

Depreciation

Depreciation:- is the accounting process of allocating the cost of tangible assets to expense in a systematic and rational to those periods expected to benefit from the use of the asset.

Methods of depreciation

Companies may use a number of depreciation methods ,
as follows :-

1. Activity method (units of use or production).
2. Straight-line method.
3. Decreasing-charge methods (accelerated):-
 - a. Sum-of- the- years- digits.
 - b. Declining balance method.
4. Special depreciation methods:-
 - a. Group and composite methods.
 - b. Hybrid or combination methods.

1. Activity methods:-

A) units of use :

$$\frac{(\text{cost less salvage value}) \times \text{hour this year}}{\text{total estimated hours}} = \text{depreciation charge}$$

B) hours production:

$$\frac{(\text{cost less salvage value}) \times \text{units of prouduction this year}}{\text{total estimated units production}} = \text{depreciation charge}$$

2. straight-line methods:-

$$\frac{\text{cost less salvage value}}{\text{estimated service life}} = \text{depreciation charge}$$

3. decreasing charge method :-

a. sum- of- the- years- digits- method:

$$\text{cost of asset} \times \frac{\text{first year}}{\text{total year}}$$

$$\text{cost of asset} \times \frac{\text{second year}}{\text{total year}}$$

b. declining- balance method:

cost of asset × rate on declining balance = depreciation charge

$$\text{Depreciation rate} = \sqrt[n]{\frac{\text{salvage value}}{\text{acquisition cost}}}$$

Record entries accounting for depreciation :

1. direct method:

By depreciation a/c Dr. xxxx
To fixed asset a/c cr. xxxx

Closed entry:

By profit and loss a/c dr. xxxx
To depreciation a/c cr. xxxx

2. indirect method:

By depreciation a/c Dr. xxxx
To accumulated depreciation a/c cr. xxxx

Closed entry:

By profit loss a/c dr. xxxx
To depreciation a/c cr. xxxx

Q 1/ The following in format for one company during 2016 year :

Cost furniture 500,000 ,estimated useful life 5 years estimated salvage value 50,000 , productive life in hours 30,000 , during 2016 year used 3000 hours.

Find the depreciation charge during 2016 by:

1. straight- line method
2. activity method
3. decreasing charge :-

sum- of- the- year- digits Record journal enter for every method by direct method.

Q2/ One company purchased machine with 100,000 and paid insurance 5000 and installation 5000 .estimated useful life 5 years and estimated salvage value 10,000 .

Estimated hours production 60,000 hours but it is used during first year 14000 hours, second year 15000 hours , third year 20,000 hour , fourth year zero , fifth year 11000 hours.

Estimated production units 25000 units but it is produced by first year 4000 units , second year 9000 units , third year 8000 units , fourth year zero , fifth year 4000 .

Calculate depreciation charge by the following methods:

1. straight-line method
2. activity method
3. decreasing charge , sum- of- the- year- digits record journal entry for all items by direct method.

Q3/ In 1/1/2015 one company purchased machine with \$80,000 , the following information about this machine:

Scrap value \$4000 , estimated working hours during the life of machine 20,000 hours , estimated units production during the life of machine 30,000 units , useful life 4 years ,

By 2015 the machine working hours 5000 hours and units production 7000 units.

By 2016 the machine working hours 6000 hours and units production 8000 units.

Required /

- a. calculate depreciation charge to 2015 and 2016 by the following method:
 1. straight-line
 2. activity methods
 3. sum- of- the- year- digits

- b. record journal entry for all methods by direct method.

Q1/ Iraq company books show a cash balance at the AL-Rashed Bank on November 30,2014 , of \$20,502 .

The bank statement covering the month of November shows an ending balance of \$22,190.

An examination of Iraq accounting records and November bank statement identified the following reconciling items.

1. A deposit of \$3,680 that Iraq mailed November 30 does not appear on the bank statement .
2. Check written in November but not charged to the November bank statement are :

| | |
|--------------|---------|
| Check/ #7327 | \$150 |
| #7348 | \$4,820 |
| #7349 | \$31 |
3. Iraq has not yet recorded the \$600 of interest collected by the bank November 20 on future co.
Bonds held by the bank for Iraq co.
4. Bank service charges of \$18 are not yet recorded on Iraq books.
5. The bank returned on of Iraq customers checks for \$220 with the bank statement ,marked "NSF".
The bank treated this checks as a disbursement.
6. Iraq company discovered that it incorrectly recorded check #7322 ,written in November for \$131 in payment of an account payable as \$311 .
7. A check for shall oil co. in the amount of \$175 that the bank incorrectly charged to Iraq co. Accompanied the statement.

Q2/ Balance cash at bank statement by bank statement in 30/12/2014 was \$36550 but in company books the cash in bank was \$31320 by analysis find the following :

1. Not appeared in bank statement cash deposited amounted \$4000.
2. Check issued to others but not disbursed was \$6200.
3. There is rejected check of \$255 drawn on the customer Ibrahim attached by bank with the statement of account.
4. The statement of account showed that were received notes of \$3700.
5. The bank statement of account has bank expenses of \$400.
6. One of the checks received from one of the customers in the company's book is recorded in the amount of \$240 but the correct \$420.
7. By reviewing the bank statement. It become clear that the bank had deducted wrong a check for \$150.
8. A check written to the supplier Jamal was recorded in amount of \$1350 and recorded in the company books as \$1305.