Subject: Book Keeping and Accountancy **Topic**: Depreciation **Name of the Teacher**: Jaishree Teli **Date:**

FYJC COMMERCE

Meaning: Depreciation is slow and gradual fall in the value of an asset, due to its wear and tear or due to expiry of time period.

Formula for calculation of Depreciation:
Depreciation per annum = Cost of an asset – Scrap Value/Estimated life of an asset.

Where cost of an asset = Purchase price + installation charge
Where scrap value = Amount that will be received on selling of an asset after the estimated working life
Where estimated life of an asset = Period for which an asset will remain in proper working condition

Out of the several methods of calculating depreciation let us learn the following two important methods of calculation:

1. Fixed Instalment Method/Straight Line Method
2. Reducing Balance Method/Written Down Value Method

Fixed Instalment Method/Straight Line Method
In this method the rate of depreciation will remain the same but the book value of the asset will become zero after certain years depending upon the rate of depreciation. The rate of depreciation will always be calculated on the original cost of an asset.

Example: On 1 April 2018, Mr. A purchased a computer for INR 50,000. Depreciation to be charged at 10% per annum under Fixed Instalment Method. Calculate depreciation for two years ending on 31 March.

Calculation of depreciation for first year i.e. 1 April 2018 to 31 March 2019 is as follows:
INR 50,000 x 10 % = INR 5,000. Therefore the balance on 31 March 2019 will be INR 50,000 – INR 5,000 = INR 45,000.

Calculation of depreciation for second year i.e. 1 April 2019 to 31 March 2020 is as follows:
INR 50,000 x 10% = INR 5,000. Therefore the balance on 31 March 2020 will be INR 45,000 – INR 5,000 = INR 40,000.

Reducing Balance Method /Written Down Value Method
In this method the rate of depreciation will remain the same but it will be calculated on a reduced balance of the asset. The value of the asset will become zero. This method of calculation of depreciation is accepted for the calculation and payment of income tax.

Example: On 1 April 2018, Mr. A purchased a computer for INR 50,000. Depreciation to be charged at 10% per annum under Reducing Balance Method. Calculate depreciation for two years ending on 31 March.

Calculation of depreciation for first year i.e. 1 April, 2018 to 31 March, 2019 is as follows:
INR 50,000 x 10% = INR 5,000. Therefore the balance on 31 March 2019 will be INR 50,000 – INR 5,000 = INR 45,000.

Calculation of depreciation for second year i.e. 1 April 2019 to 31 March, 2020 will be as follows:
INR 45,000 x 10% = INR 4,500. Therefore the balance on 31 March 2020 will be INR 45,000 – INR 4,500 = INR 40,500.

Solve the followings:

1. Mr. B purchased a machinery for INR 1,00,000 on 1 April 2015 and decided to depreciate it at 15% per annum on original cost. Show the machinery account and depreciation account for the first two years assuming that the books of accounts are closed on 31 March every year under Fixed Installment Method.

2. Mr. C purchased furniture for INR 1,00,000 on 1 April 2010 and decided to depreciate it at 10% per annum. Show the furniture account and depreciation account for the first three years assuming that the books of accounts are closed on 31 March every year under Reducing Balance Method.