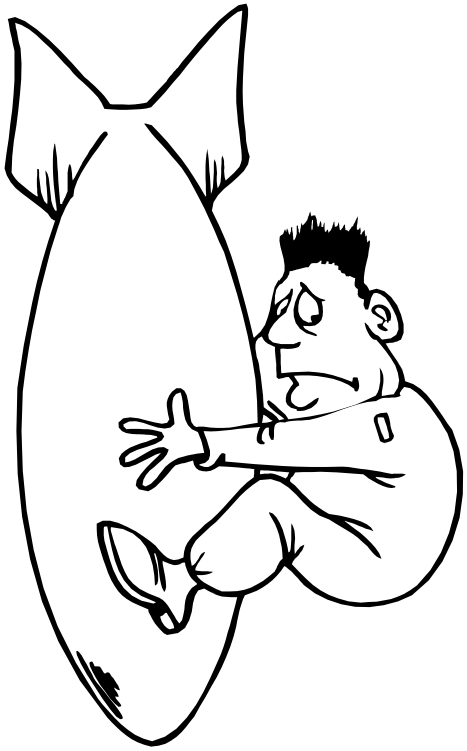

DEPRECIATION
B.COM.I

Prepared By: Muhammad Hassam

Q#1:

Assume that one unit of machine is purchased with a list price of RS 90,000 is subject to trade discount of 15%. The dealer offered a cash discount of 1% if payment is made within 30 days. The company paid the required amount within the discounting period. The company paid Rs 7,000 as sales tax. A trucking company paid Rs 200 for bringing the machine to the factory side. Foundation for creating the machine is prepared at a cost of Rs 700. An engineer is paid Rs 2,000 for installing the machine. Before actual operation start on that machine it has to be tested if it is working or not. For this purpose the lubricant and raw material used in the amount of Rs.300.

REQUIRED:

Compute the total cost of machine.

Q#2:

Khalid Silk Mills Ltd. Purchased machinery at a list price of Rs.55,000 with a 2% discount if payment is made within 15 days. The discount concession was availed of by the company. Freight charges amounted Rs.3,250. The company also paid a fine of Rs 200 on the negligent driving of one of the company's own driver who engaged in transportation the machinery. The labor cost to install the machinery was Rs 2,000. During the installation work the machinery was damaged and repairs cost Rs 475. After the machinery had been in use for three months, it was thoroughly cleaned and lubricated at a cost of Rs.500.

REQUIRED:

Compute the total cost of machine.

Q#3:

The cost of a machine purchased by Saad & Co. on March 1, 1984 is Rs. 16,000. It is estimated that the machine will have Rs. 1,000 trade in value at the end of its service life. Its life is estimated at 5 years; its life in working hours is estimated at 25,000 hours, its production is estimated at 375,000 units. During the year 1984 the machine was operated 5,400 hours and produced 68,000 units.

REQUIRED:

Compare the depreciation on the machine for 1984 by:-

(a) Straight line method.
(b) Output method.
(c) Working hour's method.
(d) The sum of the year's digit method.
(e) Fixed percentage on the diminishing book value (use 35% rate).

Q#4:

Nadeem Limited purchased a machine at the beginning of the year at a cost of Rs. 60,000. Compute the depreciation for each year of its use under of the following plan:-

(a) Estimated life 10 years Salvage value Rs. 10,000 straight line method.
(b) Estimated working hours 10,000. Actual hours operated 1st year 2,000 hours; 2nd year 1,500 hours; 3rd year 2,600 hours; fourth year 3,000 hours and 5th year 900 hours-Hourly rate method of depreciation.
(c) Estimated life-4 years reducing fraction method fraction method (sum of the years digits method).

Q#5:

The Farrukh Corporation purchased machinery on January 1, 1983 at an invoice cost of Rs. 40,000. Addition costs were incurred as follows:-

Installation and testing	Rs. 1,200
Freight	Rs. 600
Insurance in transits	Rs. 200

A three-fire insurance policy was purchased for cash Rs. 600. It is estimated that the machine will have a value of Rs. 2,000 at the end of its estimated life of 10 years. The manufacturer of the machine estimates that it will have service life of 20,000 working hours producing approximately 10,000 units.

INSTRUCTION:

(a) Record the purchase of the machine.
(b) Record the depreciation expense for the first two years assuming the following depreciation method:-
  (i) Straight line method.
  (ii) Working hours method-(Actual hours operated 1st year 1,900 hours, 2nd year 2,400 hours).
  (iii) Production method-(Actual production 1st year 750 units and 2nd year 1,250 units).
  (iv) Sum of the year's digit method.
  (v) Fixed percentage on the diminishing book value (use 25%).

Q#6:

The cost of a machine purchase by Ather Amin on July 01, 1984 is Rs. 122,000. It is estimated that the machine will have a scrape value of Rs. 7,000 at the end of its service life. Its life is estimated at 6 years, its working hours are estimated at 20,000 hours; its estimated production is 300,000 units. During the year 1984 the machine was operated 5000 hours and produced 60000 units.

REQUIRED:

Compare the depreciation expense on the machine for 1984:-

(a) Straight line method.
(b) Output method.
(c) Working hour's method.
(d) Sum of the year's digit method.
(e) The fixed percentage on the diminishing book value (use annual rate of 30%).

Q#7:

Azhar Manufacture Company purchased s machine on January 1, 1981 for Rs. 43,000. It has an estimated scrap value of Rs. 3,000 and an estimated useful life of 4 years and the estimated output is 40,000 units.

REQUIRED:

Prepare a depreciation schedule under each of the following plan:

(a) Straight-line method.
(b) The output method. The actual production of the machine 1st year 15,000 units; 2nd year 12,500 units; 3rd year 7,500 units and 4th year 5,000 units.
(c) Sum of the year's digit method.

Q#8:

Assume the following facts with respect to a machine purchased by Uzair Corporation on January 1, 1981.

Total Cost		Rs. 320,000
Estimated Scrap Value		Rs. 20,000
Life	-in years	4 years
	-in working hours	5,000 hours
	-in units of production	15,000 units

For the working hours method assume that the machine was operated as follow:-

1981	=	1,100 hours
1982	=	1,350 hours
1983	=	1,630 hours
1984	=	920 hours

For the units of production method assume that the machine had produced as follow:-

1981	=	3,200 units
1982	=	4,000 units
1983	=	5,000 units
1984	=	2,800 units

INSTRUCTION:

Compute the amount of depreciation expense for the year 1981, 1982, 1983, and 1984 by the following method.

(a) Straight line method.
(b) Working hour's method.
(c) Units of production method.
(d) Sum of the year's digit method.
(e) Fixed percentage on the diminishing book value (use 50%).

Q#9:

Danish Company decided to record the cost of the various office appliances into one account "office equipment".

Following is the detailed list of the office appliances purchased:-

DATE OF PURCHASE	TYPES OF APPLIANCES	COST
January 1, 1982	Typewriter	Rs. 7,500
October 1, 1982	Duplicating Machine	Rs. 45,000
April 1, 1983	Electric Typewriter	Rs. 6,000

It was decided to depreciate office equipment 5% per year on the straight-line method. Accounting year ends December 31 each year.

REQUIRED:

Write up the allowance for depreciation account for 1982, 1983 and 1984. Show computation for each year's depreciation charge.

Q#10:

Assuming the following facts with respect to a machine purchased by Nishat Manufacturing Company.

Total Cost	Rs. 10,000
Estimated Scrap Value	Rs. 2,500
Estimated life:	
in years	5 years
in working hours	6,000 hours
in units of production	800,000 units

For the units of production method assume that the machine had produced as follow:-

1980	=	100,000 units
1981	=	200,000 units
1982	=	350,000 units
1983	=	100,000 units
1984	=	50,000 units

For the working hours method assume that the machine was operated as follow:-

1980	=	1,000 hours
1981	=	1,500 hours
1982	=	2,000 hours
1983	=	1,000 hours
1984	=	500 hours

REQUIRED:

Compute the depreciation of the machine for 1980, 1981, 1982, 1983, and 1984 by:

(a) Straight line method.
(b) Production method.
(c) Working method.
(d) Sum of the year's digit method.
(e) Fixed percentage method 50%.

Q#11:

The Reyaz Oil Mills Limited purchased on account from PECO on July 1, 1982 a machine at a price of Rs. 40,000 (subject to a discount of 1% provided payment was made with in 10 days from the date of purchase). For bringing the machine to the mill site the management of the Mills paid Rs. 530 for freight, Rs. 100 for insurance and Rs. 20 for carting. The mills own truck was used in carting the machine. The mill management incurred installation charges amounting to Rs. 650 and foundation was prepaid for the machine cost Rs. 800. Materials for the foundation were provided from the Mill stores. It was estimated that the machine would have a life of 10 years and a scrap value of Rs. 6,700. Payment to PECO was made on July 8, 1982.

REQUIRED:

(a) Calculate the cost to be debited to the machine account and yearly depreciation charge assuming Straight-line Method is used.
(b) Show the Allowance for Deprecation Account of the machine for 1982, 1983 and 1984 assuming that accounting year ends on December 31 each year.

Q#12:

Noor Company purchased machinery at a list price of Rs. 550,000 with a 2% discount if payment is made with in 15 days. The Company availed of the discount. Freight charges amounted to Rs. 32,500. The Company also paid a fine of Rs. 2,000 on the negligent driving of one of the Company's own driver who was engaged in transporting the machinery. The cost to install the machinery was Rs. 20,000. During installation work machinery was damaged and repairs costed Rs. 4,750. After the machine had been in use for three months it was thoroughly cleaned and lubricated at a cost of Rs. 5,000.

INSTRUCTIONS:

(a) Journalize the above transactions and calculate the total cost at which the machinery could appear in the books of the Company.
(b) Assume an estimated life of 10 years for this machinery with salvage value of Rs. 41,500. Calculate the first 5 years depreciation by the sum of the year's digit method, showing clearly depreciation, accumulated depreciation and book value of the machine.

Q#13:

A machine was purchased by Arshad Co. at a cost of Rs. 293,120, on January 1, 1983, useful life of the machine was estimated to be five years with residual salvage value of Rs. 5,120. Accounting year ends December 31 each year.

REQUIRED:

Compute the depreciation expense of the machine for the year 1983 and 1984 by:

(a) Straight-line method.
(b) The sum of the years digit method.
(c) Show how it would appear on the balance sheet on December 31, 1986 separately.

Q#14:

The following is the extract on December 31, 1986.

Machine cost Rs. 60,000 (Purchased on October 1, 1981) Machine – Accumulated Depreciation Rs. 21,250.

Estimated useful life of the machine was 10 years on the date of purchase and the scrap value was estimated at Rs. 10,000. The Company uses the straight-line method for calculating depreciation charge and its accounting year ends December 31 each year.

REQUIRED:

(a) What will be the amount of depreciation expense for 1986?
(b) Give adjusting entry to record depreciation expense for 1981.
(c) Show how the asset machine will be reported on the balance sheet as of December 31, 1985.
(d) Give closing entry of depreciation expense for 1985.
(e) Prepare Accumulated Depreciation Account for the accounting years ended December 31, 1981, 1982, 1983, 1984, 1985 and 1986.

Q#15:

Khalid & Company purchased a machine on April 1, 1990 at a cost of Rs. 85,000. Salvage value estimated Rs. 5,000 and the life of the machine was estimated at 8 years. On October 1, 1994 the company sold this machine for cash Rs. 25,000.

REQUIRED:

Give the general entries on October 1, 1994.

Q#16:

The following is the extract on December 31, 1986:
Machine Rs. 76,000 (Purchased on May 1, 1982)
Accumulated Depreciation Rs. 44,000
Estimated life 6 years
Estimated scrap value Rs. 4,000
Straight-line method is used by the Company
Accounting year ends December 31 each year.

REQUIRED:

(a) What will be the amount of depreciation for 1986? Show computation.
(b) Give the adjusting entry to record depreciation expense for 1982.
(c) Show how the machine will be reported on the balance sheet as of December 31, 1985.
(d) Give closing entry of Depreciation expense for 1985.
(e) Prepare Accumulated Depreciation account for the accounting years ended December 31, 1982, 1983, 1984, 1985, and 1986.

Q#17:

Zahid & Company purchased a machine on July 5, 1987 at a cost of Rs. 135,000. Salvage value of the machine was estimated at Rs. 15,000 and the life of the machine at 10 years. On August 27, 1992 the company exchanged this machine with another machine costing Rs. 200,000. Trade in allowances received Rs. 90,000 and the balance was paid in cash.

REQUIRED:

Give the general entries on August 1, 1994.

Q#18:

Assume that the following facts apply to a machine purchased by Fayyaz Company on April 1, 1983. The accounting year ends on December 31 each year. The company uses the straight-line method of depreciation.

Invoice price	Rs. 9,800
Freight	Rs. 300
Installation Cost	Rs. 100
Total cost of machine	Rs. 10,200
Estimated scrap value	Rs. 200
Estimated service life in year	5 years

Give the journal entries on April 1, 1985 to record the following three cases.

(a) Sold the machine for Rs. 5,000 cash.
(b) Sold the machine for Rs. 6,400 cash.
(c) Traded the machine for another machine priced at Rs. 12,000. Trade in allowance Rs. 6,400, the balance is paid in cash.

Q#19:

The Aftab Corporation purchased a delivery equipment for Rs. 76,000 on May 1, 1980. The estimated life of the truck was set at 6 years with a scrap value of Rs. 4,000. On September 30, 1984 the company purchased a new truck for Rs. 86,000 and received a trade in allowance of Rs. 20,000 on the old truck.

Prepare in General Journal form all entries made on September 30, 1984.

Q#20:

A machine purchased on November 7, 1981 for Rs. 39,000 had an estimated salvage value of Rs. 3,000 and an estimated useful life of 5 years. It was exchanged with a new equipment costing Rs. 40,000 on May 8, 1985. An allowance of Rs. 12,000 was made for the old machine and the balance is paid in cash.

REQUIRED:

Give the necessary journal entries needed on May 8, 1985.

Q#21:

On March 25, 1985 Haroon Company obtained a new machine with the list price of Rs. 28,000. An allowance of Rs. 13,500 was received on the old machine and the balance was paid in cash. The old machine was purchased on January 1, 1983 for Rs. 26,000 with a scrap value of Rs. 2000 and the life of the machine estimated at 8 years. The accounting year ends December 31 each year. The company follows the straight-line method of computing depreciation.

REQUIRED:

Give all the journal entries needed on March 25, 1985 to record the exchange.

Q#22:

On April 1, 1985 the Akbar Company traded in a Car to Haroon Sales Company. The original cost of the Car was Rs. 375,000, its estimated life of 5 years, estimated salvage value Rs. 75,000. Up to December 31, 1984 three-year depreciation had been recorded. The trade in allowance was Rs. 210,000. The cost of the new Car was Rs. 405,000.

REQUIRED:

Prepare the general journal entries to record the disposal of the old Car and the purchased of the purchased of the new Car.

Q#23:

Allied Company purchased a machine on March 1, 1982. The invoice showed that the last price of the machine was Rs. 144,000 subject to a trade discount of 15%. The company incurred Rs. 1,000 as transportation charges and Rs. 1,4000 as installation charges in connection with the same machinery on the same date. It was estimated that the machine is expected to have a salvage value of Rs. 24,800 after its expected useful life of 10 years.

The company had been consistently using the straight-line method for computing depreciation and allowance method for recording depreciation. The accounting year ends December 31 each year.

On July 1, 1985 the machine is traded in with the new machine priced at Rs. 180,000. The trade in allowance given is Rs. 81,000 and the balance is paid in cash.

INSTRUCTION:

Give the necessary Journal entries to record the exchange of machine on July 1, 1985.

(a) When the gain or less on exchange is recognized.
(b) When the gain or loss on exchange is not recognized.

Q#24:

A delivery truck which costs Rs. 28,000 and having Rs. 20,000 of accumulated depreciation, is traded in on a new truck. The new truck costs Rs. 32,000 and has an estimated service life of 5 years with a scrap value of Rs. 5,000. An allowance of Rs. 6,000 is received for the old truck and the balance is paid by cheque.

REQUIRED:

(a) Prepare Journal Entries to record the above transactions.
(b) Record the depreciation in journal form on new truck for the first year by straight-line method.

Q#25:

A truck which costs Rs. 480,000 had an estimated useful life of 5 years and an estimated residual value of Rs. 80,000. Straight-line method for computing depreciation and the allowance method for recording depreciation are used.

REQUIRED:

(a) Give the journal entry assuming that the above-truck is sold for cash Rs. 300,000 after two years use.

(b) Give the Journal entry assuming that the above truck is traded in with a new one priced at Rs. 600,000, recording a trade in allowance of Rs. 270,000 after three year use. Gain and loss is to be recognized.

Q#26:

An item of equipment purchased at a cost of Rs. 360,000 on January 1, 1981. It had an estimated life of four years and an estimated salvage value of Rs. 30,000.

REQUIRED:

a) Compute the depreciation expense for 1981, 1982, 1983 and 1984 by each of the following method:

(i) Straight-line method

(ii) Declining balance (at twice the straight-line rate)

(iii)Sum of the year digit method

b) On January 1, 1984 the equipment was traded in for similar equipment priced Rs. 400,000. The in allowance on the old equipment was Rs. 100,000 and a note was given for the balance. Assume that the sum of the year digit method of depreciation had been use Journalize the above transactions.

(i) Recognizing the gain or loss on disposal and

(ii) Not recognized the gain or loss on disposal.

Q#27:

Ehsan Corporation on April 1, 1983 purchased machinery Priced at Rs. 270,000 but received a trade in allowance of Rs. 24,000 for used machinery. Cash of Rs. 60,000 was paid and 12% one year note payable given for the balance. The machinery traded in had an original cost of Rs. 180,000 and had been depreciation at the rate of Rs. 18,000 a year. Residual value had been ignored on the ground of not being material. Accumulated depreciation amounted to Rs. 144,000 at December 31, 1982.

REQUIREMENT:

In general form, give the entries to record:

(a) Depreciation for the fraction of a year prior to the April 1 transaction.

(b) The purchase of the new machinery on April 1 under the rules acceptable for Income Tax Purposes.

(c) The purchase of the new machinery on April 1, 1983 under the assumption that gain or loss is to be recognized.

Q#28:

A machine with a book value of 300,000 was traded in on a new machine with a price of Rs. 3,000,000. The trade in allowance for the old machine was Rs. 450,000.

(a) How much cash must be paid for the new machine?

(b) What is the cost basis of the new machine for income tax purposes?

(c) How much depreciation should be recorded on the machine for the first year of use, assuming a four year life, a residual value of Rs. 330,000 and the use of straight-line depreciation?

Q#29:

The Kamal Corporation purchased machinery on January 1, 1975 at an invoice cost of Rs. 20,000. Additional cost were incurred as follows:

Installation and testing	Rs. 600
Freight	Rs. 300
Insurance in transit	Rs. 100

A three year insurance policy was purchased for cash Rs. 300.

It is estimated that the machinery will have a scrape value of Rs. 1,000 at the end of its estimated service life o f10 years. The manufacturer of the machine estimates it will have a service life o f20,000 working hours, during which the machine should produce approximately 10,000 units.

REQUIREMENT:

(a) Record the purchase of machine.

(b) Record the depreciation expense for the first year assuming the following depreciation methods.
   - (i) Straight-line method.
   - (ii) Working hours method (Machine was used for 2100 hours)
   - (iii) Unit of production method (Machine produce 980 hours)
   - (iv) Sum of the year's digit method.
   - (v) Fixed percentage on diminishing book value (use 20%)

(c) Record the disposal of the machine under the following conditions:
   - (i) Straight-line depreciation - The machine was used for 9 years and sold for cash Rs. 1500.
   - (ii) Working hour's depreciation-the machinery was used for 17,000 hours and sold for cash Rs. 600.
   - (iii) Units of production - The machine had produce 9800 units and sold for cash Rs. 3,000.
   - (iv) Sum of the year's digit method – The machine was used for 4 years and sold for cash Rs. 10,000.
   - (v) Fixed percentage on diminishing balance – The machine was used for four years and sold for cash Rs. 6,000.

Q#30:

On January 1, 1981 Asif Sales Company purchased an equipment for cash Rs. 195,000. It was estimated that it would last four years and then have a residual value of Rs. 15,000. On July 30, 1984 the Company exchanged the equipment with a new equipment costing Rs. 220,000. The Company received a trade in allowance of Rs. 70,000 on the old equipment and gave a 3 month acceptance for the balance. The new equipment is estimated to have a useful life of four years and scrap value of Rs. 20,000. The books are closed on December 31 each year.

REQUIRED:

Give all the necessary journal entries for the above transaction from January 1, 1981 through December 31, 1984.

Q#31:

A company office equipment on March 1, 1982 for Rs. 6,200 cash. The estimated scrap value was Rs. 400 and the estimated life was 8 years. Cash of Rs. 200 was spent on the installation of the equipment.

The equipment was repaired on July 1, 1982 at a cash cost of Rs. 300.

The company sells the assets on October 1, 1984 for Rs. 5,430 cash.

REQUIRED:

Prepare all the entries in general form in the books of the company for all transactions mentioned above, including the annual adjustment for depreciation expense.

Q#32:

On April 1, 1980 Nadeem Company purchased two pieces of equipment worth Rs. 205,000 and Rs. 234,000 respectively paying cash Rs. 209,000 and extending a note for the balance. The first equipment cosing Rs. 205,000 was estimated to have a life of 9 years with Rs. 25,000 to be recovered as salvage at the end of 9 years. The second equipment costing Rs. 234,000 was estimated to have a life of 12 year with no salvage value.

The company sold the first equipment on July 1, 1983 for each Rs. 70,000. The second equipment was exchanged for another equipment costing Rs. 300,000 on August 31, 1985. The second equipment was considered to have a trade in value of Rs. 90,000. Accounting year ends December 31 each year. Straight-line method is followed.

INSTRUCTIONS:

Give necessary Journal entries to record the above transactions from April 1, 1980 to August 31, 1985 transactions.

Q#33:

Danish Company purchased a machine on July 1, 1982 at the list price of Rs. 400,000. The terms were 2/10-n/30, the company paid the amount immediately including a 4% sales Tax Additional costs were incurred as follows:

Installation and Testing	Rs. 12,000
Freight	Rs. 6,000
Prepared Insurance for three years	Rs. 7,200
Insurance in transits	Rs. 4,000

It was estimated that the machine is expected to have a salvage value of Rs. 29,680 after its expected useful life of 8 years. The company uses straight-line method for computing depreciation and allowance method for recording depreciation. The accounting year ends December 31 each year.

On October 1, 1985 the machine was traded in with a new machine priced at Rs. 500,000. The old machine was considered to have a trade in value of Rs. 250,000 and the balance was paid in cash. It was estimated that the new machine will have a salvage value of Rs. 17,180 at the end of its estimated life of 4 years. For the new machine the company uses the sum of the years digits method for computing depreciation.

INSTRUCTIONS:

(a) Compute the cost of the machine on July 1, 1982.
(b) Give the necessary Journal entries to record depreciation on December 31, 1982, 1983, 1984 and October 1, 1985.
(c) Give the necessary Journal entries in proper form to record the exchange of machine on October 1, 1985 when the loss/gain is not to be recognized.
(d) Compute the amount of depreciation charged for1985 and 1986 on the new machine under the new method.

Q#34:

On January 1, 1984 Sohail Company purchased a Suzuki truck for Rs. 200,000. The truck had estimated life of 5 years and a scrap value of Rs. 20,000. The Company had been using Diminishing. Balance Method of charging depreciation at 40%. Accounting year ends December 31 each year. On June 1, 1986 the truck was traded in with a new National truck having a list prices of Rs. 240,000. The trade in allowance was agreed at Rs. 42,000 and the balance is paid in cash.

REQUIRED:

Entries in the general Journal to record the above transactions. (show all the computations).

Q#35:

Rauf & Company purchased a machine on May 1, 1982 at a list price of Rs. 52,000 with a credit terms of 2/10-n/30. Payment of the invoice was made within the discounting period and it included 1% sales tax on the net cash price. The company incurred Rs. 150.40 as transportation charges, Rs. 120 as installation charges and License fee of the driver Rs. 10.60 on the same date.

It was estimated that the machine would have a salvage value of Rs. 2,240 after its expected life of 99 years. The company had been consistently using the sum of the years digit method for computing depreciation expense and the accounting period ends the sum of the years digit method for computing depreciation expense and the accounting period ends on December 31 each year.

On February 1, 1985 the machine was traded in with a new machine priced at Rs. 49,000. The trade in allowance given was Rs. 39,042 and the balance was paid in cash.

REQUIRED:

Compute the following:

(a) Cost of the machine on May 1, 1982.
(b) Depreciation for the accounting years 1982, 1983, 1984 and 1985.
(c) Loss or gain on exchange.
(d) Balance payable in cash on exchange.

Q#36:

Irshad company uses the straight-line method on all its depreciable assets. The accounts are adjusted and closed December 31 each year. On January 2, 1982 the Company purchased machinery for cash at a cost of Rs. 143,280, useful life was estimated to be 10 years and residual value of Rs. 6,480.

After almost three years of using the machinery the Company decided in December 1984 that in view of technological changes in the industy, the total estimated useful life of the machinery should be revised from 10 years to 6 years and that the residual value should be lowered from Rs. 6,480 to Rs. 4,320. The revised estimated were made prior to recording depreciation for the year ended December 31, 1984.

REQUIRED:

Prepare journal entries in order of date for the above events beginning with the purchase of the machinery on January 2, 1982. Show separately the depreciation for each year from 1982 to 1984 inclusive.

Q#37:

Machinery was-purchased by the Saifee Corporation on July 1, 1981 at a cost of Rs. 30,000 and was depreciation by the straight-line method on an estimated 8 years life. On December 31, 1984 in reviewing account balance for the purpose of making adjustments for the past fiscal year, it was determined that the machinery will probably have a 10 year life.

REQUIRED:

Give all general entries from July 1, 1981 to December 31, 1984.

Q#38:

An equipment was purchased by the Engineers Construction Company at a cost of Rs. 12,000. Depreciation of the asset was recorded by the straight-line method on the basis of 8 years life and Rs. 600 residual value. At the end of sixth year it was estimated that the asset could be used for another four years and would have a residual value as originally estimated.

REQUIRED:

Give adjusting entry at the end of sixth year.

Q#39:

On March 31, 1981 Uzair Company purchased new equipment at a cost of Rs. 140,800. Depreciation had been computed by the straight-line method based on an estimated useful life of 5 years and a residual value of Rs. 12,800. On January 2, 1984 extra ordinary repairs were performed at a cost of Rs. 30,800. Because of this through going nature of these repairs, the normal life of the machine was extended materially. The revised of useful life were four years from January 2, 1984.

REQUIREMENT:

(a) Prepare journal entries to record the purchase of the machine.
(b) Give the necessary dated journal entries to record depreciation on December 31, 1981, 1982 and 1983.
(c) Give the journal entry to record the expenditure on January 2, 1984.
(d) Give the journal entry to record depreciation on December 31, 1984.

Q#40:

Saad Company purchased a new machine on April 1, 1981 at a cost of Rs. 528,000. The company had used the straight-line method of depreciation based on an estimated life of 5 years and a residual salvage value of Rs. 48,000.

On January 2, 1984 after about three years of use, extra ordinary repairs were made on the machine at a cost of Rs. 114,000. The repairs were virtually the equivalent of rebuilding the machine, management believed that this through reconditioning would extend the normal life of the machine. The revised estimates of useful life four years from January 1, 1984.

REQUIREMENT:

(a) Prepare journal entry to record the original purchase of the machine.
(b) Give the necessary dated journal entries to record depreciation on December 31, 1981, 1982 and 1983.
(c) Give the journal entry to record the expenditure of January 2, 1984.
(d) Give the journal entry to record depreciation on December 31, 1984.

Q#41:

Shahrukh Ltd. Purchased office equipment on January 1, 1983 at a cost of Rs. 51,740. Useful life is estimated to be 10 years end value is estimated at Rs. 2,340. The company uses the straight-line method and the accounting year ends December 31, 1985 the company decided that the estimated life of the office equipment should be 6 years instead of 10 years and the scrap value should be Rs. 1,560 instead of Rs. 2,340. On January 30, 1986 the company decided that the equipment was sold for cash Rs. 10,000.

REQUIRE:

Give entries in the general Journal of the Company to record all the above transactions including depreciation for all the years. (Show computation in full).

Q#42:

On January 1, 1990 Azher & Co. purchased a machine at a list price of Rs. 50,000 with credit term of 2/15, n/60. Sales tax was also payable at 4% of the net cash price. The Company availed of the concession period of payable also incurred the following expenses:

Insurance in Transit	Rs. 200
Transportation	Rs. 1,500
Installation charges	Rs. 700
3 year fire insurance	Rs. 900
During installation work the machine was damaged and repair cost was	Rs. 500

It was estimated that the machine is expected to life of 10 years. The company uses straight-line method of calculating depreciation and the allowance method for recording depreciation. The company's accounting year-ends of December 31. Salvage value of Rs. 3,360. In December 1993 the company decided that estimated life of the machine should be changed from 10 years to 12 years and the estimated scrape value be changed from Rs. 3,360 to Rs. 2,360. This revised estimate of useful life was decided upon piror to recording depreciation for the period ended December 31, 1993.

On July 1, 1995 the company decided to purchase a new machine and the machine described above was sold for Rs. 25,000 cash.

REQUIREMENT:

(a) Compute the Cost of Machine.

(b) Prepare journal entries to record the purchase of the machine, depreciation from 1990 to 1995 and the disposal of the machine.

Q#43:

On January 1, 1981 Shahrukh Company purchased certain fixed assets for Cash as follows:

Assets	Costs	Estimated useful life	Estimated scrape value
Building	Rs. 400,000	40 years	Nil
Machine No. 1	Rs. 100,000	10 years	Rs. 20,000
Machine No. 2	Rs. 50,000	5 years	Rs. 5,000
Furniture	Rs. 20,000	10 years	Nil

On January 1, 1983 machine No. 1 was sold for Rs. 80,000 cash. On January 1, 1984 an addition to the building was completed at a cost of Rs. 74,000 cash. On July 1, 1984 machine No. 2 was sold for cash Rs. 20,000.

Accounting year of the Company ends on December 31 each year. The Company uses the straight-line for computing depreciation expense and the allowance method for recording depreciation expense.

INSTRUCTIONS:

Dated entries in general Journal form to record the purchase of the assets, depreciation for the year 1981 to 1984 inclusive as well as the disposal of Machine No. 1 and 2 and an addition to the building.

Q#44:

The Accountant of Muslim Company without considering the date of purchase, working life and salvage value of the individual assets applies a rate of 16 2/3 % to the original cost for computing the annual depreciation charge. The new Accountant who joined the company on December 28, 1985 decided to use Straight-line method taking into account the date of purchases, working life and salvage value of the individual machines for determining depreciation expense from 1985. The following is the detailed information about machine.

Machine	Date of Purchase	Total Cost	Scrap Value	Estimated Life
A	May 1, 1983	Rs. 216,000	Rs. 6,000	7 years
B	June 25, 1983	Rs. 150,000	Rs. 30,000	4 years
C	Sept. 25, 1984	Rs. 120,000	Rs. 30,000	9 years
D	Oct. 12, 1985	Rs. 139,500	Rs. 19,500	6 years

INSTRUCTIONS:

a) Determine the allowance for depreciation on machine on December 31, 1984.
(i) Based on 16 2/3 % depreciation rate
(ii) Based on straight-line method

b) Give entries in general Journal.
(i) To adjust the allowance for depreciation accounts according to straight-line method
(ii) To record the depreciation expense for 1985 on revised rate.

Q#45:

During the past few years Salim Corporation has acquired four machines but has given little consideration to depreciation policies. At the time of purchase of each machine, different accountant was employed, consequently various methods of depreciation have been adopted for the several machines. Information concerning the four machines may be summarized as follows:

Machine	Date of purchase	Cost	Estimated life	Scrape value	Method of Depreciation
A	January 1, 1982	145,800	6 years	None	Declining Balance
B	June 30, 1982	302,400	8 years	10%	Straight-line
C	January 1, 1983	201,600	10 years	Rs. 3,600	Sum of the years digit
D	January 1, 1984	237,600	12 years	None	Declining Balance

REQUIREMENT:

(a) Compute the amount of accumulated depreciation if any on each machine at Dec. 31, 1984. For machine A and D assume that the depreciation rate was double the rate, which would applicable under the straight-line method.
(b) Prepare the journal entry to record the depreciation expense for 1984.

Q#46:

M/S Industrial Engineering Company purchased and put into use four different machines on Jan. 1, 1972. Necessary information relating to these machines is summarized below:

	Machine A	Machine B	Machine C	Machine D

Cost	40,000	50,000	50,000	50,000
Scrape Value	5,000	10,000	nil	nil
Method of Depreciation	Straight-line		Diminishing Balance	
Life	5 years	4 years	-	-
Fixed rate of depreciation			30 %	40 %

On January 1, 1975 the useful life of machine A was revised from 5 years to 7 years. Machine D was exchanged for a similar machine on July 1, 1975. The new machine was priced at Rs. 60,000 and seller accepted the used machine for Rs. 7,760 and the balance was paid in cash.

Machine C was considered useless on October 1, 1976 and sold as scrape for Rs. 2,304 cash.

REQUIREMENT:

(a) Show the balance in each of the four-machine account as on December 31, 1974.
(b) Give necessary journal entries for 1975 and 1976 (No gain or loss is to be recognized on the exchange of assets. The company follows calendar year as her accounting period.

Q#47:

In the last few years Waqar Company has acquired four machines. At the time of acquiring each machine, different personnel were employed in the accounting depreciation. Consequently various methods of depreciation have been adopted for the several machines. Information concerning the four machines may be summarized as follows:

Machine	Date of Purchase	Cost	Estimated Scrape Value	Estimated Useful Life	Method of Depreciation
A	January 1, 1982	Rs. 97,200			
B	June 30, 1982	151,200	10%	8 years	Straight-line
C	January 1, 1983	100,800	Rs. 1,800 10		Sum of the years Digit method.
D	January 1, 1984	118,800	None	12 years	Declining Balance

INSTRUCTIONS:

(a) Compute the amount of accumulated depreciation if any, on each machine owned at December 31, 1984. for Machine A and D assume that the depreciation rate was double the rate, which would be applicable under the straight line method.
(b) Prepare a Journal entry to record the 1984 depreciation expense.

Q#48:

On July 1, 1983 National Equipment Company purchased a new machine at the advertised price of Rs. 144,000. The terms of payments were 2/10-n/30 and payments was made immediately a 4% Sales Tax. On July 3, 1983 the machine was delivered. The company paid freight charges of Rs. 3,155.20 and assigns its own employees to the task of installation. The labour costs for installing the machine amounted to Rs. 10,080. During the process of installation. The labour costs for installing the machine amounted to Rs. 10,080. During the process of installation carelessness by a workman caused damaged to an adjacent machine with resulting repairs of Rs. 1,280.

On November 10, 1983 after more than four months of satisfactory operations. The machine was thoroughly inspected, cleaned and oiled at a cost of Rs. 1,680.

The useful life of the machine was estimated to be 10 years and the residual scrap value zero. The policy of the Company is to use straight-line depreciation. During 1983 and 1984, however, numerous changes in the company's accounting personnel were responsible for a number of errors and deviations from policy.

At December 31, 1984 the unaudited financial statement of the company showed the machine to be carried at a cost of Rs. 141,120 and the accumulated depreciation as Rs. 21,168. Net income reported for 1983 was Rs. 396,800 and for 1984 it was Rs. 442,400.

INSTRUCTIONS:

(a) Prepare correct journal entries for all the above transactions from July 1, 1983 to December 31, 1984. Including the year-end entry for depreciation and the related closing entry.
(b) Compute the correc5t balances for the machinery account and for the accumulated depreciation at December 31, 1984.
(c) Compute revised figures for net income for 1983 and 1984.

Q#49:

Four machines are found in the shop of the Barkat Engineering Company at the beginning of 1984 as follows:

	Purchase	Installation	Useful Life	Scrap value
A	March 5, 1977	Rs. 16,000	10 years	Rs. 1,000
B	April 1, 1979	8,000	10 years	400
C	June 20, 1981	9,200	10 years	500
D	Nov. 6, 1982	12,400	5 years	1,000

During 1984 the following transactions relating to machines are completed:

January 2, 1984: Machine A had not been operating satisfactorily, was sold for Rs. 1,750. It was decided that the lives of machines B and C probably would not exceed 8 years and scrap value would be negligible and hence could be ignored, entries were made in the accounts to record the revised estimates.

January 20, 1984: Machine E was purchased for cash at a cost of Rs. 12,000. The new machine is estimated to have a life of 10 years and 0 salvage value.

February 8, 1984: Machine D was traded in for a larger machine costing Rs. 16,500. Machine D was accepted at a value of Rs. 8,500 for purposes of the trade in the balance of the purchase price being paid in cash. The new machine to be referred to as Machine F is recorded at Rs. 16,500. It is estimated to have a life 10 years and trade in value of Rs. 1,500 at that time.

INSTRUCTIONS:

(a) Prepare a schedule showing the cost, depreciation, allowance balance and the book value of the machines on hand as of December 31, 1983 the company follows straight-line method.
(b) Give the Journal entries that are required for 1984 including the adjustments for depreciation at the end of the years.

Q#50:

In each of the selected problems it is assumed that subsidiary Equipment ledgers are maintained and that the fiscal years end on December 31. Depreciation is recorded only at the end of each year, except for depreciation on items disposed off during the year.

A) March 18:

Discarded a duplicating machine (Office Equipment) realizing no salvage. Details from the subsidiary accounts are as follows:

Cost Rs. 19,000; Accumulated depreciation Rs. 19,000

Present the necessary journal entry.

B) May 13:

Sold 100 desks (Office Equipment) for cash Rs. 20,000. The desks were identical and had been purchased at the same time. Details from the subsidiary ledger are as follows:

Total cost Rs. 110,000; Total accumulated depreciation on preceding December 31, Rs. 67,200; Total annual depreciation Rs. 9,600.

Present the necessary journal entries in general journal.

C) **<u>June 28:</u>**

Traded in old machinery for a new one priced at Rs. 300,000 receiving a trade in allowance of Rs. 60,000 and paying the balance in cash. Details from the subsidiary ledger are as follows:

Cost Rs. 250,000; Accumulated depreciation on preceding December 31, Rs. 192,500; Annual depreciation Rs. 66,000.

Present the necessary entries in general journal form, recognizing the gain or loss.

D) **<u>August 5:</u>**

Discarded Store Equipment, realizing no salvage. Detail from the subsidiary ledger are as follows:

Cost Rs. 30,000; Accumulated depreciation on preceding December 31 Rs. 22,000; Annual depreciation rs. 3,600.

Present the necessary entries.

E) **<u>October 11:</u>**

Traded in an old refrigerator display case (Store Equipment) for a new one priced at Rs. 150,000 receiving a trade in allowance of Rs. 25,000 and a giving a note for the balance. Details from the subsidiary ledger are as follows:

Cost Rs. 100,000; Accumulated depreciation on preceding December 31, Rs. 85,000; Annual depreciation Rs. 10,000.

Present the necessary entries in general journal form using the Income Tax method.

F) **<u>January 12:</u>**

Paid Rs. 520,000 for replacing roof on Building. It is estimated that new roof will extent the life of the building from an original estimate of 30 years to a total life of 35 years. Details from the subsidiary ledger are as follows:

Cost Rs. 6,000,000; Accumulated depreciation on preceding December 31, Rs. 3,800,000; Age of building 19 years.

(a) Present the entry in general form to record the payment.
(b) What is the amount of depreciation on the building for the year in which the roof was replaced.