Depreciable Assets:-

Depreciable Assets are those which

- **are expected to be used during more than one accounting period; and**
- **have a limited useful life; and**
- **are held by an enterprise for use in production or supply of goods and services for rental to others or for administrative purpose and not for the purpose of sale in ordinary course of business**

Meaning of Depreciation: -

It is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation is charged due to "the diminution in the utility of fixed assets".

Accounting Meaning of Depreciation:-

But in Accounting Depreciation means **decrease in Book Value of a Fixed Asset**. Due to charging of depreciation value of fixed assets is reduce. It is the loss of the business.

There are following reasons or causes of depreciation: –

(a) Internal Causes

- **Wear and Tear**
- **Depletion (or exhaustion) with the passage of time**

(ii) External or Economic Causes

- **Obsolescence**
- **Inadequacy**

(iii) Time element

(iv) Abnormal occurrence

Physical Wear and Tear: – When the fixed assets are put to use, the value of such assets may decrease. Such decrease in the value of fixed assets is said to be due to physical wear and tear

With the Passage of Time: –When the assets are exposed to the force of the nature like weather, winds, rain etc. the value of such assets may decrease even if they are not put to any use

Change in Economic Environment: – The value of fixed assets may decrease due to decrease in demand of the assets. The demand of asset may decrease due to technological changes, change in habits of consumers etc.

Expiration of Legal Rights: – When the use of an asset (Patents, lease) is governed by the time bound arrangement, the value of such fixed assets may decrease with the passage of time.

Important Points

- ***There is an exception that Depreciation will be not Charged on the Land because land has indefinite or unlimited Useful Life***

- ***Depreciation is not charged on the Current Assets***
- ***Word Depreciation is used only for Tangible Fixed Assets***
- ***Depreciation is the Continuing Process so there is continuous decrease in the book value of an assets***
- ***Due to Depreciation there is permanent decrease in the book value of an assets***
- ***In a Broader sense, the term depreciation covers Depletion, Amortization and Obsolescence.***

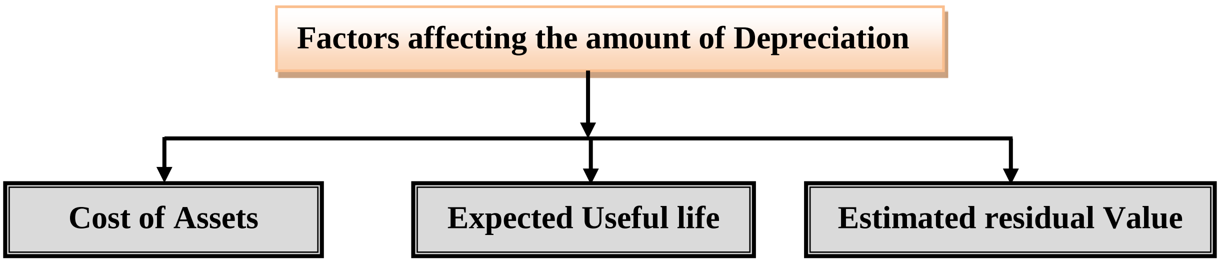
1. **Depletion:** – It is used in relation to Natural Resources or Wasting Assets indicating their Physical Deterioration or exhaustion of Natural Resources. For example: - Mines, Quarries etc.
2. **Amortization:** – It is used in relation to loss of Economic Value of Intangible Assets. For example: - Goodwill, Patent etc.
3. **Obsolescence: –** It refers to the Decline in the economic Value of the assets due to such factors as:- Technological Changes, Improvement in Production Method, Change in Market Demand for the product or service output and Legal or other restrictions etc.

Objectives for Providing Depreciation:-

Prime objectives for providing Depreciation are:-

- **(i)** **Correct income measurement**
- **(ii)** **True Position Statement**
- **(iii)** **Funds for Replacement**
- **(iv)** **Ascertainment of "True cost of Production"**

Factors affecting the Amount of Depreciation:-



Estimation of exact amount of Depreciation is not easy. Generally following factors are taken into consideration for calculation of depreciation:-

1. Cost of Assets including expenses such as

- **Purchase Price of Fixed Assets**
- **Import Duties and other non-refundable taxes**
- **Any directly attributable cost of bringing the assets to the working condition for its intended use like;-**
  - **Site preparation**
  - **Delivery and handling cost**
  - **Installation Cost**
  - **Professional fees (Fees of Engineers and Architects)**
  - **Expenditure incurred on startup and commissions of the project including the expenditure on test runs less income by sale of products.**
  - **Administrative and other general overhead are specifically attributable for construction /acquisition /installation of the Fixed Assets.**
  - ***Amount of Govt. grants received /receivable against Fixed Asset should be deducted from the cost of Fixed Assets***
  - **Loss /Gain on deferred payment on foreign currency liability.**
  - **Price Adjustment, changes in duties or similar factors.**

- **"Financing Costs" incurred subsequent to the period after the "Fixed Assets is put to use" is not included in the acquisition cost of Fixed Assets.**
- **Current Repair Expenses are not Capitalized So it is not added to Fixed Assets**

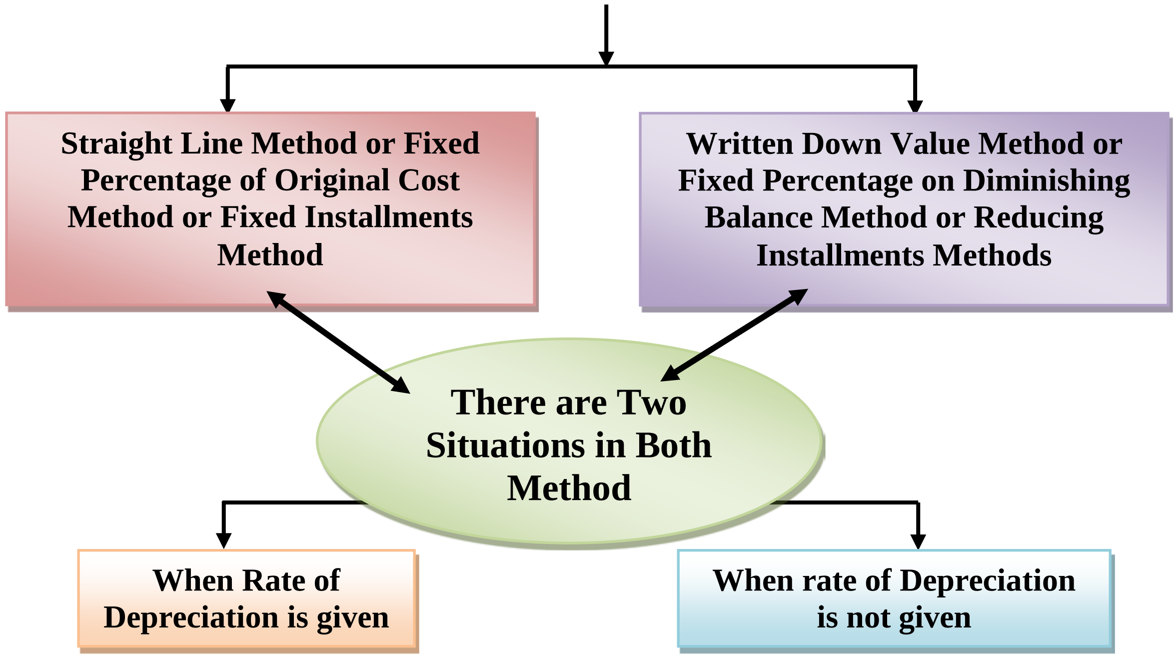
2. Estimated useful life of the asset:-

- **Useful life is either**
  - **The period over which a depreciable assets is expected to be used by the enterprise or**
  - **The number of Production or similar units expected to obtain from the use of the assets by the enterprise.**

3. Estimates Scrap value (if any) at the end of useful life of the assets.

Methods of Charging Depreciation: –

Accounting Standard – 6 recommends only Two Methods of Charging Depreciation.



Method 1: – Straight Line Method

When Rate of Depreciation is given: –

Depreciation = Cost of Fixed Assets X Rate of Depreciation X Period of time

Period of time = Date of Purchase of Fixed Assets to Date of Close of Books of Accounts

Date of Purchase ⟷ Date of Close of Books of Accounts

Annual Depreciation is always same in this Method and Depreciation is always charged on the original cost of Fixed Assets

When Rate of Depreciation is not given: –

$$\text{Annual Depreciation} = \frac{\text{Cost of Fixed Assets} - \text{Residual or Scrap Value}}{\text{Number of Years of Estimated Useful Life}}$$

$$\text{Rate of Depreciation} = \frac{\text{Annual Depreciation}}{\text{Cost of Fixed Assets}} \times 100$$

Cost of Fixed Assets = Purchase Price + Freight / carriage + Installation Charges

Example 1:-

Calculate the amount of annual depreciation when Cost of Machine is Rs.2,50,000, Rate of depreciation is 20% p.a. under Straight Line Method.

Example 2:-

Calculate the amount of annual depreciation when Cost of Machine is Rs.2,50,000, Scrape Value is 25,000 and rate of depreciation is 20% p.a. under Straight Line Method.

Example 3:-

Calculate the amount of depreciation when Cost of Machine is Rs.2,00,000, Rate of depreciation is 10% p.a. under Straight Line Method. Machine purchased is 1st October 2013 and books of accounts are closed on 31st March of the year.

Example 4:-

Calculate the amount of depreciation when Cost of Machine is Rs.2,00,000, Rate of depreciation is 12% p.a. under Straight Line Method. Machine purchased is 30th October 2013 and books of accounts are closed on 31st December of the year.

Example 5:-

Calculate the amount of depreciation when Cost of Machine is Rs.2,00,000, Rate of depreciation is 10% under Straight Line Method. Machine purchased is 1st October 2013 and books of accounts are closed on 31st march of the year.

Example 6:-

Calculate the amount of depreciation when Cost of Machine is Rs.2,00,000, Rate of depreciation is 12% p.a. under Straight Line Method. Machine purchased is 1st January 2013 and books of accounts are closed on 31st March of the year.

Example 7:-

A Ltd. purchased a machine for Rs. 50,000 and spent Rs. 4,000 on its carriage and Rs. 2,000 on its installation. Its useful life is 10 years and scrape value is Rs. 6,000. Depreciation for the year under Fixed Installation Method will be

Example 8:-

Cost of machinery = Rs. 2,52,000; Salvages value = Rs.12,000; Useful life = 6 years; Annual depreciation under straight line method will be:-

Example 9:-

A Ltd. purchased a machine for Rs. 50,000 and spent Rs. 4,000 on its carriage and Rs. 2,000 on its installation. Its useful life is 10 years and scrape value is Rs. 6,000. Find out Rate of Depreciation under Fixed Installation Method

Example 10:-

A Ltd. purchased a machine for Rs. 50,000 and spent Rs. 8,000 on its carriage and Rs. 2,000 on its installation. Its useful life is 6 years Find out Rate of Depreciation under Fixed Installation Method will

Example No.	1	2	3	4	5
Answer	Rs. 50,000	Rs. 50,000	Rs.10,000	Rs.4,000	Rs. 20,000
Example No.	6	7	8	9	10
Answer	Rs.6,000	Rs.5,000	Rs. 40,000	8.93 %	16.67%

Important Points to be Consider at the time of solving Questions:-

- Date of Purchase of Fixed Assets
- Date of Close of Books of Accounts or what is our Accounting Year
- Rate of Depreciation
- Method of Charging Depreciation
- Any Addition or Disposal is done during relevant Accounting Year
- Any special Rules regarding charging Depreciation on Additions or Disposals

Method 2: – Written Down Value Method:-

Reducing Balance Method of depreciation is effective when repairs and maintenance cost of an asset increases as it grows old

When Rate of Depreciation is given: –

Depreciation = Cost of Fixed Assets X Rate of Depreciation X Period of time

Period of time = Date of Purchase of Fixed Assets to Date of Close of Books of Accounts

Date of Purchase ⟷ Date of Close of Books of Accounts

First Year Depreciation is charged on the original cost and second and subsequent year depreciation is charged on the reducing balance of assets

When Rate of Depreciation is not given: –

Rate of Depreciation $= 1 - \sqrt[n]{\frac{S}{C}}$

Here n is No. of Estimated Useful life of the assets
S is salvage or scrap value of the assets and
C is Cost of the Assets

Example 11:-

Calculate the amount of depreciation for first three year when Cost of Machine is Rs.2,50,000, Expected Life is 5 Years, Scrape Value is 25,000 and rate of depreciation is 20%p.a. written down value Method.

Example 12:-

Original cost of an assets Rs. 2,52,000 salvages value Rs. 12,000. Depreciation for 2nd year @ 10% p.a. under W.D.V. method will be:-

Example13:-

An asset was purchased for Rs. 12,500 and was depreciated under Reducing Balance Method at the rate of 20% p.a. what is the value of the assets at the end of three years?

Example 14:-

The W.D.V. of assets after three year of depreciation on the Reducing Balance method @ 10% p.a. is Rs. 36,450. What was its Original Value

Example 15:-

A Trader purchased machinery for Rs. 10,000 in January 2004. Depreciation charged @ 25% diminishing balance method. At the end of third year it was sold for Rs. 1,000. Profit or Loss on sale of machine will be

Example No.	11	12	13	14	15
Answer	Rs. 50,000; Rs. 40,000; Rs.32,000	Rs. 22,680	Rs.50,000	Rs.3,219	Rs. 6,400

Important Points:–

- General or Normal Routine Repair Cost is not capitalized because it does not increase the capacity of the "Fixed assets".
- Cost of Dismantling has been deducted from the Sale price for Calculating loss on Sale of Machine.
- When the Assets is bought or purchased on "Hire Purchase System or On Installment Basis System" the Assets will be recorded at Cash Price for the purpose of Depreciation and so Interest Cost is not taken to cost of Assets.

Cost Price of Assets = Hire Purchase Price of Assets – Interest included in Installment amount

- Scrap Value of Fixed Assets is not Considered When Rate of Depreciation is given. Depreciation is calculated on the Original cost of the Fixed assets.
- Depreciation is charged on Day basis for the period in which Assets is used.
- Depreciation is not charged from Date of Purchased of Fixed Assets but from the date on which assets is "Put to Use".
- In case of purchase of Second hand Assets all initial expenses incurred before put to use is capitalized it means all expenses are added to the cost of the assets such as reconditioning , repair, overhauling etc.

Difference between "Straight Line Method" and "Written Down Value" method

"Straight Line Method"	"Written Down Value"
In this method Depreciation is always calculated on Original Cost of Fixed Assets	In this method, first year Depreciation is charged on Original Cost and second and subsequent year Depreciation is calculated on reducing balance of Fixed Assets
Annual Depreciation is always same	**Annual Depreciation is Higher in starting Year and Decreasing in later year**
If Original Cost is Rs.1,00,000 and Rate of Depreciation is @ 10% First year Depreciation 1,000 Second year Depreciation 1,000 Third Year Depreciation 1,000 **ANNUAL DEPRECIATION IS SAME HERE**	**If Original Cost is Rs.1,00,000 and Rate of Depreciation is @ 10%** First year Depreciation 1,000 Second year Depreciation 900 Third Year Depreciation 810 **ANNUAL DEPRECIATION IS DECREASING HERE**
In this Method Book Value of Assets becomes Zero or equal to Scrap Value	**In this Method Book Value of Assets never becomes Zero**

Treatment of Depreciation

There are two methods to record depreciation in the books of accounts

<table>
<tr>
<td>When provision for depreciation A/c is not maintained separately It means each year depreciation is charged to Fixed Assets A/c</td>
<td>When provision for depreciation is maintained separately it means a separate account for “Provision for Depreciation A/c” or “Accumulated Depreciation A/c” will be maintained and depreciation is not charged to Fixed Assets A/c in every year, When Fixed Assets are sold then total depreciation on such Fixed Assets will be charged</td>
</tr>
<tr>
<td>1. When Depreciation is Charged at the end of Accounting Year (31st December or 31st March)
(If Question is silent about the Accounting year we assume that calendar year is the Accounting year or year will be ended on 31st December)

Depreciation A/c ……………………………………..…..…..Dr.
To Fixed Assets A/c

(Being Depreciation is Calculated and then Charged to Fixed Assets Account)</td>
<td>1. When Depreciation is Charged at the end of Accounting Year (31st December or 31st March)
(If Question is silent about the Accounting year we assume that calendar year is the Accounting year or year will be ended on 31st December)

Depreciation A/c………………………………….. Dr.
To Provision for Depreciation A/c
or Accumulated Depreciation A/c
(Being Depreciation is Calculated and then Separately Shown in either “Provision for Depreciation A/c” or “Accumulated Depreciation A/c”)</td>
</tr>
<tr>
<td>2. When Depreciation is transferred to Profit and Loss A/c at the end of Year

Profit and Loss A/c …………………………………....…Dr.
To Depreciation A/c</td>
<td>2. When Depreciation is transferred to Profit and Loss A/c at the end of Year

Profit and Loss A/c …………………………...……Dr.
To Depreciation A/c</td>
</tr>
<tr>
<td>3. When Fixed Assets are Sold at the date of sale normally following entry will be made</td>
<td>3. When Fixed Assets are Sold at the date of sale normally following entry will be made</td>
</tr>
<tr>
<td colspan="2">At the date of Sale →
→ To Calculate Depreciation till date of sale of Fixed Assets
→ To record the sale at the price on which it has sold
→ Calculate profit or Loss on sale of Fixed Assets</td>
</tr>
<tr>
<td>Depreciation A/c…………………………………………..….Dr.
To Fixed Assets A/c
(Being Deprecation charged on only that part of Assets or Assets which are Sold)

Case (a) when Fixed Assets is sold at Profit

Bank / Cash A/c…………..…………………………..……Dr.
To Fixed Assets A/c
To Profit and Loss A/c

Case (b) when Fixed Assets is sold at Loss

Bank / Cash A/c…………….……………………...……Dr.
Profit and Loss A/c………………………………..……Dr.
To Fixed Assets A/c</td>
<td>Depreciation A/c…………………..…………….. Dr.
To Provision for Depreciation A/c
(Being Deprecation charged on only that part of Assets or Assets which are Sold)

<u>Additional Entry</u>

Provision for Depreciation A/c……………….……Dr.
To Fixed Assets A/c

(Being total Depreciation Charged including Current year Depreciation (if any) on such Fixed Assets which are sold are transferred to Provision for Depreciation A/c)

Case (a) when Fixed Assets is sold at Profit

Bank / Cash A/c………………………...…………Dr.
To Fixed Assets A/c
To Profit and Loss A/c

Case (b) when Fixed is sold at Loss

Bank / Cash A/c…………….……………….……Dr.
Profit and Loss A/c…………………………….……Dr.
To Fixed Assets A/c</td>
</tr>
</table>

Note: - First Two entries will be repeated in each year and Third entry will be made only when the Fixed Assets are sold.

When Depreciation is charged immediately in Fixed Assets Account or Provision for Depreciation Account is not maintained

Fixed Assets Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_1	xxxx	End of Accounting Year	By Depreciation A/c	
				M_1	xxxx
				M_2	xxxx
				By Balance c/d	
Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_2			M_1	xxxx
		xxxx		M_2	xxxx
		xxxx			xxxx
Beginning of Accounting Year	To Balance b/d		End of Accounting Year	By Depreciation A/c	
	M_1	xxxx		M_1	xxxx
	M_2	xxxx		M_2	xxxx
				By Balance c/d	
				M_1	xxxx
				M_2	xxxx
		xxxx			xxxx
Beginning of Accounting Year	To Balance b/d		Date of Sale (Suppose M_1 is sold)	By Depreciation A/c-M_1	xxxx
	M_1	xxxx		By Bank –Sale Price of M_1	xxxx
	M_2	xxxx		By Profit & Loss A/c	xxxx
				(if loss on sale of M_1)	
Date of Sale	To Profit & Loss A/c	xxxx	End of Accounting Year	By Depreciation A/c	
	(if profit on sale of M_1)			M_2	xxxx
				By Balance c/d	
				M_2	xxxx
		xxxx			xxxx
Beginning of Accounting Year	To Balance b/d		End of Accounting Year	By Depreciation A/c	
	M_2	xxxx		M_2	xxxx
				M_3	xxxx
Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_3			By Balance c/d	
		xxxx		M_2	xxxx
				M_3	xxxx
		xxxx			xxxx

When Depreciation is not charged immediately in Fixed Assets Account or Provision for Depreciation Account is maintained

Fixed Assets Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_1	xxxx	End of Accounting Year	By Balance c/d M_1 M_2	 xxxx xxxx
Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_2	xxxx			
		xxxx			xxxx
Beginning of Accounting Year	To Balance b/d M_1 M_2	 xxxx xxxx	End of Accounting Year	By Balance c/d M_1 M_2	 xxxx xxxx
		xxxx			xxxx
Beginning of Accounting Year	To Balance b/d M_1 M_2	 xxxx xxxx	Date of Sale (Suppose M_1 is sold)	By Provision for Depreciation A/c-M_1 By Bank– Sale Price of M_1 By Profit & Loss A/c (if loss on sale of M_1)	xxxx xxxx xxxx
Date of Sale	To Profit & Loss A/c (if profit on sale of M_1)	xxxx	End of Accounting Year	By Balance c/d M_2	 xxxx
		xxxx			xxxx
Beginning of Accounting Year	To Balance b/d M_2	 xxxx	End of Accounting Year	By Balance c/d M_2 M_3	 xxxx xxxx
Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_3	xxxx			
		xxxx			xxxx

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
End of Accounting Year	To Balance c/d	xxxx	End of Accounting Year	By Depreciation A/c M_1 M_2	 xxxx xxxx
		xxxx			xxxx
End of Accounting Year	To Balance c/d	xxxx	Beginning of Accounting Year	By Balance b/d	xxxx
			End of Accounting Year	By Depreciation A/c M_1 M_2	 xxxx xxxx
		xxxx			xxxx
Date of Sale (Suppose M_1 is sold)	To Fixed Assets A/c (Total depreciation charged on M_1 till now)	xxxx	Beginning of Accounting Year	By Balance b/d	xxxx
End of Accounting Year	To Balance c/d	xxxx	Date of Sale (Suppose M_1 is sold)	By Depreciation A/c-M_1	xxxx
			End of Accounting Year	By Depreciation A/c M_2	xxxx
		xxxx			xxxx

End of Accounting Year	To Balance c/d	xxxx xxxx	Beginning of Accounting Year End of Accounting Year	By Balance b/d By Depreciation A/c M_2 M_3	xxxx xxxx xxxx xxxx

Concept of Fixed Assets Disposal Account:-

When a Fixed Assets is sold then All the entry related with Sale such particular Fixed Assets are recorded in Fixed Assets Disposal Account

In This Case, a New Account is open in Name of "Fixed Assets Disposal Account"

When Depreciation is charged immediately in Fixed Assets Account or Provision for Depreciation Account is not maintained

Fixed Assets Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
Date of Purchase of Fixed Assets Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_1 To Bank – Cost of Fixed Assets-M_2	xxxx xxxx xxxx	End of Accounting Year	By Depreciation A/c M_1 M_2 By Balance c/d M_1 M_2	xxxx xxxx xxxx xxxx xxxx
Beginning of Accounting Year	To Balance b/d M_1 M_2	xxxx xxxx xxxx	End of Accounting Year	By Depreciation A/c M_1 M_2 By Balance c/d M_1 M_2	xxxx xxxx xxxx xxxx xxxx
Beginning of Accounting Year Date of Sale	To Balance b/d M_1 M_2 To Profit & Loss A/c (if profit on sale of M_1)	xxxx xxxx xxxx xxxx	Date of Sale (Suppose M_1 is sold) End of Accounting Year	By Depreciation A/c-M_1 By Fixed Assets Disposal A/c (Fixed assets are transferred at W.D.V as on date of sale) By Depreciation A/c M_2 By Balance c/d M_2	xxxx xxxx xxxx xxxx xxxx
Beginning of Accounting Year Date of Purchase of Fixed Assets	To Balance b/d M_2 To Bank – Cost of Fixed Assets-M_3	xxxx xxxx xxxx	End of Accounting Year	By Depreciation A/c M_2 M_3 By Balance c/d M_2 M_3	xxxx xxxx xxxx xxxx xxxx

Fixed Assets Disposal Account

(When Provision for Depreciation is not maintained)

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
On Date of sale of Fixed Assets	To Fixed Assets A/c To Profit & Loss A/c (if case of profit)	xxx xxx	On Date of sale of Fixed Assets	By Bank By Profit and Loss A/c (if case of loss)	xxx xxx
		Total			Total

When Depreciation is not charged immediately in Fixed Assets Account or Provision for Depreciation Account is maintained

Fixed Assets Account

Dr. **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
Date of Purchase of Fixed Assets Date of Purchase of Fixed Assets	To Bank – Cost of Fixed Assets-M_1 To Bank – Cost of Fixed Assets-M_2	xxxx xxxx xxxx	End of Accounting Year	By Balance c/d M_1 M_2	xxxx xxxx xxxx
Beginning of Accounting Year	To Balance b/d M_1 M_2	xxxx xxxx xxxx	End of Accounting Year	By Balance c/d M_1 M_2	xxxx xxxx xxxx
Beginning of Accounting Year	To Balance b/d M_1 M_2	xxxx xxxx xxxx	Date of Sale (Suppose M_1 is sold) End of Accounting Year	By Fixed Assets Disposal A/c (Fixes assets are transferred at original Cost) By Balance c/d M_2	xxxx xxxx xxxx
Beginning of Accounting Year Date of Purchase of Fixed Assets	To Balance b/d M_2 To Bank – Cost of Fixed Assets-M_3	xxxx xxxx xxxx	End of Accounting Year	By Balance c/d M_2 M_3	xxxx xxxx xxxx

Provision for Depreciation Account

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
End of Accounting Year	To Balance c/d	xxxx	End of Accounting Year	By Depreciation A/c M_1 M_2	 xxxx xxxx
		xxxx			xxxx
End of Accounting Year	To Balance c/d	xxxx	Beginning of Accounting Year	By Balance b/d	xxxx
			End of Accounting Year	By Depreciation A/c M_1 M_2	 xxxx xxxx
		xxxx			xxxx
Date of Sale (Suppose M_1 is sold)	To Fixed Assets Disposal A/c (Total depreciation charged on M_1 till now)	xxxx	Beginning of Accounting Year	By Balance b/d	xxxx
End of Accounting Year	To Balance c/d	xxxx	Date of Sale (Suppose M_1 is sold)	By Depreciation A/c-M_1	xxxx
			End of Accounting Year	By Depreciation A/c M_2	xxxx
		xxxx			xxxx
End of Accounting Year	To Balance c/d	xxxx	Beginning of Accounting Year	By Balance b/d	xxxx
			End of Accounting Year	By Depreciation A/c M_2 M_3	 xxxx xxxx
		xxxx			xxxx

Fixed Assets Disposal Account

(When Provision for Depreciation is maintained)

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
On Date of sale of Fixed Assets	To Fixed Assets A/c To Profit & Loss A/c (if case of profit)	xxx	On Date of sale of Fixed Assets	By Provision for Depreciation A/c By Bank By Profit and Loss A/c (if case of loss)	xxx xxx xxx
		Total			Total

For each "sale of Fixed Assets " a Separate Fixed Assets Disposal Account will prepare.

Change of Method of Depreciation as per Accounting Standard (A.S)-6 (Revised)

Once a Method of Depreciation and Rate of Depreciation is adopted the same method and same rate of Depreciation will be followed from year to year. If Method is change or Rate of Depreciation is change it affect results of a Business. However sometimes it may be decided to Change existing Rate of Depreciation and Method of Depreciation

ACCORDING TO AS – 6 THE METHOD OF DEPRECIATION MAY BE CHANGE IN THE FOLLOWING CIRCUMSTANCES:-

- **When the adoption of New Method is required by Statute or law**
- **When the adoption of New Method is required for compliance with an Accounting Standard.**
- **When it is considered that the change would result in a more appropriate preparation or presentation of the financial Statement.**

Rules Regarding Change of Method and Rates of Depreciation as A.S– 6

- **Change of Method would be effective from the Date the Assets Put to Use of "Existing Machines". It means assets which were sold before the "Date Of Adoption of New Method and New Rate is not affected by change of Method.**

STEP 1 "NEW DEPRECIATION":-

Calculate Depreciation on all Existing Machines with effect from Date of its Purchase or date to "Put to use" by adopting New rate and New Method to the Date of adoption of New method.

Date of its Purchase or date to "Put to use" on all Existing Machine

By Using New Methods and New Rate

Date of adopting new rate and New Method

STEP 2 "OLD DEPRECIATION":-

Determine Total Depreciation On all Existing Machines which are already charged in the books of Accounts

Total Depreciation on all Existing Machines only

STEP 3:- COMPARE NEW DEPRECIATION WITH OLD DEPRECIATION

SITUATION 1ST:-

If New Depreciation is more than old Depreciation it means there is Shortage of Depreciation and it will be charged or debited in Profit and Loss A/c on the date of Change of Method of Depreciation or Rate of Depreciation

Addition / Excess Depreciation to be Charged = New Depreciation – Old Depreciation

ON THE DATE OF CHANGE OF METHOD

Profit and Loss A/c…………………….. Dr.
To Fixed Assets A/c

Additional Depreciation to be shown in the Credit side of Fixed Assets Account

SITUATION 2ND:-

If old Depreciation is more than New Depreciation it means there is Surplus of Depreciation and it will be credited in Profit and Loss A/c on the date of Change of Method of Depreciation or Rate of Depreciation

Depreciation to be written back = Old Depreciation – New Depreciation

ON THE DATE OF CHANGE OF METHOD

Fixed Assets A/c …………………….. Dr.
To Profit & Loss A/c

Surplus Depreciation to be written back and to be shown in the Debit side of Fixed Assets Account

Calculation of Depreciation in the year in which Change of Rate of Depreciation or Change of Method of Depreciation:-

- **If New Method is Straight Line Method:-**

Depreciation = Original Cost of Existing Machines × New Rate of Depreciation

- **If New Method is Written Down Value Method :-**

Depreciation = Written Down Value of Existing Machines × New Rate of Depreciation

Revision of the Estimated Useful life of the Depreciable Assets:-

There should be a "Periodical Review of the useful life of Depreciable Assets. It means after sometimes there may be review about remaining useful life of Machines. Certain times remaining useful life of Machines may be change

The effect of "Revision of the estimated useful life of the Depreciable Assets:-

- **Estimated Life of Machines may be change**
- **In Such a case unamortized depreciable amount (balance of book value of assets) should be charged to the assets over the "revised remaining estimated useful life of the assets.**

Revaluation of Depreciable Assets:-

Depreciable Assets may be revalued. Whenever the depreciable assets are revalued the depreciation should be charged on the revalued amount on the basis of the remaining estimated useful life of the assets.

If there is an upward revision in the value of the assets, then the amount of appreciation is debited to Assets Account and credited to revaluation Account. If there is downward revision in the value of Assets then Profit and Loss is debited and Assets Account is credited.

EFFECT OF UPWARD REVALUATION:-

- **The book Value of Fixed Assets has increase**
- **The depreciation is charged on "New Revised Value of Fixed Assets"**
- **Journal Entry for Upward Revaluation**

Fixed Assets A/c ……………………… Dr.
To Revaluation A/c

EFFECT OF DOWNWARD REVALUATION:-

- **The book Value of Fixed Assets has Decrease.**
- **The depreciation is charged on "New Revised Value of Fixed Assets"**
- **Journal Entry for Upward Revaluation**

Profit and Loss A/c ……………………… Dr.
To Fixed Assets A/c

Certain times Assets may be revalued at more than one time. It may be possible that same assets may be upward valued at first times and downward valued at next times, in this case the amount by which assets are devalued must be charged against balance of Revaluation Account (if any) and balance amount of devaluation is charged to Profit and Loss Account.

Provision for Repairs and Renewals:-

Expenditure incurred for repairs, renewals and maintenance on Plant and Machinery may vary over the years during the working life. This happen due to break down of machine is not certain. Thus, for equalizing the charge of repairs and renewals, sometimes a provision for Repairs and Renewals Account is opened.

In this situation a separate account is opened for Repair and Renewal. A certain part of Profit is transferred to Repair and Renewal Account every year.

WHEN A CERTAIN AMOUNT OF PROFIT IS TRANSFERRED TO "REPAIR AND RENEWAL" ACCOUNT:-

Profit and Loss Account …………………Dr.
To Provision for Repair and Renewal A/c

WHEN ACTUAL REPAIR EXPENSES IS MADE:-

Provision for Repair and Renewal A/c …………… Dr.
To Repair Account

Provision for Repairs and Renewal Account

Dr. Cr.

Date	Particulars	Amount	Date	Particulars	Amount
At end of year	To Repair A/c To Balance c/d	xxxx xxxx	At end of year	By Profit and Loss A/c	xxxx
		Total			Total
At end of year	To Repair A/c	xxxx	At Beg. of Year	By Balance b/d	xxxx
			At End of Year	By Profit and Loss A/c	xxxx
At end of year	To Balance c/d	xxxx			
		Total			Total
			At Beg. of Year	By Balance b/d	xxxx

The balance in Provision for Repair and Renewal Account is carried forward and in the end or sale of assets, the account is closed by transfer to the Assets account for any balance left.

Provision for Repairs and Renewal Account ……………….Dr.
To Fixed Assets Account