

**Systematic Studies For Professionals**  
(Where your quest for quality education ends)

**Time 1.5 Hours**

**Depreciation Accounting**

**Max. Marks: 55**

- Q.1** On 1<sup>st</sup> July 2011 GS Ltd purchased second hand machinery for ₹ 20,000 and spent ₹ 5,000 on re – conditioning and installing it. On 1<sup>st</sup> January 2012 the firm purchased machinery worth ₹ 18,000. On 30<sup>th</sup> June 2013 the machinery purchased on 1<sup>st</sup> January 2012 was sold for ₹ 8,000. On 1<sup>st</sup> July 2013 fresh machinery was purchased on installment basis. Payment for the machinery was to be made as:
- |                            |         |
|----------------------------|---------|
| 1 <sup>st</sup> July 2013  | ₹ 8,000 |
| 30 <sup>th</sup> June 2014 | ₹ 7,000 |
| 30 <sup>th</sup> June 2015 | ₹ 6,500 |
- Payment in 2014 and 2015 include interest of ₹ 1,000 and ₹ 500 respectively the company writes off depreciation @ 10% p.a. on written down value. The accounts are closed every year on 31<sup>st</sup> March.  
**Show** the machinery account & Provision for depreciation a/c for four years ending 31<sup>st</sup> March 2015. [10]
- Q.2** A company provides depreciation on plant and machinery at 15% p.a. on reducing balances. On 1<sup>st</sup> April, 2016 the balance in the Plant and Machinery Account was ₹ 5,80,000. It was discovered in 2016-17 that:  
₹ 50,000 being repairs to machinery incurred on 30<sup>th</sup> September 2014 had been capitalized.  
₹ 80,000 being the cost of a machine purchased on 1<sup>st</sup> July, 2013 had been treated as ordinary purchase.  
₹ 70,000 being the cost of a machine purchased on 1<sup>st</sup> January, 2015 sold on 1<sup>st</sup> February 2016 for ₹ 35,000 credited to sales a/c.  
Directors want to correct the mistakes while preparing the accounts for the year ended 31<sup>st</sup> March 2017. A plant that cost ₹ 70,000 on 30<sup>th</sup> June 2015 was scrapped and replaced with a modern plant on 30<sup>th</sup> September 2016 by spending ₹ 1,00,000.  
**Calculate** the amount of depreciation and Prepare the Machinery a/c for the year ended 31<sup>st</sup> March 2017. [10]
- Q.3** On 1<sup>st</sup> January, 2015, SSP Ltd. purchased a machine for ₹ 5,00,000. The life of the machine is four years. It is decided to provide for the replacement of the machine at the end of 4 years by setting up depreciation fund. It is expected that investments will fetch interest at 14% p.a. Sinking Fund Table shows that 0.203205 invested each year will produce Re. 1 at the end of four years at 14% p.a.  
On 31<sup>st</sup> December, 2018, the depreciation fund investments are sold for ₹ 3,52,950.  
**Prepare** necessary ledger accounts. [10]
- Q.4** A company has acquired a lease of a building for a term of 5 years on 1<sup>st</sup> January 2014, by payment of ₹ 6,25,000. It is proposed to depreciate the lease by the annuity method, charging 10% interest. Reference to the annuity table shows that the amount of Re1 for 5 years at 10% is Re.0.263797.  
**Show** the lease account. [5]
- Q.5** SSP Ltd. bought a machinery for ₹ 3,60,000 on 1<sup>st</sup> April 2017. One more machinery was purchased on 1<sup>st</sup> October, 2017 costing ₹ 2,00,000. On 1<sup>st</sup> July 2018, a new machinery for ₹ 1,00,000 was added to the existing machinery. On 1<sup>st</sup> April 2019 one third of the machinery which was installed on 1<sup>st</sup> April 2017 was sold for ₹ 32,000. The rate of depreciation is 20% on reducing balance method. On 1<sup>st</sup> January 2020 the Co. decided to change the method retrospectively to SLM applying 25% rate.  
**Show** the Machinery account and provision for depreciation a/c in the books of the company. Financial year ends on 31<sup>st</sup> December each year. [10]
- Q.6** Akshay Collieries Ltd. acquired a lease right for 15 years of a mine on January 1, 2015 on a lump sum payment of ₹ 12,00,000 to the landlord of which 3,00,000 will be returned to the lessee after the lease term. It was estimated by the expert that the coal deposit of the mine was 20,00,000 tons, 75% of which could be raised within the time period. The company decided to write off the lease account under WDV method of depreciation. The lease account was shown accordingly for the first four years. On 31<sup>st</sup> October 2019 the Board of Directors decided to depreciate the lease on depletion method with retrospective effect from January 1<sup>st</sup>, 2015. The annual raisings were:
- |      |               |
|------|---------------|
| 2015 | 70,000 tons   |
| 2016 | 80,000 tons   |
| 2017 | 90,000 tons   |
| 2018 | 1,00,000 tons |
| 2019 | 1,20,000 tons |
- You are required** to show the lease account from 1<sup>st</sup> January, 2015 to 31<sup>st</sup> December, 2019. [10]