000. On March 01, 2015 it purchased another furniture

for *Rs.* 3,00,000,. On March sold off the first furniture purchased in 2014 for *Rs.* 2,25,000. Depreciation is provided at 15% p.a. on written down value method each year. Accounts are closed each year on March 31. Prepare furniture account, and accumulated depreciation account for the years ended on March 31, 2015, March 31, 2016 and March 31, 2017. Also give the above two accounts if furniture disposal account is opened.



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7. M/s Lokesh Fabrics purchased a Textile Machine on April 01, 2011 for *Rs.* 1,00,000 On July 01, 2012 another machine costing *Rs.* 2,50,000 Qa urchased . The machine purchased on April 01, 2011 was sold for *Rs.* 25,000 on October 01, 2015. The company charges depreciation @15 % p.a. on straight

line method. Prepare machinery account and machinery disposal account for the year ended March 31, 2016.



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8. The following balances appear in the books of Crystal Ltd,
on Jan 01, 2015

	<i>Rs.</i>
Machinery account on	15,00,000
Provision for depreciation account	5,500

On April 01, 2015 a machinery which was purchased on January 01, 2012 for *Rs.* 2,00,000 was sold for *Rs.* 75,000. A new machine was purchased on July 01, 2015 for *Rs.* 6,00,000, Depreciation is provided on machinery at 20% p.a. on Straight line method and books are closed on December 31 every year. Prepare the machinery account and provision for depreciation account for the year ending December 31, 2015.

9. Excel Computers has a debit balance of *Rs.* 50,000 (original cost *Rs.* 1,20,000) in computers account on April 01, 2010. On July 01, 2010 it purchased another computer costing *Rs.* 2,50,000. One more computer was purchased on January 01, 2011 for *Rs.* 30,000. On April 01, 2014 the computer which has purchased on July 01, 2010 became obsolete and was sold for *Rs.* 20,000. A new version of the IBM computer was purchased on August 01, 2014 for *Rs.* 80,000. Show Computers account in the books of Excel Computers for the years ended on March 31, 2011, 2012, 2013, 2014 and 2015. The computer is depreciated on \circ 10 p.a. on straight line method basis.

10. Carriage Transport Company purchased 5 trucks at the cost of *Rs.* 2,00,000 each on on April 01, 2011. The company writes off depreciation @ 20% p.a. on original cost and closes its books on December 31, every year. On October 01, 2013, one of the trucks is involved in an accident and is completely destroyed. Insurance company has agreed to pay *Rs.* 70,000 in full settlement of the calim. On the same date the company purchased a second hand truck for *Rs.* 1,00,000 and spent *Rs.* 20,000 on its overhauling. Prepare truck account and provision for depreciation account for the three years ended on December 31, 2013. Also give truck account if truck disposal account is prepared.



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11. Saraswati Ltd. purchased a machinery costing *Rs.* 10,00,000 on January 01, 2011. A new machinery was purchased on 01 May, 2012 for *Rs.* 15,00,000 and another on July 01, 2014 for *Rs.* 12,00,000. A part of the machinery which originally cost *Rs.* 2,00,000 in 2011 was sold for *Rs.* on April 30, 2014. Show the machinery account, provision for depreciation account and machinery disposal account from 2011 to 2015 if depreciation is provided at 10% p.a. on original cost and account are closed on December 31, every year.



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12. On July 01, 2011 Ashwani purchased a machine for *Rs.* 2,00,000 on credit Installation expenses *Rs.* 25,000 are paid

by cheque. The estimated life is 5 years and its scrap value after 5 years will be *Rs.* 20,000. Depreciation is to be charged on straight line basis. Show the journal entry for the year 2011 and prepare necessary ledger accounts for first three years.

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13. On October 01, 2010, a Truck was purchased for *Rs.* 8,00,000 by Laxmi Transport Ltd. Depreciation was provided at 15% p.a. on the diminishing balance basis on this truck. On December 31, 2013 this Truck was sold for *Rs.* 5,00,000. Accounts are closed on 31st March every year. Prepare a Truck Account for the four years.

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14. Kapil Ltd. purchased a machinery on July 01, 2011 for *Rs.* 3,50,000. It purchased two additional machines, on April 01, 2012 costing *Rs.* 1,50,000 and on October 01, 2012 costing *Rs.* 1,00,000. Depreciation is provided @10% p.a. on straight line basis. On January 01, 2013, first machinery become useless due to technical changes. This machinery was sold for *Rs.* 1,00,000. ` 1,00,000. prepare machinery account for 4 years on the basis of calendar year.



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15. On January 01, 2011, Satkar Transport Ltd., purchased 3 buses for *Rs.* 10,00,000 each/ On July 01, 2013, one bus was involved in an accident and was completely destroyed and *Rs.* 7,00,000 were received from the Insurance Company in

full settlement. Depreciation is written off @15 % p.a. on diminishing balance method. Prepare bus account from 2011 to 2014. Books are closed on December 31 every year.



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16. On October 01, 2011 Juneja Transport Company purchased 2 Trucks for *Rs.* 10,00,000 each. On July 01, 2013, One Truck was involved in an accident and was completely destroyed and *Rs.* 6,00,000. were received from the insurance company in full settlement. On December 31, 2013 another truck was involved in an accident and destroyed partially, which was not insured. It was sold off for *Rs.* 1,50,000. On January 31, 2014 company purchased a fresh truck for value every year. The books are closed every year on March 31. Give the truck account from 2011 to 2014



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17. A Noida based Construction Company owns 5 cranes and the value of this asset in its books on April 01, 2017 is *Rs.* 40,00,000. On October 01, 2017 it sold one of its cranes whose value was *Rs.* 5,00,000 on April 01, 2017 at a 10 % profit. On the same day it purchased 2 cranes for *Rs.* 4,50,000 each. Prepare cranes account. It closes the books on December 31 and provides for depreciation on 10 % written down value



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18. Shri Krishan Manufacturing Company purchased 10 machines for *Rs.* 75,000 each on July 01, 2014. On October 01, 2016, one of the machines got destroyed by fire and an

insurance claim of *Rs.* 45,000 was admitted by the company. On the same date another machine is purchased by the company for *Rs.* 1,25,000. The company writes off 15 % p.a. depreciation on written down value basis. The company maintains the calendar year as its financial year. Prepare the machinery account from 2014 to 2017.



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19. On January 01, 2014, a Limited Company purchased machinery for *Rs.* 20,00,000. Depreciation is provided @15% p.a. on diminishing balance method. On March 01, 2016, one fourth of machinery was damaged by fire and *Rs.* 40,000 were received from the insurance company in full settlement. On September 01, 2016 another machinery was purchased by the company for *Rs.* 15,00,000.

Write up the machinery account from 2010 to 2013. Books are closed on December 31, every year.



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20. A Plant was purchased on 1st July, 2015 at a cost of *Rs.* 3,00,000 and *Rs.* 50,00 were spent on its installation. The depreciation is written off at 15% p.a. on the straight line method. The plant was sold for *Rs.* 1,50,000 on October *Rs.* 4,00,000. including purchasing value. The accounts are closed on December 31 every year.

Show the machinery account and provision for depreciation account for 3 years.



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21. An extract of Trial balance from the books of Tahiliani and Sons Enterprises on March 31, 2017 is given below:

Name of the Account	Debit Amount <i>Rs</i>	Credit Amount <i>Rs</i>
Sundry debtors	50,000	
Bad debts	6,000	
Provision for doubtful debts		4,000

Additional Information

- Bad Debts proved bad but not recorded amounted to *Rs.* 2,000
- Provision is to be maintained at 8 % of Debtors.

Give necessary accounting entries for writing off the bad debts and creating the provision for doubtful debts account.

Also show the necessary accounts



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22. The following information are extract from the Trial

Balance of M/s Nisha traders on 31 March 2017

Sundry Debtors 80,500

Bad debts 1,000

Provision for had debts 5,000

Additional Infromation

Bad Debts *Rs.* 500

Provision is to be maintained at 2% of Debtors.

Prepare bad debts account, Provision for bad debts account and profit and loss account.



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