Chapter # 10

Depreciation

Principles of Accounting – XII

Depreciation

Chapter # 10

WHAT THE EXAMINER USUALLY ASK?

- Computation of cost of fixed asset.
- Computation of depreciation expense under:
  - Straight Line Method.
  - Diminishing Balance Method.
  - Units Production Method.
  - Working Hours Method.
  - Sum of the Year's Digit Method.
- Journal Entries:
  - Journal entry to record the purchase of machine.
  - Adjusting and closing entry for depreciation expense.
- T – Accounts:
  - Cost of fixed asset.
  - Depreciation expense.
  - Allowance for depreciation.
- Partial Balance Sheet.

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DEPRECIATION

DEPRECIATION
A noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence. Most assets lose their value over time (in other words, they depreciate), and must be replaced once the end of their useful life is reached. There are several accounting methods that are used in order to write off an asset's depreciation cost over the period of its useful life. Because it is a non-cash expense, depreciation lowers the company's reported earnings while increasing free cash flow.

AMORTIZATION
The process followed in allocating the cost of long-lived assets to the periods in which their benefits are derived. Examples are amortized expenses on intangible assets such as goodwill. Amortization is same as the depreciation process. Depreciation is used for tangible fixed assets while amortization is normally used for intangible fixed assets.

DEPLETION
Systematic and rational allocating of the cost of a natural resource over the period of exploitation or the using up of an asset, especially a mineral asset is known as depletion. For example, a quarry is depleted by the extraction of stone.

CAPITAL EXPENDITURE
The expenditure incurred for acquiring a fixed asset or which results in increasing the earning capacity of the business is known as capital expenditures. The benefits of capital expenditures are generally availed in several accounting years.

REVENUE EXPENDITURE
An expenditure incurred in the course of regular business a transaction of a concern is availed in the same accounting year is known as revenue expenditure.

DIFFERENCES BETWEEN CAPITAL EXPENDITURE AND REVENUE EXPENDITURE

BASIS OF DIFFERENCE	CAPITAL EXPENDITURE	REVENUE EXPENDITURE
1. Purpose	It is incurred for the purchase of fixed assets.	It is incurred for the maintenance of fixed assets.
2. Earning Capacity	It increases the earning capacity of the business.	It does not increase the earning capacity of the business.
3. Periodicity of Benefit	Its benefits are spread over a number of years.	Its benefit is only for one accounting period.
4. Placement in Financial Statements	It is an item of balance sheet and is shown as an asset.	It is an item of trading and profit and loss account and is shown on the debit side of either of the two.

SALVAGE VALUE
The net residual value of an asset at the end of its useful life, when it is no longer suitable for its original use is called salvage value. It is also known as scrap value, residual value or resale value.

Depreciation

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COMPUTATION OF COST OF MACHINE

List price of fixed asset		XXX
Less: Trade discount		(XXX)
Invoice price		XXX
Less: Cash discount		(XXX)
Net cash price		XXX
Add: Additional Cost Incurred:		
Sales tax	XXX	
Freight – in	XXX	
Insurance in transit	XXX	
Import duty / custom duty	XXX	
Foundation charges	XXX	
Installation charges	XXX	
Testing charges	XXX	
Total additional cost incurred		(XXX)
Total cost of machine		***XXX***

ENTRY TO RECORD PURCHASE OF FIXED ASSET

Fixed asset DR. (with net cash price)
Cash CR. (with net cash price)
(To record the purchase of fixed asset)

Fixed asset DR. (with total additional cost incurred)
Cash CR. (with total additional cost incurred)
(To record the additional cost incurred)

ILLUSTRATION # 1: **(Cost of Machine)**

Company purchased a machine on 1 January 2011 at a list price of Rs.600,000, subject to a trade discount of 5% under the credit term 2/10, n/30. The payment was made within discount period. The company incurred the following expenditures:

- Sales tax @ 5% on net cash price.
- Freight – in Rs.10,000.
- Import duty Rs.6,000.
- Custom duty Rs.8,500.
- Insurance – in – transit Rs.13,970.
- Installation charges Rs.12,000.
- During installation a part of machine was damaged and was repaired at a cost of Rs.4,800.
- Test running cost Rs.3,000.
- Foundation charges Rs.10,000.
- Three year fire insurance policy Rs.90,000.
-

REQUIRED:

a) Compute the cost of machine.
b) Prepare necessary entries in General Journal for the purchase of machine and other expenditures incurred.

SOLUTION # 1:

Computation of Cost of Machine:

List price		600,000
Less: Trade discount (600,000 x 5%)		(30,000)
Invoice price		570,000
Less: Cash discount (570,000 x 2%)		(11,400)
Net cash price		558,600
Add: Additional Cost Incurred:		
Sales tax (558,600 x 5%)	27,930	

Freight	10,000	
Import duty	6,000	
Custom duty	8,500	
Insurance in transit	13,970	
Installation charges	12,000	
Test running cost	3,000	
Foundation charges	10,000	
Total additional cost incurred		91,400
Total cost of machine		***650,000***

BOOK VALUE

The value at which an asset appears in the books of organization (usually as at the date of the last balance sheet) is called book value. This is the purchase cost or latest revaluation less any depreciation applied since purchase or revaluation.

Book value = Cost – Allowance for depreciation

DEPRECIABLE COST

The cost of fixed asset which is depreciated during its whole working life is called depreciable cost.

Depreciable cost = Cost – Salvage value

METHODS OF DEPRECIATION

1) STRAIGHT LINE METHOD

A method of calculating the depreciation of an asset which assumes the asset will lose an equal amount of value each year. The annual depreciation is calculated by subtracting the salvage value of the asset from the purchase price, and then dividing this number by the estimated useful life of the asset. It is also called fixed installment method because the amount of depreciation remains fixed during the whole life of asset. Usually this method is used for those fixed assets whose life does not affect it its production.

$$\textit{Annual depreciation} = \frac{\textit{Cost – Salvage value}}{\textit{Estimated life in years}}$$

2) DIMINISHING BALANCE METHOD

A common depreciation-calculation system that involves applying the depreciation rate against the non-depreciated balance is known as diminishing balance method. Instead of spreading the cost of the asset evenly over its life, this system expenses the asset at a constant rate, which results in declining depreciation charges each successive period. It is also known as declining balance method or reducing balance method. Usually this method is used for those fixed assets whose life can effect on its production.

Annual depreciation = Cost / Book value x Rate (%)

3) SUM OF THE YEAR'S DIGIT METHOD

Sum of the year's digit method is a system for calculating the annual depreciation expense for a capital asset. The calculation involves identifying the number of years over which the asset will be depreciated and summing all of the numbers while counting back to one. This becomes the denominator in the ratio used to determine annual depreciation. The numerator is the number of years remaining in the life of the asset.

Annual depreciation = Depreciable cost x Yearly Fraction

4) UNIT PRODUCTION METHOD

Accounting method where a provision for depreciation is computed at a fixed rate per unit of product, based on an estimate of the total number of units the property will produce during its service life. This method is useful only when the total number of units of production can be accurately estimated.

$$\textit{Rate per unit} = \frac{\textit{Cost – Salvage value}}{\textit{Estimated life in units}}$$

Annual depreciation = ***Units produced x Rate per unit***

5) WORKING HOURS METHOD

Accounting method where a provision for depreciation is computed at a fixed rate per hour of machine, based on an estimate of the total number of hours the machine will work during its service life. This method is useful only when the total number of hours can be accurately estimated.

$$\textit{Rate per hour} = \frac{\textit{Cost – Salvage value}}{\textit{Estimated life in hours}}$$

Annual depreciation = ***Hours worked x Rate per hour***

ENTRY TO RECORD THE DEPRECIATION FOR THE PERIOD

Depreciation expense DR. (with amount of depreciation expense)
Allowance for depreciation CR. (with amount of depreciation expense)
(To record the depreciation expense for the period)

ILLUSTRATION # 2: **(Depreciation by Straight Line Method)**

Company purchased a machine at a cost of Rs.340,000 on 28 March 2008. It was estimated that the machine have a useful life of 10 years with a salvage value of Rs.40,000. Company uses Straight Line Method to charge depreciation. Accounting period ends on 31 December each year.

REQUIRED:

Compute and record the depreciation upto 31 December 2011.

SOLUTION # 2:

Computation of Depreciation Expense by Straight Line Method:

$$\text{Annual depreciation} = \frac{\text{Cost – Scrap value}}{\text{Estimated life in years}}$$

$$\text{Annual depreciation} = \frac{340{,}000 - 40{,}000}{10}$$

Annual depreciation = 30,000

Depreciation expense for the 31 December 2008 =	*30,000 x 9/12 =*	*22,500*
Depreciation expense for the 31 December 2009 =		*30,000*
Depreciation expense for the 31 December 2010 =		*30,000*
Depreciation expense for the 31 December 2011 =		*30,000*

AHMED COMPANY
GENERAL JOURNAL

Date	Particulars	P/R	Debit	Credit
31 Dec. 2008	Depreciation expense		22,500	
	Allowance for depreciation			22,500
	(To record the depreciation expense)			
31 Dec. 2009	Depreciation expense		30,000	
	Allowance for depreciation			30,000
	(To record the depreciation expense)			
31 Dec. 2010	Depreciation expense		30,000	
	Allowance for depreciation			30,000
	(To record the depreciation expense)			
31 Dec. 2011	Depreciation expense		30,000	
	Allowance for depreciation			30,000
	(To record the depreciation expense)			

ILLUSTRATION # 3: (Depreciation by Diminishing Balance Method)

Company purchased a machine at a cost of Rs.800,000 on 1 April 2007. It was estimated that the machine have a useful life of 10 years with a salvage value of Rs.30,000. Company uses Diminishing Balance Method to charge depreciation @50%. Accounting period ends on 31 December each year.

REQUIRED:

Compute the depreciation upto 31 December 2011.

SOLUTION # 3:

Computation of Depreciation Expense by Diminishing Balance Method:

Annual depreciation = Cost/Book value x Rate (%)
Book value = Cost – Allowance for depreciation

Year	*Cost/Book Value*	*Rate*	*Depreciation Expense*	*Allowance for Depreciation*	*Book Value*
2007	800,000	50%	400,000 x 9/12 = 300,000	300,000	500,000
2008	500,000	50%	250,000	550,000	250,000
2009	250,000	50%	125,000	675,000	125,000
2010	125,000	50%	62,500	737,500	62,500
2011	62,500	50%	31,250	768,750	31,250

ILLUSTRATION # 4: (Depreciation by Sum of the Year's Digit Method)

Company purchased a machine at a cost of Rs.350,000 on 1 April 2008. It was estimated that the machine have a useful life of 5 years with a salvage value of Rs.50,000. Company uses Sum of the Year's Digit Method to charge depreciation. Accounting period ends on 31 December each year.

REQUIRED:

a) Compute the depreciation upto 31 December 2010.
b) Prepare Machine Cost, Depreciation Expense, and Allowance for Depreciation account upto 31 December 2010.
c) Prepare partial balance sheet as on 31 December 2009.

SOLUTION # 4:

Computation of Depreciation Expense by Sum of the Year's Digit Method:

Annual depreciation = Cost – Salvage value (Depreciable cost) x Yearly fraction
Depreciable cost = Cost – Salvage value
Depreciable cost = 350,000 – 50,000 = 300,000

Fraction = $\frac{n\,(n+1)}{2}$

Fraction = $\frac{5\,(5+1)}{2}$

Fraction = 15

Year	*Depreciable Cost*	*Yearly Fraction*	*Depreciation Expense*	*Allowance for Depreciation*	*Book Value*
2008	300,000	5/15	*100,000 x 9/12 = 75,000*	75,000	275,000
2009	300,000 300,000	5/15 4/15	*100,000 x 3/12 = 25,000* *80,000 x 9/12 = 60,000* *85,000*	160,000	190,000
2010	300,000 300,000	4/15 3/15	*80,000 x 3/12 = 20,000* *60,000 x 9/12 = 45,000* *65,000*	225,000	125,000

GENERAL LEDGER

Machine

1 Apr 2008	Cash	350,000	31 Dec 2008	c/d balance	350,000
		350,000			350,000
1 Jan 2009	b/d balance	350,000			

Depreciation Expense

31 Dec 2008	All for depreciation	75,000	31 Dec 2008	Closing	75,000
		75,000			75,000
31 Dec 2009	All for depreciation	85,000	31 Dec 2009	Closing	85,000
		85,000			85,000
31 Dec 2010	All for depreciation	65,000	31 Dec 2010	Closing	65,000
		65,000			65,000

Allowance for Depreciation

31 Dec 2008	c/d balance	75,000	31 Dec 2008	Depreciation exp.	75,000
		75,000			75,000
			1 Jan 2009	b/d balance	75,000
31 Dec 2009	c/d balance	160,000	31 Dec 2009	Depreciation exp.	85,000
		160,000			160,000
			1 Jan 2010	b/d balance	160,000
31 Dec 2010	c/d balance	225,000	31 Dec 2010	Depreciation exp.	65,000
		225,000			225,000
			1 Jan 2011	b/d balance	225,000

ILLUSTRATION # 5: **(Depreciation by Units Production Method)**

Purchased a machine on 8 August 2008 for Rs.880,000 having salvage value of Rs.80,000. The estimated useful life of machine was 400,000 units. Company uses Units Production Method to charge depreciation. Accounting period ends on 31 December each year.

REQUIRED:

Compute the depreciation if:

- 100,000 units produce in the year 2008.
- 200,000 units produce in the year 2009.

SOLUTION # 5:

Computation of Depreciation Expense by Units Production Method:

$$\text{Rate per unit} = \frac{\text{Cost} - \text{Salvage value}}{\text{Estimated life in units}}$$

$$\text{Rate per unit} = \frac{880{,}000 - 80{,}000}{400{,}000}$$

Rate per unit = Rs.2 per unit

Depreciation expense for the 31 December 2008 =	*100,000 x 2 =*	*200,000*
Depreciation expense for the 31 December 2009 =	*200,000 x 2 =*	*400,000*

ILLUSTRATION # 6: (Depreciation by Working Hours Method)

Purchased a machine on 23 September 2010 for Rs.880,000 having salvage value of Rs.80,000. The estimated useful life of machine was 100,000 hours. Company uses Working Hours Method to charge depreciation. Accounting period ends on 31 December each year.

Required:

Compute the depreciation if:

- 4,000 hours worked in the year 2010.
- 6,000 hours worked in the year 2011.

SOLUTION # 6:

Computation of Depreciation Expense by Working Hours Method:

$$\text{Rate per hour} = \frac{\text{Cost} - \text{Salvage value}}{\text{Estimated life in hours}}$$

$$\text{Rate per hour} = \frac{880{,}000 - 80{,}000}{100{,}000}$$

Rate per hour = Rs.8 per unit

Depreciation expense for the 31 December 2010 =	*4,000 x 8 =*	*32,000*
Depreciation expense for the 31 December 2011 =	*6,000 x 8 =*	*48,000*

Depreciation

Chapter # 10

PRACTICE QUESTIONS

Question # 1: ***1998 Regular & Private – BIEK***

Define depreciation. Briefly state different methods of providing depreciation.

Question # 2: ***2005 Regular & Private & 2012 Private – BIEK***

Distinguish between Revenue Expenditure and Capital Expenditure and state how the difference should be recorded.

Question # 3: ***2004 Regular & Private – BIEK***

Name the following as capital expenditure and revenue expenditure.

1. Transit insurance
2. Packing charges.
3. Maintenance and repairs.
4. License fee for current year.
5. Test run cost.
6. Cost resulted increase in life of asset.

Question # 4: ***2013 Private – BIEK***

Identify the following as "Capital Expenditure" or "Revenue Expenditure":

i) Purchased new battery for an older motor vehicle.
ii) Replaced hard disk of office computer which doubled its storage capacity.
iii) Transfer charges of a newly owned building.
iv) Paid annual motor vehicle tax.
v) Annual maintenance of plant and equipments.

Question # 5: ***2003 Regular – BIEK***

Saad & Co. purchased a machine on Jan 1, 2002 having list price of Rs.50,000 with 10% trade discount. The credit terms are 2/10, n/45. The Co. paid the amount on time. The Co. also incurred the following expenditures:

(i) Transportation in	Rs.	3,000
(ii) 3 Years' fire insurance policy	Rs.	10,000
(iii) Test running cost	Rs.	2,000
(iv) Overhauling charges after 4 month's use	Rs.	7,000
(v) Insurance in transit	Rs.	900

REQUIRED

Compute the cost of machine and the Journal entry in proper form.

Question # 6: ***2011 Private – BIEK***

On January 5th, 2011 Zain Company purchased a machine having list price of Rs.200,000/- subject to a trade discount of 4%. The credit term were 2/10, n/30. The payment was made on January 12th, 2011 and the following expenditure was incurred:

Sales tax	Rs.1,840
Transportation in	4,000
Insurance in transit	10,000
Two years fire insurance	6,000
Installation cost	15,000
During the installation work, the machine was damaged and repair cost	9,000

REQUIRED

Compute the cost of machine and prepare General Journal entries.

Question # 7: ***2011 Regular – BIEK***

On April 5, 2011 the Hamdam & Co. purchase a machine. It has estimated useful life of 6 years with salvage value of Rs.10,000/-. The company uses Straight Line Method for the year ended June 30. The following expenditures were incurred on it:

1. Invoice price	Rs.	550,000/-
2. Clearing and forwarding charges	Rs.	10,500/-

3. Transit insurance	Rs.	7,500/-
4. Sales tax	@	17%
5. Federal excise duty	@	2.5%
6. Income tax	@	5%
7. Custom duty	@	2.5%

REQUIRED

(i) Compute the total cost of machine.
(ii) Set up machine cost account.

Question # 8: ***2013 Private – BIEK***

Khalid & Co. purchased a machine on January 1, 2010, having list price of Rs.900,000. It was subject to a trade discount of 10%. The credit terms are 2/10, n/30 (the payment was made within the credit period). The company also paid sales tax Rs.80,000; transportation charges Rs.12,000; labour charges Rs.5,000; foundation cost Rs.6,000; installation charges Rs.3,500; test – run charges Rs.2,500; paid Rs.4,000 as premium for a 3 years fire insurance policy and Rs.1,200 as driving license fee.

REQUIRED

i) Calculate the cost of machine.
ii) Give entries in the General Journal to record the above transactions.

Question # 9: ***2012 Regular – BIEK***

Asma Industries acquired a machine by making the following payments:
Net cash price Rs.116,000 including 16% sales tax; transportation Rs.5,000; insurance in transit Rs.6,000; fire insurance for next two years Rs.6,000; installation charges Rs.15,000; charges to repair the damage caused during installation Rs.3,000.

REQUIRED

i) Classify the above payments into capital expenditures and revenue expenditures.
ii) Give an entry to record the acquisition of machine and another entry to record revenue expenditures by debiting general expenses account.

Question # 10: ***2004 Regular & Private – BIEK***

Ali Raza and Company purchased a machine at list price of Rs.250,000 with a trade discount of 10% and credit terms 2/10, n/30, sales tax was paid at 5% of net cash price. The company also paid for the following (i) Freight – in Rs.2,475 (ii) Installation expenditure Rs.3,000 (iii) 2 year fire insurance Rs.2,000 (iv) During installation machinery was damaged and repair cost paid Rs.1,500.

REQUIRED

(a) Compute total cost of machine.
(b) Compute depreciable cost of machine assuming 10% estimated depreciation of total cost of machine.

Question # 11: ***2012 Private – BIEK***

On January 1, 2012 Asim Manufacturers purchased a machine having a list price of Rs.500,000; subject to a trade discount of 10%. The credit term were 5/20, n/60. The payment was made on January 20, 2012. The following expenditure was incurred on the machine on January 1, 2012:

Sales tax @ 16%	
Transportation – in	Rs.10,000
Insurance – in – transit	Rs.5,000
Installation cost	Rs.15,000
Fire insurance for the year	Rs.5,000

The machine was estimated to have a useful life of 10 years and residual value of Rs.27,500.

REQUIRED

Compute the depreciable cost of the machine on January 1, 2012.

Question # 12: ***2013 Regular – BIEK***

On Sep. 30, 2008 Muneb Co. Ltd. purchased a machine for Rs.250,000/- with 5% trade discount. The following expenditures were also incurred on machine:

i) Installation charges Rs.20,000/- ii) Freight in Rs.7,500/-
i) Insurance in transit Rs.10,000/- ii) 2 year fire insurance Rs.50,000/-

Its useful life is 10 years and residual value estimated at Rs.75,000/-. The company's accounting year ends on Dec. 31, each year.

REQUIRED

(i) Calculate the cost of machine.
(ii) Record purchase of machine.
(iii) Calculate the amount of depreciation on Dec. 31, 2008 and 2009 using Straight Line Method.

Question # 13: ***1990 Regular & Private – BIEK***

Kamran Ltd. purchased for cash a machine on 01 July 1989 with a list price of Rs.200,000 subject to a trade discount of 5%. It also incurred the following expenses:-

(i) Paid transportation charges for machine Rs.1,000.
(ii) Paid foundation expenses Rs.4,000.
(iii) Paid installation charges Rs.5,000.

Estimates expected life of the machine is 10 years with a scrap value of Rs.10,000. The company uses Straight Line Method for computing depreciation charge and allowance method for recording depreciation. The accounting year of the company ends on December 31.

REQUIRED

(a) Compute the annual depreciation charge (show your calculation).
(b) Give the entries in General Journal to record the purchase of machine on July 1, 1989 and the expenditure incurred thereon, and the necessary adjusting entry in General Journal to record depreciation on 31 December 1989.
(c) Set up in skeleton form, three accounts i.e. Machine cost, Depreciation Expense – Machine, and Allowance for Depreciation – Machine, and post to the three accounts the entries from General Journal in (a) above.
Close and balance (as the case may be) the above three ledger accounts.

Question # 14: ***1991 Regular & Private – BIEK***

On January 1, 1989 Imran & Co. purchased a machine at a list price of Rs.20,000 with credit terms 2/10, n/30. The company availed itself of the concession period payment.
The company also incurred the following expenditure:

1. Insurance in transit Rs.200.
2. Installation charges Rs.1,200.
3. Transportation charges Rs.1,000
4. Three year fire insurance policy premium Rs.600.
5. During installation work the machine was damaged and the repair cost was Rs.800.

It was estimated that the machine is expected to have a salvage value of Rs.500 after its useful of 10 years. The company uses the Diminishing Balance Method for computing depreciation and charge depreciation using a rate of 20% and the allowance method for recording it. The accounting year ends on December 31.

REQUIRED

(a) Compute the cost of machine.
(b) Compute the amount of depreciation expense on December 31, 1989 and 1990.
(c) Give entries in General Journal to record:
(i) The purchase of the machine.
(ii) The expenditure incurred thereon and
(iii) The necessary adjusting entry to record depreciation on December 31, 1989 & 1990.

(d) Set up in skeleton for three ledger account: Machine – Cost, Depreciation expense – Machine and Allowance for depreciation – Machine and post to the three accounts the entries from the General Journal.
(e) Close and balance the above three ledger accounts.

Question # 15: ***2010 Regular & Private – BIEK***

Mania Consulting Clinic purchased a machine on March 1, 2003 at a list price of Rs.150,000 subject to a trade discount 6%. The credit term was 2/10, n/30. The payment was made within the discounted period.
The company also incurred the following expenses:
(a) Insurance in transit Rs.4,000.
(b) Custom duty Rs.12,000.
(c) Carriage – in Rs.3,000.
(d) Installation and foundation Rs.7,000.
(e) Test run cost Rs.5,000.

It is estimated that the machine has salvage value of Rs.79,180 at the end of its estimated life of 10 years. The company uses Straight Line Method for computing depreciation and allowance method to record depreciation. Company's accounting year ends on December 31, each year.

REQUIRED

(1) Compute the cost of machine.
(2) Compute and record depreciation for the first 2 years.

Question # 16: ***1993 Regular & Private – BIEK***

Mehran & Co. Ltd. purchased a machine on 1-9-1990, the list price being Rs.400,000, subject to a trade discount of 10%. The company paid Rs.140,000 as import duty and Rs.30,000 for installation. A certain of the machine was damaged during installation, which was replaced at a cost of Rs.16,000. It was estimated that the machine will have a useful life of 10 years, with a salvage value of Rs.50,000.
The company's fiscal year ends on December 31. Straight line method is used for computing depreciation, and allowance method for recording it.

REQUIRED

(a) Compute the cost of machine.
(b) Give General Journal entries to record depreciation for 1990 and 1991.
(c) Prepare T-accounts for machine cost and machine – allowance for depreciation.
(d) Prepare partial balance sheet as of December 31, 1991.

Question # 17: ***1997 Regular & Private – BIEK***

Tariq Ltd. purchased a machine on July 1, 1994 having list price of Rs.100,000 with credit terms of 2/10, n/30. The company paid the amount within discount period. The company also incurred the following expenditure:-

(i) Transportation charges	Rs.	5,000
(ii) Insurance in transit		8,000
(iii) Installation charges		6,000
(iv) Fire insurance premium		7,500

(v) During installation the machine was damaged and repairing cost amounted to Rs.3,000.

Estimated life of the machine is 9 years with a scrap value of Rs.27,000. The company uses Straight Line method for computing depreciation and allowance method for recording depreciation. The accounting years ends on December 31.

REQUIRED

(a) Compute the cost of machine.
(b) Compute the depreciation charge for the years 1994, 1995 and 1996.

(c) Give the entries in the General Journal to record the purchase of machine on July 1, 1994 and the expenditure incurred thereon and the necessary adjusting entry to record depreciation on December 31, 1994.
(d) Set up in skeleton form the account of depreciation expense – machine and allowance for depreciation – machine for the year 1994 to 1996. Close and balance the accounts (as the case may be).

Question # 18: ***2002 Regular – BIEK***

Sharif and Company Ltd. purchases a machine for cash on July 1, 2000, the list price being Rs.200,000/- subject to a trade discount of 10%. The company paid Rs.70,000/- as import duty and Rs.15,000/- for installation charges. It was estimated that the machine will have a useful life of 10 years with a salvage value of Rs.25,000/-. The company's accounting year ends on March 31 each year. Straight line method is used for computing the depreciation.

REQUIRED

(a) Compute the cost of machine.
(b) Give general journal entries to record depreciation for 2001 and 2002.
(c) Prepare T-account for machine cost and machine accumulate depreciation upto March 31, 2002.
(d) Prepare the partial balance sheet as of March 31, 2001.

Question # 19: ***2002 Private – BIEK***

On July 1, 2002 Zaidi Company purchased a machine for cash at a list price of Rs.50,000 subject to a trade discount of 10%. On July 5, 2002 the company paid Rs.6,000 against fire insurance for the next two years, Rs.3,000 as installation charges of the machine. On December 31, 2002 its depreciation at Rs.4,000.

REQUIRED

(i) Cost of machine.
(ii) Dated journal entries from July 1, to Dec. 31, 2002, including adjusting and closing entries.
(iii) Partial balance sheet on Dec. 31, 2002, showing machine and its related allowance for depreciation.

Question # 20: ***2011 Private – BIEK***

On April 5th, 2009 Aziz Company Ltd. purchased equipment Rs.220,000 with useful life ten years. The company applies 20% rate for charging depreciation under straight line.

REQUIRED

(i) Calculate the amount of depreciation on December 31, 2009 and 2010.
(ii) Make entries in General Journal for depreciation on December 31, 2009 and 2010.

Question # 21: ***2011 Regular – BIEK***

Shamim Ltd. purchased a machine on February 28, 2007 at a price of Rs.400,000/-. Its residual value was estimated @ 20%. The life is to be estimated in 5 years, in units 32,000 and in hours 64,000. The company's year ended December 31, each year.

REQUIRED

Determine the depreciation on machine for 2007, 2008 and 2009 under the following:

(i) Working hours operated: (year 2007, 1,500 hours, year 2008 2,500 hours and year 2009, 2,000 hours).
(ii) Production units: (year 2007, 7,500 units, year 2008, 8,500 units and year 2009, 6,700 units).

Note: Present your data separately for each method in the following form:

Year	Cost of Machine (Rs.)	Depreciation (Rs.)	Accumulated Depreciation (Rs.)	Book Value of Machine (Rs.)
2007				
2008				
2009				

Question # 22: ***2011 Private – BIEK***

Wazeer Company purchased machinery on July 1, 2008 at a cost of Rs.400,000. It is estimated that the machinery will have scrap value of Rs.40,000. It is also estimated that the machinery will produce approximately 450,000 units.
During the year 2008, 30,000 units produced.
During the year 2009, 60,000 units produced.
During the year 2010, 80,000 units produced.

REQUIRED

(i) Compute the depreciation expenses for the year ended on December 31, 2008, 2009 & 2010.
(ii) Set up T-accounts of Depreciation Expenses and Allowances for Depreciation for the year 2008, 2009 and 2010. Close and balance the account.

Question # 23: ***2012 Regular – BIEK***

A machine was acquired on March 31, 2009 at a cost of Rs.800,000. Its salvage value was estimated at Rs.160,000 and useful life to be 32,000 working hours. From 2009 to 2011 machine's working was as follows:

Year	*Hours Worked*
2009	3,200
2010	4,800
2011	4,000

REQUIRED

i) Compute amount of depreciation.
ii) Set up allowance for depreciation – machine account for the years 2009 to 2011.

Question # 24: ***2013 Regular – BIEK***

Zaid Asim purchased a machine on July 01, 2007 at a price of Rs.400,000/-. Its scrap value is estimated at 15% of cost price. The life is estimated to be 5 years, in units 17,000 and in hours 34,000. The company's year ends on Dec. 31 each year.

REQUIRED

(i) Compute depreciation per year, per unit and per hour.
(ii) Prepare adjusting entries on Dec. 31, 2007 and 2008 under working hours method. Assuming that the machine has operated 1,000 hours in 2007 and 2,200 hours in 2008.

Question # 25: ***2010 Regular & Private – BIEK***

Bilquis manufacturers purchased a machine on August 30, 2003 at a price of Rs.200,000. Its residual value estimated 15%. The life is to be estimated in years 10, in units 25,000 and in hours 40,000. The company's year ended Dec. 31, each year.

REQUIRED

(1) Compute depreciation, per unit and per hour.
(2) Prepare adjusting journal entries on December 31, 2003 and 2004 under working hour's method. Suppose machine was operated 1,000 hours during 2003 and 3,000 hours in 2004.
(3) Prepare closing journal entries for the depreciation on Dec. 31, 2005 and 2006 under output method, suppose machine has produced 1,500 units during 2005 and 2,500 units in 2006.

Depreciation

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Question # 26: ***1994 Regular & Private – BIEK***

On July 1, 1992 Naya Daur Company purchased a machine at a list price of Rs.100,000 subject to a trade discount of 20% and credit terms 2/10 n/30. Payment was made on July 6, 1992. During the installation of the machine a part was damaged and repaired at a cost of Rs.2,000. The machine had a working life of 14,000 hours and a salvage value of Rs.8,400. The company's accounting year ends on December 31. During the year 1992, the machine worked for 1,800 hours and during 1993 for 2,400 hours.

REQUIRED

(a) Determine depreciable cost of the machine.
(b) Compute depreciation expense for the years 1992 and 1993.
(c) Give adjusting and closing entries to record depreciation for the years 1992 and 1993.
(d) Show how the machine will appear in the balance sheet on December 31, 1993.

Question # 27: ***1992 Regular & Private – BIEK***

On July 1, 1991, Huma Corporation purchased a machine for cash Rs.120,000. It was estimated that the machine will have scrap value of Rs.20,000 at the end of its estimated service life of 10 years. The manufacturers of the machine also estimated that the service life of the machine will be 25,000 hours and it will produce approximately 50,000 units. The machine was used in the year 1991 for 1,000 hours and produced 2,000 units. The accounting year ends on December 31.

REQUIRED

(a) Determine the depreciation rate under each of the following methods separately:-
    (i) Straight Line Method.
    (ii) Service Hours Method.
    (iii) Units Production Method.
(b) Give adjusting and closing entries in the General journal of Huma Corporation on December 31, 1991 under each of the above three methods separately.

Question # 28: ***2005 Regular & Private – BIEK***

Assume that an asset costs Rs.20,000 and has an estimated life of five years. The estimated salvage value at the end of the life of the asset is Rs.2,000. The company uses Diminishing Balance Method at the rate of 40%.

REQUIRED

(i) Compute the depreciation for five years.
(ii) Make adjusting entries to record the depreciation for 4th and 5th years.

Question # 29: ***2013 Regular – BIEK***

Shakeeb Co. purchased a machine on Jan. 01, 2006 having a cost price of Rs.240,000/-. Its residual value is estimated to be Rs.15,000/-. Company uses Diminishing Balance Method at the rate of 20% per annum. The accounting year ends on Dec. 31, each year.

REQUIRED

(i) Compute depreciation expense on Dec. 31, 2006, 2007, 2008.
(ii) Give adjusting entries on Dec. 31, 2007 and 2008.
(iii) Set up allowance for depreciation account for the year Dec. 31, 2006, 2007 and 2008.

Question # 30: ***2006 Regular & Private – BIEK***

A company purchased an equipment for Rs.250,000. The estimated selling price of the equipment at the end of its whole useful life is Rs.30,000. The company uses Diminishing Balance Method @ 40% p.a. for computing depreciation.

REQUIRED

(i) Compute depreciation for 1st 3 years by Diminishing Balance Method.
(ii) Pass entries in General Journal for purchase of equipment including adjusting and closing entries for the first two years.
(iii) Set up the equipment allowance for depreciation account for the first two years.

Question # 31: ***2009 Regular & Private – BIEK***

The Scholars Company purchased a machine for Rs.250,000 on January 1, 2005 having the salvage value of Rs.25,000. The company uses Diminishing Balance Method of depreciation charge @40% per annum.

REQUIRED

(i) Compute and record annual depreciation from 2005 to 2008.
(ii) Construct allowance for depreciation account covering the period from 2005 to 2008.
(iii) Show partial balance sheet as on December 31, 2008.

Question # 32: ***2011 Regular – BIEK***

On Oct. 1, 2007 Naeem & Company purchased a machine at a cost of Rs.200,000/- which was expected to be sold for Rs.40,000/- after its estimated useful life of 4 years. The company follows calendar year as its accounting period.

REQUIRED

(i) Compute annual depreciation expenses from 2007 to 2010 by 30% Diminishing Balance Method.
(ii) Prepare adjusting journal entries on Dec. 31, 2007 and 2009.
(iii) Prepare closing journal entries for the depreciation on Dec. 31, 2008, 2010.
(iv) Prepare partial balance sheet as on Dec. 31, 2010.

Question # 33: ***1998 Regular & Private – BIEK***

Kamal & Company purchased a machine worth Rs.800,000. Its useful life was estimated to be 8 years and its scrap value at Rs.80,000.

REQUIRED

(a) Calculate the annual depreciation charge on machine using Straight Line Method for the first two years.
(b) 25% Diminishing Balance Method for the first two years.
(c) Give the necessary adjusting journal entries at the end of first and second years separately under the two specified methods.

Question # 34: ***2013 Private – BIEK***

Usman & Co. purchased a machine costing Rs.525,000 on March 31, 2012. It was estimated to have a salvage value of Rs.125,000 and useful life of 10 years.

REQUIRED

i) Calculate depreciation charge for the year ended on December 31, 2012 under straight line method.
ii) Prepare adjusting entry to record depreciation as on December 31, 2012 under 12% diminishing balance method.

Question # 35: ***2001 Regular & Private – BIEK***

On January 1, 1998 a machine was purchased for Rs.200,000. The estimated useful life was 10 years and the salvage value Rs.10,000.

REQUIRED

(i) Calculate the amount of depreciation under the Straight Line Method for the year 2000.
(ii) Give in General Journal the adjusting and closing entries to record the depreciation expense on December 31, 2000.
(iii) Calculate the depreciation expense for the year 1998, 1999 and 2000 under the Diminishing Balance Method using an annual rate of 20%.
(iv) Prepare partial balance sheet as on December 31, 2000, showing machinery with accumulate depreciation calculated under Diminishing Balance Method.

Question # 36: ***2007 Regular & Private – BIEK***

On July 1, 2004 a machine was purchased for Rs.400,000. Its estimated useful life was 10 years and the salvage value Rs.20,000. Accounting year closed on Dec. 31.

REQUIRED

(i) Calculate the amount of depreciation expense under the Straight Line Method for the year 2004.
(ii) Give in General Journal the adjusting and closing entries to record the depreciation expense on December 31, 2004.
(iii) Calculate the depreciation expense for the year 2004, 2005 and 2006 under the Diminishing balance Method using an annual rate of 20%.
(iv) Prepare partial balance sheet as on December 31, 2006 showing with 3 year's accumulated depreciation calculated under Diminishing Balance Method.

Question # 37: ***2002 Private – BIEK***

The Pak Suzuki Ltd. purchased a machine from Mitsubishi Ltd. of Japan costing Rs.2,500,000/- for ash on March 31, 2000. The machine was estimated to have an operating life of 4 years and the residual value of Rs.500,000/-.

REQUIRED

Calculate depreciation on the machine for the years ended Dec. 31, 2000 and Dec. 31, 2001 under each of the following methods separately:

(i) a) @ 40% on Diminishing Balance Method.
b) 20% on Straight Line Method.
(ii) Give an adjusting journal entry to record the depreciation on Dec. 31, 2000 under Straight Line Method.
(iii) Give a journal entry to close depreciation expense on Dec. 31, 2001 under the Diminishing Balance Method.

Question # 38: ***2003 Private – BIEK***

A computer was purchased on June 30, 2001 at a cost of Rs.48,000. Its salvage value was estimated at Rs.8,000 and useful life to be 4 years. Accounting period ends on Dec. 31 each year.

REQUIRED

Depreciation for 2001 and 2002, under:

(i) Straight Line Method.
(ii) Diminishing Balance @50 per cent.

Question # 39: ***2003 Regular – BIEK***

ABC Co. Ltd. purchased a machine for Rs.50,000 for cash on Mar. 31, 2001. Its useful life is 5 years with residual value of Rs.10,000. The accounts are closed on Dec. 31 each year.

REQUIRED

Calculate the amount of depreciation for the year 2001 and 2002 under:

(i) Straight Line Method.
(ii) Diminishing Balance Method.
(iii) Give adjusting and closing entries in General Journal for the year 2001.
(iv) Prepare partial balance sheet on Dec. 31, 2002.

Question # 40: ***2008 Regular & Private – BIEK***

On 1st May, 2006 Sadia Ltd. bought a certain machinery for Rs.800,000 subject to 10% trade discount and thereafter cash discount of 5%. Its useful life was estimated to be 10 years and the salvage value Rs.24,000.

REQUIRED

(a) Compute depreciation expense for the year 2006 and 2007 under Straight Line Method if the company's accounting year ends on 31st December.
(b) Pass adjusting and closing entries for the year 2006.

(c) Prepare initial balance sheet as on 31st December, 2007.
(d) Compute the amount of depreciation expense for the said two years under Diminishing Balance Method if the rate applied is 20%.

Question # 41: ***1999 Regular & Private – BIEK***

Tariq Corporation purchased machinery on July 1, 1997 at a cost of Rs.40,000. Additional costs were incurred as follows:-

(i)	Installation and testing	Rs. 2,400
(ii)	Freight	1,200
(iii)	Insurance while on transit	400
(iv)	2-year fire insurance policy	1,200

It is estimated that machinery will have a scrap value of Rs.4,000 at the end of its estimated service life of 10 years. It is also estimated that the machinery will have a service life of 40,000 working hours, producing approximately 20,000 units.

REQUIRED

Record the depreciation expense for the first two years under each of the following methods:-
(a) Working hours (operated first year 1,200 hours; second year 2,000 hours).
(b) Production (produced first year 800 units; second year 1,200 units).
(c) Straight Line Method.
(d) 10% depreciation on Diminishing Balance Method.

Question # 42: ***2000 Regular & Private – BIEK***

The following are the balances before making any adjustment on December 31, 1998, the end of accounting year:-

Machine – Cost	Rs.75,000
Machine – Allowance for depreciation	Rs.15,000

REQUIRED

(a) Calculate the depreciation charge at 30% using Diminishing Balance Method and give adjusting and closing entries in General Journal on December 31, 1998.
(b) Setup (i) depreciation expense account (ii) machine cost and (iii) machine - allowance for depreciation account. Enter the balance given above and post the adjusting entry in accounts affected. Balance and close the above accounts on December 31, 1998.
(c) Prepare partial balance sheet as of December 31, 1998.

Question # 43: ***2010 Regular & Private – BIEK***

Adeel & Brothers Pharmaceutical Company has the following balances on January 1, 2006:

Cost of machine	Rs.400,000
Accumulated depreciation	Rs.30,000

The company uses Diminishing Balance Method @10% per annum to compute depreciation and allowance method to record depreciation. Company's year ended on December 31, each year.

REQUIRED

(i) Compute the depreciation for the year 2006, 2007 & 2008.
(ii) Prepare allowance for depreciation account for the year 2006, 2007 and 2008.
(iii) Prepare partial balance sheet as on December 31, 2007.

Question # 44: ***2012 Regular – BIEK***

The balance sheet of Mr. Asim as on December 31, 2008 shows machinery Rs.400,000 and accumulated depreciation – machinery Rs.45,000.

REQUIRED

a) Calculate depreciation for the year 2009 & 2010 under diminishing balance method @ 15%.
b) Make adjusting entry as on December 31, 2010.
c) Make closing entry as on December 31, 2009.
d) Prepare partial balance sheet as on December 31, 2010.

Chapter # 10

Question # 45: ***1996 Regular & Private – BIEK***

The following account balances were extracted from the books of M/s. Muzaffar & Co. as on December 31, 1995, before making any adjustments for the year:-

Machine – Cost (Purchased on January 1, 1993)	Rs.50,000
Machine – Allowance for depreciation	Rs.9,500.

The company uses the Diminishing balance Method for computing depreciation charge using a rate of 10% on reduced balance every year. The accounting year closes on December 31.

REQUIRED

(a) What will be the amount of depreciation expense for 1995? Show your computation.
(b) Give adjusting entries to record depreciation expense on December 31, 1993 and 1994. Show your computation.
(c) Give closing entry for depreciation expense on December 31, 1994.
(d) Prepare allowance for depreciation account for the accounting years ended December 31, 1993 and 1994.
(e) Show machine cost in partial balance sheet as of December 31, 1995.

Question # 46: ***2012 Private – BIEK***

The following account balances were extracted from the books of Farhan & Co. as on December 31, 2011, before making any adjustments for the year:

Machine – Cost (Purchased on April 2009) Rs.300,000.
Machine – Allowance for depreciation Rs.50,250.

The company uses the diminishing balance method for computing depreciation charge at the rate of 10%. The accounting year closes on December 31.

REQUIRED

i) What will be the amount of depreciation expense for 2011? Show computation.
ii) Give adjusting entry for December 31, 2009.
iii) Prepare allowance for depreciation – machine for the year ended December 31, 2011.

Question # 47: ***2004 Regular & Private – BIEK***

On December 05, 2001, Farhan Company purchased two machines of Rs.80,000 each, estimated salvage value of the machine is Rs.10,000 after the useful life of 5 years. The machine started production from Jan. 05, 2002. As per policy, depreciation is charged from the date of production.

REQUIRED

Compute depreciation expenditure for Dec. 31, 2002 and for Sept. 30, 2003 under the methods given below:

(i) Fixed Installment Method.
(ii) Sum of the Year Digit Method. (Not included in the new course).

MULTIPLE CHOICE QUESTIONS (MCQS)

1) The book value of a piece of equipment is the:

a) Original cost of the equipment
b) Current replacement cost of the used equipment
c) Current market value of the used equipment
d) Difference between the original cost of the equipment and its related accumulated depreciation

2) The original cost of a physical asset was Rs.45,000. It was purchased on January 5, 2004. It has an estimated useful life of 10 years and has been depreciated under the straight-line method. At the end of the 6th year, after adjusting entries have been recorded and posted, the book value of the physical asset will be:

a) Rs.22,500 b) Rs.27,000 c) Rs.18,000 d) Rs.40,500

3) The original cost of a physical asset was Rs.45,000. It was purchased on July 5, 2005. It has an estimated useful life of 10 years and has been depreciated under the straight-line method. At the end of the 6th year, after adjusting entries have been recorded and posted, the book value of the physical asset will be:

a) Rs.22,500 b) Rs.27,000 c) Rs.18,000 d) Rs.40,500

4) Which of the following is true?

a) Depreciation is an accurate measure of the allocation of the cost of an asset over its useful life
b) Depreciation is an estimated measure of the allocation of the cost of an asset over its useful life
c) Depreciation provides for an accumulation of cash to replace the asset
d) Depreciation affects the cash flow of the entity

5) On November 1, a building with an estimated life of 15 years and no estimated salvage value was purchased for Rs.180,000. The adjusting entry on November 30 will include which of the following?

a) A debit to depreciation expense for Rs.12,000
b) A debit to depreciation expense for Rs.1,000
c) A credit to accumulated depreciation – Building for Rs.12,000
d) Both (a) and (c)

6) A company purchased for cash a machine with a list price of Rs.90,000. The machine was shipped FOB shipping point at a cost of Rs.5,000. Installation and test runs of the machine cost Rs.3,000. The recorded acquisition cost of the machine is:

a) Rs.98,000 b) Rs.128,000 c) Rs.90,000 d) Rs.93,000

7) A machine is purchased for Rs.5,000 plus additional freight costs of Rs.500. Major modifications and installation costs will be Rs.1,200. What is the amount of the recorded cost this asset?

a) Rs.5,000 b) Rs.6,700 c) Rs.6,200 d) Rs.5,500

8) A machine costing Rs.50,000 was purchased with credit terms of 2/10, n/ 30. The freight charges were Rs.800 and the assembly costs were Rs.600. What will be the total amount debited to the Machine account when it is placed into service, assuming the invoice was paid within 10 days of the invoice date?

a) Rs.50,800 b) Rs.50,400 c) Rs.51,400 d) Rs.51,800

9) A printing press was purchased for Rs.100,000, with credit terms of 2/10, n/30. Freight charges were Rs.2,000, installation charges were Rs.1,000, and insurance while in transit was Rs.150. Paper valued at Rs.200 was used to check font sizes, alignment, and print quality of the new printing press. An electrician charged Rs.1,200 to make the proper electrical connections to the press. What is the total recorded cost of the printing press, assuming the invoice was paid within the discount period?

a) Rs.98,000 b) Rs.102,250 c) 102,550 d) 101,050

10) Which of the following assets are not depreciated?

a) Factory buildings b) Office equipment
c) Land d) Delivery equipment

11) What must be known or estimated in order to calculate depreciation?

a) The estimated useful life of the asset b) The acquisition cost of the asset
c) The estimated residual value of the asset d) All of the above

12) What is the annual straight-line depreciation for an asset that cost Rs.34,600, has an estimated service life of 8 years, and an estimated salvage value of Rs.1,400?

a) Rs.4,150 b) Rs.1,450 c) Rs.4,325 d) Rs.4,500

13) Failing to record the year-end adjustment for depreciation will result in which of the following?

a) An overstatement of income and an understatement of owners' equity
b) An overstatement of income and an understatement of assets
c) An overstatement of income and an overstatement of assets
d) An understatement of income and an overstatement of owners' equity

14) Recording, in error, the year-end adjustment for depreciation twice will result in which of the following?

a) An overstatement of income and an understatement of owners' equity
b) An overstatement of income and an understatement of assets
c) An overstatement of income and an overstatement of assets
d) An understatement of income and an understatement of owners' equity

15) Which of the following items is an intangible asset?

a) Patents b) Copyrights c) Franchises d) All of above

16) Under Straight Line Method of providing depreciation it:

a) Increases every year b) Remain constant every year
c) Decreases every year d) None of them

17) Under Diminishing Balance Method of providing depreciation it:

a) Increases every year b) Remain constant every year
c) Decreases every year d) None of them

18) Under the fixed installment method of providing depreciation it is calculated on:

a) Original cost b) Balance amount c) Scrap value d) None of them

19) Under the diminishing balance method, depreciation is calculated on:

a) Original cost b) Book value c) Scrap value d) None of them

20) The amount of depreciation charged on a machinery will be debited to:

a) Machinery account
b) Depreciation account
c) Cash account
d) Repair account

21) Which of the term is used to write off in reference to tangible fixed assets?

a) Depreciation b) Depletion c) Amortization d) Both (a) & (c)

22) A company purchased a vehicle for Rs.6,000. It will be used for 5 years and its residual value is expected to be Rs.1,000. What is the annual amount of deprecation using straight line method of depreciation?

a) Rs.1,000 b) Rs.2,000 c) Rs.3,000 d) Rs.3,300

23) Accumulated depreciation is:

a) Sum of all depreciation expense
b) Depreciation expense
c) Cost of depletion of asset
d) Future value of fixed asset

24) Which of the following is/are kind of depreciation expense?

a) Amortization b) Depletion c) Both of them d) None of them

25) A fixed asset was bought for Rs.5,000. Its accumulated depreciation is Rs.3,000 and rate of depreciation is 20%. Its depreciation expenses for the current accounting period using reducing balance method is:

a) Rs.600 b) Rs.1,000 c) Rs.300 d) Rs.400

26) The correct formula for calculating depreciation using service hours method is:

a) Depreciation = (Cost – Scrap value) / Total hours x Actual hours
b) Depreciation = (Cost – Accumulated depreciation) / Total hours x Actual hours
c) Depreciation = (Cost – Accumulated depreciation) / Actual hours x Total hours
d) Depreciation = (Cost – Scrap value) / Actual hours x Total hours

27) In the calculation of depreciation, all of the following items are actually estimates except:

a) Useful life b) Salvage value c) Historical cost d) All of above

28) The term generally used for the depreciation of natural resources is:

a) Amortization b) Depletion c) Appreciation d) Disposal value

29) Land is annually depreciated at the rate of:

a) 15% b) 20% c) 25% d) None of these

30) Cost of machine includes:

a) 3 years fire insurance
b) Repair cost of damage during installation
c) Trade discount
d) Insurance in transit

31) This is/These are natural resource(s):

a) Machinery b) Patents c) Trademarks d) Fisheries

Depreciation

Chapter # 10

32) Which of these best describes fixed assets?
a) Bought to be used in the business
b) Items which will not wear out quickly
c) Expensive items bought for the business
d) Are of long life and not bought specially for resale

33) Depreciation is:
a) The amount spent to buy a fixed asset
b) The salvage value of a fixed asset
c) The part of the cost of fixed asset consumed during its period of use by the firm
d) The amount of money spent in replacing assets

34) If someone owns a grocery store, which of the following is not capital expenditure:
a) Rent b) Motor van c) Fixture d) Equipment

35) The assets which have lack of physical substance, is termed as:
a) Tangible fixed assets b) Current assets
c) Natural resources d) Intangible fixed assets

36) A firm bought a machine for Rs.3,200. It is to be depreciated at a rate of 25% using the Reducing Balance Method. What would be the remaining book value after 2 years?
a) Rs.1,600 b) Rs.2,400 c) Rs.1,800 d) Another figure

37) A firm bought a machine for Rs.16,000. It is expected to be used for 5 years then sold for Rs.1,000. What is the annual amount of depreciation if the Straight Line Method is used?
a) Rs.3,200 b) Rs.3,100 c) Rs.3,750 d) Rs.3,000

38) Capital expenditure is:
a) The extra capital paid in by the proprietor
b) The costs of running the business on a day-to-day basis
c) Money spent on buying fixed assets or adding value to them
d) Money spent on selling fixed assets

39) The alternative term used for scrap value is:
a) Book value b) Salvage value
c) Written down value d) Depreciable value

40) This is not included in the cost of machine:
a) Installation charges b) Insurance in transit
c) Freight d) Income tax

41) Invoice price is determined:
a) List price + Trade discount b) List price – Cash discount
c) List price – Trade discount d) List price – purchase discount