

Depreciation :

Is the amount of expense charged against the earning of a company to write off the cost of a product over its useful life, giving consideration to wear and tear, obsolescence and salvage value. If the expense is assumed to have been incurred in equal amounts over the life of the asset, the depreciation method used is the **Straight Line (SL) method**. If the expense is assumed to have been incurred in decreasing amounts in each business period, the method used is the **Written Down Value (WDV) method**.

Sample Exercise : Sanjivani Shetty's transactions for the year 2011-12 are as follows.

DEPRECIATION ENTRIES WITH SL METHOD

Sl. No.	Asset name	Date of purchase	Value to be depreciated (a)	Useful life (in years) (b)	Annual depreciation (a) / (b)=(c)	No. of days used in the year (d)	Depreciation for 2011-12 (c)*(d)/365=(e)
1)	Computer	2-4-2011	22,500	4	5,625	364	5,610
2)	Cell Phone	15-4-2011	6,000	5	1,200	351	1,154
3)	Furniture	15-4-2011	20,000	8	2,500	351	2,404
4)	Air Conditioner	15-4-2011	20,000	6	3,333	351	3,205
5)	Electrical Fittings	15-4-2011	15,000	10	1,500	351	1,442
6)	Office Equipments	15-12-2011	12,000	6	2,000	107	586

Disposal value for all assets = 0.

Value to be depreciated (a) is same as the purchase cost.

Solution :

Date	Particulars	Dr (Amt)	Cr (Amt)
31/03/2012	Dr. Depreciation a/c	14,401	
	Cr. Computer a/c		5,610
	Cr. Cell Phone a/c		1,154
	Cr. Furniture		2,404
	Cr. Air Conditioner		3,205
	Cr. Electrical Fittings		1,442
	Cr. Office Equipments		586
	(Being Depreciation Charged)		

Sample Exercise : Sanjivani Shetty's transactions for the year 2011-12 are as follows.

DEPRECIATION ENTRIES WITH WDV METHOD

Sl. No.	Asset name	Date of purchase	Value to be depreciated (a)	Depreciation Percentage (b)	Depreciation for 2011-06 (c)*(d)/365=(e)
1)	Assembling Tables	1-4-2011	50,000	10 %	5,000
2)	Computer	10-10-2011	40,000	10 %	2,000
3)	Furniture & Fixture	15-5-2011	50,000	15 %	7,500
4)	Electrical Fitting	18-6-2011	20,000	10 %	2,000
5)	Cell Phone	21-7-2011	2,000	15 %	3,000
6)	Building	15-12-2011	2,50,000	10 %	12,500

Note : Asset are depreciated by using Written Down Value (WDV) Method.

As per the Income Tax Act, depreciation is allowed in full if the asset is used for more than 180 days in a year and if asset is used for less than 180 days in a year depreciation is allowed at one half.

Solution :

Date	Particulars	Dr (Amt)	Cr (Amt)
31/03/2012	Dr. Depreciation a/c	32,000	
	Cr. Assembling Tables a/c		5,000
	Cr. Computer a/c		2,000
	Cr. Furniture & Fixture a/c		7,500
	Cr. Electrical Fitting a/c		2,000
	Cr. Cell Phone a/c		3,000
	Cr. Building a/c		12,500
	(Being Depreciation Charged on computer and building half and reaming full)		