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ACCOUNTANCY FORMAT 11TH STANDARD
VOLUME - II
CHAPTER 10
DEPRECIATION ACCOUNTING

Key terms to know

Depreciation

Provision for depreciation

Scrap value /residual value

Book Value

Straight line method

Diminishing balance method

Methods of providing depreciation

There are various methods used for providing depreciation on fixed assets.

- i. Straight line method or fixed instalment method or original cost method
- ii. Written down value method or Diminishing balance method
- iii. Sum of years of digits method
- iv. Machine hour rate method
- v. Depletion method
- vi. Annuity method
- vii. Revaluation method
- viii. Sinking fund method
- ix. Insurance policy method

Straight line method/Fixed instalment method/Original cost method.

Amount of depreciation = Total cost – Scrap Value

Estimateuseful life

Rate of depreciation = Amount of depreciation

Original Cost

R. MANIKANDAN M COM,M.B.A., PGT IN COMMERC SRI VENKATESWARA MATRIC HR SEC SCHOOL,
 ALWARTHIRUNAGAR, CHENNAI-87 PHONE :9094033454

Short Form Format

$$AOD = \frac{TC-SV}{\Sigma L}$$

$$ROD = \frac{AOD}{OC} \times 100$$

Total cost = Original cost

Scrap Value = Residual value Estimated

Useful Life – Years

Methods of recording depreciation

There are two methods followed to record depreciation.

- (i) Charging depreciation to asset account
- (ii) Charging Depreciation to provision for depreciation account.

Charging depreciation to asset account

Under this method at the end of every accounting period, the amount of depreciation charged is debited to depreciation account and the amount of depreciation is credited to asset account. Hence the asset appears in the balance sheet at its depreciated value. Depreciation being revenue charge is transferred to profit and loss account.

The following journal entries are to be passed in the books for depreciation and related transactions:

(a) For purchase of asset

Asset A/c	Dr.	XXX	
To Bank A/c			XXX

(b) For providing depreciation at the end of the accounting year

Depreciation A/c	Dr.	XXX	
To Asset A/c			XXX

(C) For closing the depreciation account

Profit & loss A/c To Asset A/c	Dr.	XXX	XXX
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(d) For sale of asset

Bank A/c	Dr.	XXX	
Profit & loss A/c	Dr.	XXX	
To Asset A/c			XXX

*** Note: Profit and loss A/c will be credited if there is profit on sale.**

Dr. Machinery Account Cr.

Date	Particulars	Rs	Date	Particulars	Rs
2016 July 1	To cash A/c	XXX	2016 Dec 31 Dec 31	By Depreciation A/c By Balance c/d	XXX XXX XXX
2017 Jan 1	To Balance b/d	XXX	2017 Dec 31 Dec 31	By Depreciation A/c By Balance c/d	XXX XXX XXX
2018 Jan 1	To Balance bld	XXX			

Dr. Depreciation Account Cr.

Date	Particulars	Rs	Date	Particulars	Rs
2016 July 1	To Machinery A/c	XXX	2016 Dec 31	By Profit & loss A/c	XXX
		XXX			XXX
2017 Jan 1	To Machinery A/c	XXX	2017 Dec 31	By Profit & loss A/c	XXX
		XXX			XXX

For Example

Joy and Co. Purchased machinery on 1st April 2016 for Rs.75, 000. On 31st March 2018, it sold the machinery for Rs.62, 000. Depreciation is to be provided every year at 10% per annum on the fixed instalment method. Accounts are closed on 31st March every year. Find out the profit or loss on sale of machinery.

Particulars	Rs
Cost price	75,000
Less: Depreciation for 2016-17 (75,000x10%)	7,500
	67,500
Less: Depreciation for 2017-18 (75,000 x10%)	7,500
Book Value on the date of sale	60,000
Less: Selling price	62,000
Profit on sale	-2,000

The selling price is more than the book value on the date of sale of machinery. Hence, the difference Rs.2, 000 is profit on sale of machinery.

A company purchased machinery costing Rs.90, 000 on January 1, 2015 and spent Rs.10, 000 on its erection. On July 1, 2017, the machinery was sold for Rs.58, 000. The company writes off depreciation at 20% p.a. under written down value method. Prepare machinery account. The books are closed on 31st December every year.

R. MANIKANDAN M COM,M.B.A., PGT IN COMMERC SRI VENKATESWARA MATRIC HR SEC SCHOOL, ALWARTHIRUNAGAR, CHENNAI-87 PHONE :9094033454

1. Computation of depreciation for the year 2014

Asset purchased on 1.1.14	$60,000 \times 10\%$	=6,000	
Asset purchased on 1.7.14	$50,000 \times 10\% \times 6/12$	= <u>2,500</u>	Rs.8,500

2. Computation of depreciation on the asset sold on 1.7.2015

Original cost on 1.1.2014	=60,000
Less: Depreciation for 2014 ($60,000 \times 10\%$)	= <u>6,000</u>
Written down value on 1.1.2015	54,000
Less: Depreciation for 2015 upto 1.7.2015 ($54,000 \times 10\% \times 6/12$)	= <u>2,700</u>
Book Value	51,300
Sale price	<u>40,000</u>
Loss on sale of asset	<u>11,300</u>

3. Depreciation for 2015 for the asset purchased on 1.7.2014

Original cost on 1.7.2014	=50,000
Less: Depreciation for 2014 ($50,000 \times 10\% \times 6/12$)	= <u>2,500</u>
Written down value on 1.1.2015	47,500
Less: Depreciation for 2015 ($47,500 \times 10\%$)	= <u>4,750</u>

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CHAPTER 11

CAPITAL AND REVENUE TRANSACTIONS

Key terms to kown

- Capital expenditure
- Revenue expenditure
- Deferred revenue expenditure
- Capital receipts
- Revenue receipts

Capital expenditure

1. The Machine is ready for use.
2. Spent on machinery purchased and installed and buildings.
3. Spent on painting the new factory should be treated as.
4. Freight, Cartage and erection charges.
5. Over handling expenses.
6. Spent as travelling expenses
7. Spent on demolition of building to construction a large building on the same site.

Revenue Expenditure

1. Office rent paid
2. Wages of Rs.5000 Paid to machine operators.
3. Hire Charges for the use of motor vehicle.
4. Spent on repairs should be treated as.

Deferred revenue expenditure

1. Heavy advertisement expenses.
2. Advertising expenditure the benefits which will last for there tears.

Capital receipts

1. Insurance claim received on account of a machinery damaged by
2. Loan Borrowed from Bank.
3. Sale of investment
4. Wages paid in connection with the erection of new machinery.

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ALWARTHIRUNAGAR, CHENNAI-87 PHONE :9094033454

Revenue receipts

1. Amount received from trade receivable during the tear.
2. Sales proceeds of goods.
3. Commission received.

Capital

1. Registration expenses
2. Repairing Charges
3. Remodelling the old building purchased
4. Legal expenses paid for raising of loans
5. Construction of buildings
6. Pulling down the old rebuilding
7. Spent for railway siding
8. Legal fees paid to the lawyer for acquiring a land.

Revenue

1. Carriage paid on goods purchase
2. Repairs to furniture
3. White washing the buildings
4. Loss on sales of old furniture
5. Carriage paid on goods sold
6. Renewal of factory licence
7. Spent on painting the factory
8. Audit fees paid
9. Labour welfare expenses
10. Company vehicle
11. Rent paid for the factory

CHAPTER 12

FINAL ACCOUNTS OF SOLE PROPRIETORS

Key terms to know

- Final accounts
- Financial statements
- Income statement
- Trading account
- Profit and loss account
- Cost of goods sold
- Gross Profit
- Net Profit
- Financial Position
- Balance Sheet

Format of trading account

TRADING ACCOUNT FOR THE YEAR ENDED...

Particulars	Rs	Rs	Particulars	Rs	Rs
To Opening Stock		xxx	By Sales	xxxxxxx	
To purchase	XXX		Less: Sale returns		xxx
Less: purchase returns	XXX	xxx	By Closing stock		xxx
To Direct expenses:			By Gross loss c/d*		xxx
Carriage/Freight inwards		xxx			
Wages		xxx			
Dock charges		xxx			
Octroi		xxx			
Royalty		xxx			
Import duty		Xxx			xxx
To Cost of goods					
Manufactured		xxx			
To Gross profit c/d*		xxx			

Format of trading account

Dr. profit and loss account for the year ended..... Cr.

Particulars	Rs	Particulars	Rs
To Gross loss b/d	xxx	By Gross b/d	xxx
To office and administrative expenses		By indirect incomes:	
Salaries	xxx	Rent earned	xxx
Rent, rates and taxes	xxx	Discount received	xxx
Printing and stationery	xxx	Commission earned	xxx
Postage	xxx	Interest on investments	xxx
Legal Charges	xxx	Dividend on shares	xxx
Audit Fees	xxx	Bad debts recovered	xxx
Establishment expenses	xxx	Profit on sale of fixed assets	xxx
Trade expenses	xxx	Apprenticeship premium	xxx
General travelling expenses	xxx	Miscellaneous receipts	xxx
Lighting	xxx	By Net loss*	xxx
Insurance premium	xxx		
To Selling and distribution expenses		(transferred to capital account)	
Carriage outwards	xxx		
Advertisement	xxx		
Commission	xxx		
Brokerage	xxx		
Bad debts or provision for bad	xxx		
debts	xxx		
Export duty	xxx		
Packing charges			
To other expenses and losses:	xxx		
Repairs	xxx		
Depreciation	xxx		
Interest charges	xxx		
Discount allowed	xxx		
Provision for discount	xxx		
Bank Charges	xxx		
Interest on capital	xxx		
Donation and charity	xxx		
Loss on sale of fixed assets			
Abnormal loss due to fire, theft	xxx		
etc. Not covered by insurance			
To Net profit*			
(transferred to capital account)	xxx		xxx

Balance sheet as on

Liabilities	Rs.	Assets	Rs.
Capital xxx		Stock	xxx
Add : Net profit xxx		Sundry Debtors	xxx
-----		Prepaid expenses	xxx
Less :Drawings xxx		Accrued Income	xxx
-----		Bills Receivable	xxx
Sundry Creditors	xxx	Cash at bank	xxx
Bills Payable	xxx	Cash in hand	xxx
Bank overdraft	xxx	Good will	xxx
Short term loans	xxx	Land and building	xxx
Outstanding Expenses	xxx	Plant and machinery	xxx
	xxx	Furniture.	xxx
			xxx

CHAPTER – 13**FINAL ACCOUNTS OF SOLE PROPRIETORS – II****KEY TERMS TO KNOW**

Adjustment entries

Outstanding expenses

Prepaid expenses

Accrued Income

Income Received in advance

Bad debts

Provision for bad and doubtful debts

Provision for discount on debtors

Adjustments and Adjustments entries

The following are the common adjustments and adjustment entries which are made while preparing the final accounts.

1. Closing Stock.
2. Outstanding Expenses

R. MANIKANDAN M COM,M.B.A., PGT IN COMMERC SRI VENKATESWARA MATRIC HR SEC SCHOOL,
ALWARTHIRUNAGAR, CHENNAI-87 PHONE :9094033454

3. Prepaid Expenses
4. Accrued income
5. Income received in advance
6. Interest on capital
7. Interest on drawings
8. Interest on loan
9. Interest on Investment
10. Depreciation
11. Bad Debts
12. Provision for bad and doubtful debts
13. Provision for discount on debtors
14. Income Tax Paid
15. Manager's commission.

1. Closing Stock

Adjusting entry

Particulars	L.F	Debit Rs.	Credit Rs.
Stock (Closing) A/c Dr. To Trading A/c (Closing Stock brought into account)		xxx	xxx

Dr. Trading Account for the year ended 31st March, 2016 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By Closing stock		xxxx

Balance sheet as on 31st March, 2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Stock In Trade		xxxx

2. Outstanding Expenses

Adjusting Entry

Particulars	L.F	Debit Rs.	Credit Rs
Concerned Expense A/c Dr. To Outstanding Expense A/c (Expense Outstanding Adjusted)		xxx	xxx

Dr. Trading Account for the year ended 31st December, 2017 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Rent Add: Outstanding	XXX XXX	XXXX			

Balance sheet as on 31st March, 2016

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Rent Outstanding		4000			

3. Prepaid Expenses.

Adjusting Entry

Particulars	L.F	Debit Rs.	Credit Rs
Prepaid Expense A/c Dr. To Concerned Expense A/c (Expense Paid in advance adjusted)		xxx	xxx

Dr. Profit and loss account for the year ended 31st March, 2016 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Insurance premium Less : prepaid Insurance	XXX XXXX	XXX			

Balance sheet as on 31st March, 2016

Liabilities	Rs.	Assets	Rs.
		Insurance Premium Prepaid	

4. Accrued Income

Adjusting Entry

Particulars	L.F	Debit Rs.	Credit Rs
Accrued Income A/c Dr. To Concerned income A/c (income accrued adjusted)		xxx	xxx

Dr. Profit and loss account for the year ended 31st March, 2018 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By interest on fixed deposit	XXXXX XXX	XXXX

Balance sheet as on 31st March, 2018

Liabilities	Rs.	Assets	Rs.
		Accrued Interest on fixed deposit	XXXX

5. Income Received in advance

Adjusting Entry

Particulars	L.F	Debit Rs.	Credit Rs
Concerned Income A/c Dr. To Income received in advance A/c (Income Received in advance adjusted)		xxx	xxx

Dr. Profit and loss account for the year ended 31st March, 2017 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By commission received	XXXX	XXX
			Less : Received in advance	XXX	

Balance sheet as on 31st March, 2017

Liabilities	Rs.	Assets	Rs.
Commission received in advance	XXX		

6. Interest on capital

Adjusting Entry

Particulars	L.F	Debit Rs.	Credit Rs
Interest on Capital A/c Dr. To Capital A/c (Interest on Capital Provided)		xxx	xxx

Transfer Entry

Particulars	L.F	Debit Rs.	Credit Rs
Profit and Loss A/c Dr. To interest on capital A/c (Interest on Capital transferred)		xxx	xxx

Dr. Profit and loss account for the year ended 31stDecember, 2016 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To interest on capital		XXXX			

Balance sheet as on 31stDecember, 2016

Liabilities	Rs.	Assets	Debit Rs.	Credit Rs.
Capital	XXXXXX			
Add: Interest on capital	XXXX			
	XXXXXX			

7. Interest on drawings.**Adjusting Entry**

Particulars	L.F	Debit Rs.	Credit Rs
Capital A/c Dr. To Interest on drawings A/c (Interest on Drawings Provided)		xxx	xxx

Transfer Entry

Particulars	L.F	Debit Rs.	Credit Rs
Interest on Drawings A/c Dr. To Profit and loss A/c (Interest on Drawings transferred)		xxx	xxx

Dr. Profit and loss account for the year ended 31stMarch, 2016 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By interest on drawings		XXX

Balance sheet as on 31st December, 2016

Liabilities	Rs.	Assets	Debit Rs.	Credit Rs.
Capital	XXXXXX			
Less: Interest on capital	XXXX			
Less: Interest on drawings	XXXXXX			
	XXX	XXXXXX		

8. Interest on Loan**Adjusting Entry**

Particulars	L.F	Debit Rs.	Credit Rs
Interest on Load A/c Dr.		xxx	
To Outstanding interest on loan A/c (Interest on loan Outstanding)			xxx

Dr. Profit and loss account for the year ended 31stDecember, 2017 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To interest on load	XXX				
Add : Outstanding	XXX	XXX			

Balance sheet as on 31st December, 2017

Liabilities	Rs.	Assets	Debit Rs.	Credit Rs.
Loan @ 12%	XXXX			
Add: Interest Outstanding	XXXX	XXXXXX		
Less: Interest on drawings				

9. Interest on Investment.**Adjusting Entry**

Particulars	L.F	Debit Rs.	Credit Rs
Accured interest on investment A/c Dr. To Interest on investment A/c (Interest on investment due adjusted)		xxx	xxx

Dr. Profit and loss account for the year ended 31stDecember, 2017 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
			By interest on investment Add: Accrued Interest	XXX XXX	XXX

Balance sheet as on 31st December, 2017

Liabilities	Rs.	Assets	Rs.	Rs.
		Investment @ 12% Accrued Interest		XXXXX XXXX

10. Depreciation**Adjusting Entry**

Particulars	L.F	Debit Rs.	Credit Rs
Depreciation A/c Dr. To Concerned fixed asset A/c (Depreciation Provided)		xxx	xxx

Transfer Entry

Particulars	L.F	Debit Rs.	Credit Rs
Profit and loss A/c Dr. To Depreciation A/c (Depreciation Transferred)		xxx	xxx

Dr. Profit and loss account for the year ended 31st March, 2016 Cr.

Particulars	Rs.	Rs.	Particulars	Rs.	Rs.
To Depreciation on buildings	5000				

Dr. Balance sheet as on 31st March, 2016 Cr.

Liabilities	Rs.	Assets	Rs.	Rs.
		Buildings	XXXXXX	XXXXX
		Less: Depreciation	XXX	

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