

Illustration 1.

On 1st April, 2020, a firm purchased a machinery for ₹ 2,00,000. On 1st October in the same accounting year, additional machinery costing ₹ 1,00,000 was purchased. On 1st October, 2021, the machinery purchased on 1st April, 2020, having become obsolete, was sold for ₹ 90,000. On 1st October, 2022, new machinery was purchased for ₹ 2,50,000 while the machinery purchased on 1st October, 2020 was sold for ₹ 85,000 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost. Accounts are closed on 31st March every year. Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending 31st March, 2023.

Solution:

| Dr. | | | MACHINERY ACCOUNT | | | Cr. | | |
|---------|---|----------|-------------------|---|----------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 2020 | | | 2021 | | | | | |
| April 1 | To Bank A/c (Mach. I) | 2,00,000 | March 31 | By Balance c/d | 3,00,000 | | | |
| Oct. 1 | To Bank A/c (Mach. II) | 1,00,000 | | | | | | |
| | | 3,00,000 | | | 3,00,000 | | | |
| 2021 | | | 2021 | | | | | |
| April 1 | To Balance b/d: | | Oct. 1 | By Bank A/c (Sale) (Mach. I) | 90,000 | | | |
| | Mach. I 2,00,000 | | Oct. 1 | By Provision for Depreciation A/c | 30,000 | | | |
| | Mach. II 1,00,000 | 3,00,000 | Oct. 1 | By Loss on Sale of Machinery A/c (Profit & Loss A/c) | 80,000 | | | |
| | | | 2022 | | | | | |
| | | | March 31 | By Balance c/d (Mach. II) | 1,00,000 | | | |
| | | 3,00,000 | | | 3,00,000 | | | |
| 2022 | | | 2022 | | | | | |
| April 1 | To Balance b/d (Mach. II) | 1,00,000 | Oct. 1 | By Bank A/c (Sale) (Mach. II) | 85,000 | | | |
| Oct. 1 | To Bank A/c (Mach. III) | 2,50,000 | Oct. 1 | By Provision for Depreciation A/c | 20,000 | | | |
| Oct. 1 | To Gain (Profit) on Sale of Machinery A/c (Profit & Loss A/c) | 5,000 | 2023 | | | | | |
| | | 3,55,000 | March 31 | By Balance c/d | 2,50,000 | | | |
| | | | | | 3,55,000 | | | |

| Dr. | | | DEPRECIATION ACCOUNT | | | Cr. | | |
|----------|-----------------------------------|--------|----------------------|----------------------|--------|-----|--|--|
| Date | Particulars | ₹ | Date | Particulars | ₹ | | | |
| 2021 | | | 2021 | | | | | |
| March 31 | To Provision for Depreciation A/c | 25,000 | March 31 | By Profit & Loss A/c | 25,000 | | | |
| | | 25,000 | | | 25,000 | | | |

| | | | | | |
|------------------|--|--------|------------------|----------------------|--------|
| 2021 Oct. 1 | To Provision for Depreciation A/c (on the machinery sold) | 10,000 | 2022 March 31 | By Profit & Loss A/c | 20,000 |
| 2022 March 31 | To Provision for Depreciation A/c | 10,000 | | | |
| | | 20,000 | | | 20,000 |
| 2022 Oct. 1 | To Provision for Depreciation A/c (on the machinery sold) | 5,000 | 2023 March 31 | By Profit & Loss A/c | 17,500 |
| 2023 March 31 | To Provision for Depreciation A/c | 12,500 | | | |
| | | 17,500 | | | 17,500 |

| Dr. PROVISION FOR DEPRECIATION ACCOUNT Cr. | | | | | |
|--|---|--------|------------------|--|--------|
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 2021 March 31 | To Balance <i>c/d</i> | 25,000 | 2021 March 31 | By Depreciation A/c: (Mach. I) 20,000 (Mach. II) 5,000 | 25,000 |
| | | 25,000 | | | 25,000 |
| 2021 Oct. 1 | To Machinery A/c (Mach. I) (₹ 20,000 + ₹ 10,000) | 30,000 | 2021 April 1 | By Balance <i>b/d</i> | 25,000 |
| 2022 March 31 | To Balance <i>c/d</i> | 15,000 | Oct. 1 | By Depreciation A/c Mach. I (For 6 Months) | 10,000 |
| | | 45,000 | 2022 March 31 | By Depreciation A/c (Mach. II) | 10,000 |
| 2022 Oct. 1 | To Machinery A/c (Mach. II) (₹ 5,000 + ₹ 10,000 + ₹ 5,000) | 20,000 | | | 45,000 |
| 2023 March 31 | To Balance <i>c/d</i> | 12,500 | 2022 April 1 | By Balance <i>b/d</i> | 15,000 |
| | | 32,500 | Oct. 1 | By Depreciation A/c (Mach. II) (For 6 Months) | 5,000 |
| | | | 2023 March 31 | By Depreciation A/c (Mach. III) | 12,500 |
| | | | | | 32,500 |
| | | | 2023 April 1 | By Balance <i>b/d</i> | 12,500 |

Illustration 2.

On 1st April, 2020, Z Ltd. purchased machinery for ₹ 1,20,000 and on 30th September, 2021, it acquired additional machinery at a cost of ₹ 20,000. On 30th June, 2022, one of the original machine (Purchased on 1st April, 2020) which had cost of ₹ 5,000 was found to have become obsolete and was sold as scrap for ₹ 500. It was replaced on that date by a new machine costing ₹ 8,000. Depreciation is to be provided @ 15% p.a. on the written down value. Accounts are closed on 31st March each year. Show the Machinery Account for the first three years.

Solution:

| Dr. | | | MACHINERY ACCOUNT | | | Cr. | | |
|----------|----|-------------|-------------------|----------|----|--|----------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2020 | | | | 2021 | | | | |
| April 1 | To | Bank A/c | 1,20,000 | March 31 | By | Depreciation A/c | 18,000 | |
| | | | | March 31 | By | Balance c/d | 1,02,000 | |
| | | | 1,20,000 | | | | 1,20,000 | |
| 2021 | | | | 2022 | | | | |
| April 1 | To | Balance b/d | 1,02,000 | March 31 | By | Depreciation A/c | 16,800 | |
| Sept. 30 | To | Bank A/c | 20,000 | March 31 | By | Balance c/d | 1,05,200 | |
| | | | 1,22,000 | | | | 1,22,000 | |
| 2022 | | | | 2022 | | | | |
| April 1 | To | Balance b/d | 1,05,200 | June 30 | By | Bank A/c—Sale | 500 | |
| June 30 | To | Bank A/c | 8,000 | June 30 | By | Depreciation A/c (WN 1) | 135 | |
| | | | | June 30 | By | Loss on Sale of Machinery A/c (Profit & Loss A/c) (WN 1) | 2,977 | |
| | | | | 2023 | | | | |
| | | | | March 31 | By | Depreciation A/c (WN 2) | 16,138 | |
| | | | | March 31 | By | Balance c/d | 93,450 | |
| | | | 1,13,200 | | | | 1,13,200 | |

Working Notes:

| | |
|--|----------|
| 1. Calculation of Loss on Sale of Machinery: | ₹ |
| Cost of Machinery sold (1st April, 2020) | 5,000 |
| Less: Depreciation for the year ended 31st March, 2021 (₹ 5,000 × 15/100) | 750 |
| Book Value of Machinery (1st April, 2021) | 4,250 |
| Less: Depreciation for the year ended 31st March, 2022 (₹ 4,250 × 15/100) | 638 |
| Book Value of Machinery (1st April, 2022) | 3,612 |
| Less: Depreciation up to 30th June, 2022 (₹ 3,612 × 15/100 × 3/12) | 135 |
| Book Value of Machinery sold (30th June, 2022) | 3,477 |
| Less: Sale Proceeds | 500 |
| Loss on Sale of Machinery | 2,977 |
| 2. Calculation of Depreciation after Sale of Machinery: | |
| Book Value of Machinery (1st April, 2022) | 1,05,200 |
| Less: Book Value of Machinery sold (1st April, 2022) (WN 1) | 3,612 |
| Remaining Machinery | 1,01,588 |
| Depreciation on remaining Machinery (₹ 1,01,588 × 15/100) | 15,238 |
| Add: Depreciation on Machinery purchased during the year (₹ 8,000 × 15/100 × 9/12) | 900 |
| | 16,138 |

Illustration 3 (When Provision for Depreciation Account is Maintained).

A second-hand machinery was purchased on 1st July, 2021 from abroad for ₹ 50,000, shipping and forwarding charges amounted to ₹ 8,000 and custom duty ₹ 12,000. ₹ 10,000 was spent on its repairs and installation. Installation was completed by 30th September, 2021. Show the Machinery Account and Provision for Depreciation Account for the first two financial years when depreciation is charged @ 20% per annum by written down value method. Accounts are closed each year on 31st March.

Solution:

| Dr. | | | MACHINERY ACCOUNT | | | Cr. | | |
|----------|----|--|-------------------|----------|----|-------------|--------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2021 | | | | 2022 | | | | |
| July 1 | To | Bank A/c (Purchase Price) | 50,000 | March 31 | By | Balance c/d | 80,000 | |
| July 1 | To | Bank A/c (Shipping and forwarding charges) | 8,000 | | | | | |
| July 1 | To | Bank A/c (Custom duty) | 12,000 | | | | | |
| Sept. 30 | To | Bank A/c (Repairs and installation) | 10,000 | | | | | |
| | | | 80,000 | | | | 80,000 | |
| 2022 | | | | 2023 | | | | |
| April 1 | To | Balance b/d | 80,000 | March 31 | By | Balance c/d | 80,000 | |
| 2023 | | | | | | | | |
| April 1 | To | Balance b/d | 80,000 | | | | | |

| Dr. | | | PROVISION FOR DEPRECIATION ACCOUNT | | | Cr. | | |
|----------|----|-------------|------------------------------------|----------|----|--|--------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2022 | | | | 2022 | | | | |
| March 31 | To | Balance c/d | 8,000 | March 31 | By | Depreciation A/c ($20/100 \times ₹ 80,000 \times 6/12$) | 8,000 | |
| | | | 8,000 | | | | 8,000 | |
| 2023 | | | | 2022 | | | | |
| March 31 | To | Balance c/d | 22,400 | April 1 | By | Balance b/d | 8,000 | |
| | | | 22,400 | 2023 | | | | |
| | | | | March 31 | By | Depreciation A/c ($₹ 72,000 \times 20/100$) | 14,400 | |
| | | | | | | | 22,400 | |
| | | | | 2023 | | | | |
| | | | | April 1 | By | Balance b/d | 22,400 | |

Illustration 4.

On 1st April, 2020, X Ltd. purchased a machinery for ₹ 12,00,000. On 1st October, 2022, a part of the machinery purchased on 1st April, 2020 for ₹ 80,000 was sold for ₹ 45,000 and a new machinery at a cost of ₹ 1,58,000 was purchased and installed on the same date. The company has followed WDV method of charging depreciation @ 10% p.a.

Show the necessary Ledger accounts assuming that:

- (i) Provision for Depreciation Account is not maintained,
- (ii) Provision for Depreciation Account is maintained.

Solution:

- (i) *When Provision for Depreciation Account is not maintained.*

| Dr. | | | MACHINERY ACCOUNT | | | Cr. | | |
|-------|---|----------------|-------------------|-------|----|--|-----------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2020 | | | | 2021 | | | | |
| April | 1 | To Bank A/c | 12,00,000 | March | 31 | By Depreciation A/c | 1,20,000 | |
| | | | | | | By Balance c/d | 10,80,000 | |
| | | | 12,00,000 | | | | 12,00,000 | |
| 2021 | | | | 2022 | | | | |
| April | 1 | To Balance b/d | 10,80,000 | March | 31 | By Depreciation A/c | 1,08,000 | |
| | | | | March | 31 | By Balance c/d | 9,72,000 | |
| | | | 10,80,000 | | | | 10,80,000 | |
| 2022 | | | | 2022 | | | | |
| April | 1 | To Balance b/d | 9,72,000 | Oct. | 1 | By Bank A/c (Sale) | 45,000 | |
| Oct. | 1 | To Bank A/c | 1,58,000 | Oct. | 1 | By Loss on Sale of Machinery A/c (Profit & Loss A/c) (WN 1) | 16,560 | |
| | | | | Oct. | 1 | By Depreciation A/c (Depreciation on sold item) | 3,240 | |
| | | | | 2023 | | | | |
| | | | | March | 31 | By Depreciation A/c (WN 2) | 98,620 | |
| | | | | March | 31 | By Balance c/d | 9,66,580 | |
| | | | 11,30,000 | | | | 11,30,000 | |

- (ii) *When Provision for Depreciation Account is maintained.*

| Dr. | | | MACHINERY ACCOUNT (AT ORIGINAL COST) | | | Cr. | | |
|-------|---|------------------------|--------------------------------------|-------|----|-----------------------------------|-----------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2020 | | | | 2021 | | | | |
| April | 1 | To Bank A/c | 12,00,000 | March | 31 | By Balance c/d | 12,00,000 | |
| 2021 | | | | 2022 | | | | |
| April | 1 | To Balance b/d | 12,00,000 | March | 31 | By Balance c/d | 12,00,000 | |
| 2022 | | | | 2022 | | | | |
| April | 1 | To Balance b/d | 12,00,000 | Oct. | 1 | By Bank A/c (Sale) | 45,000 | |
| Oct. | 1 | To Bank A/c (Purchase) | 1,58,000 | Oct. | 1 | By Provision for Depreciation A/c | 18,440 | |
| | | | | Oct. | 1 | By Loss on Sale of Machinery A/c | 16,560 | |
| | | | | 2023 | | | | |
| | | | | March | 31 | By Balance c/d | 12,78,000 | |
| | | | 13,58,000 | | | | 13,58,000 | |

Cr.

| Date | Particulars | ₹ | Date | Particulars | ₹ |
|----------|-------------------------------|----------|----------|----------------------------|----------|
| 2021 | | | 2021 | | |
| March 31 | To Balance <i>c/d</i> | 1,20,000 | March 31 | By Depreciation A/c | 1,20,000 |
| 2022 | | | 2021 | | |
| March 31 | To Balance <i>c/d</i> | 2,28,000 | April 1 | By Balance <i>b/d</i> | 1,20,000 |
| | | | 2022 | | |
| | | | March 31 | By Depreciation A/c | 1,08,000 |
| | | 2,28,000 | | | 2,28,000 |
| 2022 | | | 2022 | | |
| Oct. 1 | To Machinery A/c (WN 1) | 18,440 | April 1 | By Balance <i>b/d</i> | 2,28,000 |
| | (₹ 8,000 + ₹ 7,200 + ₹ 3,240) | | Oct. 1 | By Depreciation A/c (WN 1) | 3,240 |
| 2023 | | | 2023 | | |
| March 31 | To Balance <i>c/d</i> | 3,11,420 | March 31 | By Depreciation A/c (WN 2) | 98,620 |
| | | 3,29,860 | | | 3,29,860 |

Working Notes:

| | |
|--|--------|
| 1. Calculation of Loss on Sale of Machinery: | ₹ |
| Original Cost (1st April, 2020) | 80,000 |
| Less: Depreciation @ 10% for 2020–21 | 8,000 |
| Book Value (1st April, 2021) | 72,000 |
| Less: Depreciation (2021–22) | 7,200 |
| Book Value (1st April, 2022) | 64,800 |
| Less: Depreciation up to date of sale ($₹ 64,800 \times 10/100 \times 6/12$) | 3,240 |
| Book Value of sold item on date of sale | 61,560 |
| Less: Sale Proceeds | 45,000 |
| Loss on Sale of Machinery | 16,560 |
| 2. Calculation of Depreciation for Current Year on Remaining Machinery: | ₹ |
| A. On Old Machine @ 10% of ($₹ 9,72,000 - ₹ 64,800$) | 90,720 |
| B. On New Machine ($₹ 1,58,000 \times 10/100 \times 6/12$) | 7,900 |
| | 98,620 |

Illustration 5.

On 1st April, 2020 a firm purchased machinery for ₹ 3,00,000. On 1st October, 2020, additional machinery costing ₹ 1,50,000 was purchased. On 1st October, 2021, the machinery purchased on 1st April, 2020 having become obsolete, was sold for ₹ 1,35,000. On 1st October, 2022, new machinery was purchased for ₹ 3,75,000 while the machinery purchased on 1st October, 2020 was sold for ₹ 1,27,500 on the same day. The firm provides depreciation on its machinery @ 10% per annum on original cost on 31st March every year.

Show Machinery Account, Provision for Depreciation Account and Depreciation Account for the period of three accounting years ending 31st March, 2023.

Solution:

| Dr. | | | MACHINERY ACCOUNT | | | Cr. | | |
|---------|--|--|-------------------|----------|--|--|----------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2020 | | | | 2021 | | | | |
| April 1 | | To Bank A/c (Mach. I) | 3,00,000 | March 31 | | By Balance c/d | 4,50,000 | |
| Oct. 1 | | To Bank A/c (Mach. II) | 1,50,000 | | | | | |
| | | | 4,50,000 | | | | 4,50,000 | |
| 2021 | | | | 2021 | | | | |
| April 1 | | To Balance b/d | 4,50,000 | Oct. 1 | | By Bank A/c (Mach. I) (Sale) | 1,35,000 | |
| | | | | Oct. 1 | | By Provision for Depreciation A/c | 45,000 | |
| | | | | Oct. 1 | | By Loss on Sale of Machinery A/c (Profit & Loss A/c) (WN 3) | 1,20,000 | |
| | | | | 2022 | | | | |
| | | | | March 31 | | By Balance c/d | 1,50,000 | |
| | | | 4,50,000 | | | | 4,50,000 | |
| 2022 | | | | 2022 | | | | |
| April 1 | | To Balance b/d | 1,50,000 | Oct. 1 | | By Bank A/c (Mach. II) (Sale) | 1,27,500 | |
| Oct. 1 | | To Bank A/c (Mach. III) | 3,75,000 | Oct. 1 | | By Provision for Depreciation A/c | 30,000 | |
| Oct. 1 | | To Gain on Sale of Machinery A/c (Profit & Loss A/c) (WN 3) | 7,500 | 2023 | | | | |
| | | | 5,32,500 | March 31 | | By Balance c/d | 3,75,000 | |
| | | | | | | | 5,32,500 | |

| Dr. | | | PROVISION FOR DEPRECIATION ACCOUNT | | | Cr. | | |
|----------|--|---|------------------------------------|----------|--|--------------------------------|--------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2021 | | | | 2021 | | | | |
| March 31 | | To Balance c/d | 37,500 | March 31 | | By Depreciation A/c | 37,500 | |
| 2021 | | | | 2021 | | | | |
| Oct. 1 | | To Machinery A/c (Mach. I) (₹ 30,000 + ₹ 15,000) | 45,000 | April 1 | | By Balance b/d | 37,500 | |
| | | | | Oct. 1 | | By Depreciation A/c (Mach. I) | 15,000 | |
| 2022 | | | | 2022 | | | | |
| March 31 | | To Balance c/d | 22,500 | March 31 | | By Depreciation A/c | 15,000 | |
| | | | 67,500 | | | | 67,500 | |
| 2022 | | | | 2022 | | | | |
| Oct. 1 | | To Machinery A/c (Mach. II) (₹ 7,500 + ₹ 15,000 + ₹ 7,500) | 30,000 | April 1 | | By Balance b/d | 22,500 | |
| | | | | Oct. 1 | | By Depreciation A/c (Mach. II) | 7,500 | |
| 2023 | | | | 2023 | | | | |
| March 31 | | To Balance c/d | 18,750 | March 31 | | By Depreciation A/c | 18,750 | |
| | | | 48,750 | | | | 48,750 | |
| | | | | 2023 | | | | |
| | | | | April 1 | | By Balance b/d | 18,750 | |

| Dr. | | | DEPRECIATION ACCOUNT | | | Cr. | | |
|----------|--|-----------------------------------|----------------------|----------|--|----------------------|--------|--|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2021 | | | | 2021 | | | | |
| March 31 | | To Provision for Depreciation A/c | 37,500 | March 31 | | By Profit & Loss A/c | 37,500 | |
| 2021 | | | | 2022 | | | | |
| Oct. 1 | | To Provision for Depreciation A/c | 15,000 | March 31 | | By Profit & Loss A/c | 30,000 | |
| 2022 | | | | | | | | |
| March 31 | | To Provision for Depreciation A/c | 15,000 | | | | 30,000 | |
| | | | 30,000 | | | | | |
| 2022 | | | | 2023 | | | | |
| Oct. 1 | | To Provision for Depreciation A/c | 7,500 | March 31 | | By Profit & Loss A/c | 26,250 | |
| 2023 | | | | | | | | |
| March 31 | | To Provision for Depreciation A/c | 18,750 | | | | 26,250 | |
| | | | 26,250 | | | | | |

Working Notes:

| | | |
|---|-------------------|----------------|
| 1. Calculation of Accumulated Depreciation on Machine I: | | ₹ |
| Depreciation for 2020–21 | | 30,000 |
| Depreciation for 2021–22 (Sold on 1st October, 2022) | | 15,000 |
| Accumulated Depreciation | | <u>45,000</u> |
| 2. Calculation of Depreciation on Machine II: | | |
| Depreciation for 2020–21 (Purchased on 1st October, 2020) | | 7,500 |
| Depreciation for 2021–22 | | 15,000 |
| Depreciation for 2022–23 (Sold on 1st October, 2022) | | 7,500 |
| Accumulated Depreciation | | <u>30,000</u> |
| 3. Calculation of Gain/(Loss) on Sale of Machines: | Machine I (₹) | Machine II (₹) |
| Cost of Machinery | 3,00,000 | 1,50,000 |
| Less: Accumulated Depreciation (till date of sale) | <u>45,000</u> | <u>30,000</u> |
| Book Value on Date of Sale (A) | 2,55,000 | 1,20,000 |
| Sales Proceeds (B) | 1,35,000 | 1,27,500 |
| Gain/(Loss) on Sale (B – A) | <u>(1,20,000)</u> | <u>7,500</u> |

Illustration 6.

In Anil's Ledger, book value of a machine as on 1st April, 2022 is ₹ 2,80,000. Depreciation is charged @ 15% p.a. by Written Down Value Method.

The machine is under an annual repairs and maintenance contract with Mahesh, who charges ₹ 5,000 per quarter.

A new machine was bought and the cheque issued for ₹ 3,90,000 and the cash paid ₹ 10,000 to Brahm for its immediate installation and subsequent use on 1st July, 2022.

The annual maintenance contract of the new machine bought was to be signed after the one year guarantee period was over. Show the Machinery Account, as it would appear in the Ledger for the year ended 31st March, 2023.

Solution:

| MACHINERY ACCOUNT | | | | | |
|-------------------|----------------|-----------------|----------|----------------------------|-----------------|
| Dr. | | | Cr. | | |
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 2022 | | | 2023 | | |
| April 1 | To Balance b/d | 2,80,000 | March 31 | By Depreciation A/c (WN 1) | 87,000 |
| July 1 | To Bank A/c | 3,90,000 | March 31 | By Balance c/d | 5,93,000 |
| July 1 | To Cash A/c | 10,000 | | | |
| | | <u>6,80,000</u> | | | <u>6,80,000</u> |

Working Notes:

- Calculation of Depreciation:

| | |
|---|---------------|
| | ₹ |
| On old machine @ 15% p.a. on ₹ 2,80,000 for 1 year | 42,000 |
| On new machine @ 15% p.a. on ₹ 4,00,000 for 9 months (₹ 4,00,000 × 15/100 × 9/12) | 45,000 |
| Total | <u>87,000</u> |
- Repairs and maintenance charges are Revenue Expenses so they are transferred (charged) to the Profit & Loss Account.

Illustration 7.

On 1st April, 2019, machinery was purchased for ₹ 80,000. On 1st April, 2020 new machinery costing ₹ 40,000 was purchased. On 30th June, 2021, machinery purchased on 1st April, 2019 was sold for ₹ 65,000 and on 30th September, 2021 machinery purchased on 1st April, 2020 was sold for ₹ 26,750. On 1st October, 2021 another machinery for ₹ 50,000 was acquired. On 1st October, 2022 new machinery costing ₹ 40,000 was purchased. Depreciation was charged @ 10% p.a. on the Diminishing Balance Method. Prepare Machinery Account for four years ending on 31st March, 2023.

Solution:

| Dr. | | | MACHINERY ACCOUNT | | | Cr. | | |
|---------|--|--------------------------|-------------------|----------|-------------------------------------|-----------------------------------|----------|--------|
| Date | | Particulars | ₹ | Date | | Particulars | ₹ | |
| 2019 | | | | 2020 | | | | |
| April 1 | | To Bank A/c (Mach. I) | 80,000 | March 31 | By Depreciation A/c (Mach. I) | (10% on ₹ 80,000) | 8,000 | |
| | | | | March 31 | By Balance c/d | | 72,000 | |
| | | | 80,000 | | | | 80,000 | |
| 2020 | | | | 2021 | | | | |
| April 1 | | To Balance b/d | 72,000 | March 31 | By Depreciation A/c: | | | |
| April 1 | | To Bank A/c (Mach. II) | 40,000 | | Mach. I (10% of ₹ 72,000) | 7,200 | | |
| | | | | | Mach. II (10% of ₹ 40,000) | 4,000 | 11,200 | |
| | | | | March 31 | By Balance c/d: | | | |
| | | | | | Mach. I (₹ 72,000 – ₹ 7,200) | 64,800 | | |
| | | | | | Mach. II (₹ 40,000 – ₹ 4,000) | 36,000 | 1,00,800 | |
| | | | 1,12,000 | | | | 1,12,000 | |
| 2021 | | | | 2021 | | | | |
| April 1 | | To Balance b/d: | | June 30 | By Bank A/c (Sale) | | 65,000 | |
| | | —Mach. I | 64,800 | June 30 | By Depreciation A/c (Mach. I) | (₹ 64,800 × 10/100 × 3/12) (WN 1) | 1,620 | |
| | | —Mach. II | 36,000 | | | | | |
| | | | 1,00,800 | Sept. 30 | By Bank A/c (Sale) | | 26,750 | |
| June 30 | | To Gain (Profit) on Sale | | Sept. 30 | By Depreciation A/c | (For 6 months on machine sold) | | |
| | | of Machinery A/c (WN 1) | 1,820 | | (₹ 36,000 × 10/100 × 6/12) | | 1,800 | |
| Oct. 1 | | To Bank A/c (Mach. III) | 50,000 | | | | | |
| | | | | Sept. 30 | By Loss on Sale of Machinery (WN 2) | | 7,450 | |
| | | | | 2022 | | | | |
| | | | | March 31 | By Depreciation A/c | (₹ 50,000 × 10/100 × 6/12) | 2,500 | |
| | | | | March 31 | By Balance c/d (Mach. III) | | 47,500 | |
| | | | 1,52,620 | | | | 1,52,620 | |
| 2022 | | | | 2023 | | | | |
| April 1 | | To Balance b/d | 47,500 | March 31 | By Depreciation A/c: | | | |
| Oct. 1 | | To Bank A/c (Mach. IV) | 40,000 | | —Mach. III | (₹ 47,500 × 10/100) | 4,750 | |
| | | | | | —Mach. IV | (₹ 40,000 × 10/100 × 6/12) | 2,000 | 6,750 |
| | | | | March 31 | By Balance c/d: | | | |
| | | | | | —Mach. III | (₹ 47,500 – ₹ 4,750) | 42,750 | |
| | | | | | —Mach. IV | (₹ 40,000 – ₹ 2,000) | 38,000 | 80,750 |
| | | | 87,500 | | | | 87,500 | |

Working Notes:

| | |
|--|--------|
| 1. Calculation of Depreciation and Gain/(Loss) on Sale of Machinery sold on 30th June, 2021: | ₹ |
| Book value on 1st April, 2021 | 64,800 |
| Less: Depreciation up to date of sale ($₹ 64,800 \times 10/100 \times 3/12$) | 1,620 |
| Book value on date of sale | 63,180 |
| Less: Sale Proceeds of Machinery | 65,000 |
| Profit on Sale of Machinery | 1,820 |
| 2. Calculation of Depreciation and Gain/(Loss) on Machinery sold on 30th September, 2021: | ₹ |
| Book value on 1st April, 2021 | 36,000 |
| Less: Depreciation for 6 Months | 1,800 |
| Book value on date of sale | 34,200 |
| Less: Sale proceeds of Machinery | 26,750 |
| Loss on Sale of Machinery | 7,450 |

Illustration 8.

From the following information of M/s Gold Star, prepare Machinery Account for the three years ending on 31st March, 2023:

| Date | Particulars |
|------------------|--|
| 1st April, 2020 | Purchased a second hand machinery I for ₹ 4,00,000 |
| 1st April, 2020 | Spent ₹ 1,00,000 on its repairs to make it serviceable |
| 1st Oct., 2020 | Purchased a new machinery II for ₹ 10,00,000 |
| 1st April, 2021 | Spent ₹ 10,000 on repair of new machinery II |
| 30th Sept., 2022 | Sale of machinery I for ₹ 2,25,000 |
| 30th Sept., 2022 | Purchased a new machinery III for ₹ 15,00,000 |

Method of Depreciation is Written Down Value Method and Rate of Depreciation is 20% p.a.

Solution:

| MACHINERY ACCOUNT | | | | | |
|-------------------|-------------------------|-----------|----------|---|-----------|
| Dr. | | | Cr. | | |
| Date | Particulars | ₹ | Date | Particulars | ₹ |
| 2020 | | | 2021 | | |
| April 1 | To Bank A/c: M. I | 4,00,000 | March 31 | By Depreciation A/c: M. I ($₹ 5,00,000 \times 20/100$) | 1,00,000 |
| | To Bank A/c (Expenses) | 1,00,000 | | M. II ($₹ 10,00,000 \times 20/100 \times 6/12$) | 1,00,000 |
| Oct. 1 | To Bank A/c: M. II | 10,00,000 | March 31 | By Balance c/d: M. I ($₹ 5,00,000 - ₹ 1,00,000$) | 4,00,000 |
| | | | | M. II ($₹ 10,00,000 - ₹ 1,00,000$) | 9,00,000 |
| | | 15,00,000 | | | 15,00,000 |
| 2021 | | | 2022 | | |
| April 1 | To Balance b/d: M. I | 4,00,000 | March 31 | By Depreciation A/c: M. I ($₹ 4,00,000 \times 20/100$) | 80,000 |
| | M. II | 9,00,000 | | M. II ($₹ 9,00,000 \times 20/100$) | 1,80,000 |
| | | | | By Balance c/d: M. I ($₹ 4,00,000 - ₹ 80,000$) | 3,20,000 |
| | | | | M. II ($₹ 9,00,000 - ₹ 1,80,000$) | 7,20,000 |
| | | 13,00,000 | | | 13,00,000 |

| | | | | | | | |
|-------|----|-----------------|-----------|-------|----|--------------------------------------|-----------|
| 2022 | | | | 2022 | | | |
| April | 1 | To Balance b/d: | | Sept. | 30 | By Depreciation A/c (M. I) | 32,000 |
| | | M. I | 3,20,000 | | | (WN 1) | |
| | | M. II | 7,20,000 | Sept. | 30 | By Bank A/c (Sale) | 2,25,000 |
| Sept. | 30 | To Bank A/c: | | Sept. | 30 | By Loss on Sale of Machinery A/c | 63,000 |
| | | M. III | 15,00,000 | | | (Profit & Loss A/c) (WN 2) | |
| | | | | 2023 | | | |
| | | | | March | 31 | By Depreciation A/c: | |
| | | | | | | M. II (₹ 7,20,000 × 20/100) | 1,44,000 |
| | | | | | | M. III (₹ 15,00,000 × 20/100 × 6/12) | 1,50,000 |
| | | | | | | By Balance c/d: | |
| | | | | | | M. II (₹ 7,20,000 – ₹ 1,44,000) | 5,76,000 |
| | | | | | | M. III (₹ 15,00,000 – ₹ 1,50,000) | 13,50,000 |
| | | | 25,40,000 | | | | 25,40,000 |

Working Notes:

- Calculation of Gain/Loss on Sale of Machine:**

| | |
|---|-----------------|
| | ₹ |
| Book value as on 1st April, 2022 | 3,20,000 |
| Less: Depreciation up to date of sale for 6 months (₹ 3,20,000 × 20/100 × 6/12) | 32,000 |
| | <u>2,88,000</u> |
| Less: Sale Proceeds | 2,25,000 |
| Loss on Sale of Machine | <u>63,000</u> |
- The amount spent on repairs of Machinery II ₹ 10,000 on 1st April, 2021 is of *revenue nature* and is not of *Capital nature*. Hence it is not debited to Machinery Account.