

Methods of Calculating Depⁿ ①

1. Straight line method

Base of depⁿ calculation: i) The depⁿ is calculated on the original cost of the fixed asset

ii) The equal amount of depⁿ is written off in every accounting period of economic life of the fixed asset.

iii) Under this method, the WDV of a fixed asset gets reduced to either the scrap value / nil value.

Formula .

$$\text{Depreciation p.a.} = \frac{\text{Original cost of fixed asset} + \text{other Capital Exp. - Scrap value}}{\text{Life of fixed asset (in years)}}$$

$$\text{Depⁿ p.a.} = \frac{\text{original cost of fixed asset} + \text{other Capital Exp. - Scrap value}}{\text{Life of fixed asset (in years)}}$$

$$\text{Rate of Depⁿ} = \frac{\text{Depreciation p.a.} \times 100}{\text{original cost}}$$

(2)

Example

X Ltd purchased a machine Rs 3,95,000/- . It spent Rs 5000/- on its installation. The estimated useful life of the asset is 10 years having scrap value of Rs 20,000/- Determine the amount of depreciation p.a. and also the rate under of depreciation under straight line method.

Here Total Capital Cost of Machine

$$= \text{Rs}(395 + 5000) = \text{Rs}400000$$

Depreciable amount = Capital Cost - Estimated Scrap.

$$= \text{Rs}(400,000 - 20,000) \\ = \text{Rs}3,80,000/-$$

$$\text{Depreciation p.a.} = \frac{3,80,000}{10} \\ = \text{Rs}38000$$

$$\text{Rate of Depreciation} = \frac{\text{Rs}38000}{\text{Rs}4,00,000} = 9.5\%$$

NB Under SLM (straight line method) the amount of depreciation will remain same over the asset's life.

Change in Method of Depreciation

- Prospective method

Example,

Dtd acquired an machine for ₹ 1,00,000 with an expected useful life of five years. After two years of use, the company decided to change the method of depreciation from straight line basis to reducing balance method @ 20% p.a. Calculate depⁿ for the 3rd and 4th years.

Solⁿ

Step I Determination of the carrying amount at the date of change.

In this case, the change in method of depreciation has been made after two years. So the machine is to be depreciated for first two years under straight line method

$$\text{Annual dep}^n = \frac{100,000}{5} = ₹ 20,000 \text{ p.a.}$$

$$\text{Dep}^n \text{ for 2 years} = ₹ 20,000 \times 2 \\ = ₹ 40,000/-$$

$$\frac{20}{100} \times 80,000$$

The carrying amount of the machine at the end of year 2

$$₹ (1,00,000 - 40,000) \\ = ₹ 60,000/-$$

Step 2 : Depreciating the carrying amount under the new method from the date of change

Carrying amount at the date of change = ₹ 60,000

New method of depreciation is Reducing Balance Method @ 20% P.a.

WDV as on 3rd year = ₹ 60,000.
(beginning)

less dep for 3rd yrs
20%
($\frac{20}{100} \times 60,000$)

12,000

48,000

WDV as on the beginning of 4th year

less Depⁿ for 4th yr.
($\frac{20}{100} \times 48,000$)

9,600

37,400

WDV as on 5th year

Revaluation of fixed assets

- Revaluation of fixed assets refers to permanent change in the value of fixed assets.
- Change in the asset value may either result in 'increase in the value of assets' OR 'decrease in the value of assets'. Thus, there may be upward ^{or downward} revaluation.
- When assets are revalued they will be ~~shown~~ shown at revalued price in financial statements.
- Revalued assets ~~are shown at~~ should be restricted to the net recoverable amount of fixed assets.

Accounting treatment of Revaluation

For First Time Revaluation -

① Upward Revaluation

Fixed Asset A/c ... dr
to Revaluation A/c

② Downward Revaluation

P/L A/c ... dr
to Fixed Asset A/c

Subsequent Revaluation

First Revaluation	Subsequent Revaluation	Accounting Treatment, on Subsequent Revaluation.
Upward Revaluation	Upward Revaluation	Fixed Asset . . . dr to Revaluation . . . cr
Upward	Downward	Reserve Revaluation a/c . . . dr (to the extent of upward revaluation) P/L a/c dr (bal if any) to Fixed Asset a/c
Downward	Upward	Fixed Asset dr to P/L A/c cr (to the extent of earlier downward revaluation) to Revaluation Reserve a/c (to Balance if any)
Downward	Downward	P/L a/c dr to Fixed Asset a/c cr