Hello students, I welcome you for this session on financial

accounting.
Title of the unit is
depreciation accounting.
Module name is the change in the method of depreciation. Part-3
Module number 19.
Outline of the session is the change in the method of depreciation with retrospective effect Part 3.

Learning outcomes at the end of the session is that you should be

able to explain the method of change in depreciation with

retrospective effect and solve the problems involving

Change in the method of depreciation with retrospective effect.
Let us solve one problem on this concept.
Ritika Limited purchased a machinery on
1st April, 2017 for Rs. 2 lakhs and on 1st October, 2017 another machinery for Rs. 1,00,000.
The depreciation on the machinery was provided at 10% per annum on straight line method.

In 2020, management of the company decided to.
Change the method of depreciation on written down value method at 15% per annum.

The change is to be made with retrospective effect.

Show machinery account for the period from 2017 to 2,020.
In the books of Ritika limited.

There has been an increase in the value of an asset so machinery

account is to be debited with two lakhs of rupees on 1st April,2017

and with rupees one lakh on 1st October, 2017.

The depreciation should be charged

for the full year on two lakhs of rupees under straight line method, whereas depreciation for six months should be

charged on one lakh of rupees as machinery has been purchased

on 1st of October.

Therefore, depreciation at the rate of 10% under straight line method comes

to 20,000 on the value of Rs. 2,00,000 whereas depreciation for six months.

On one lakh rupees comes to 5000.

After charging depreciation of 25,000 balance of Rs.

2, 75,000 remains at the end of the year.
This balance is to be carried forward to the next year.

In the second year, depreciation should be charged for the full year

on both the machinery's.

Therefore, their depreciation amounts to rupees 20,000 on

machinery -1 and rupees 10,000 on machinery -2.
After charging depreciation of 30,000 balance

to be carried forward is rupees 2, 45,000.

In that year management has decided to change the method of

depreciation from straight line method to written down value

Method wiith retrospective effect.

Therefore we have to find out whether short

depreciation is provided under the old method or excess

depreciation has been provided under the old method.

For this purpose, we will refer to the working note.

Under the old method that is straight line method depreciation charged is at10% per annum.

On machinery-1 depreciation for two

years is 20,000 each.

So it comes to 40,000. On machinery-2, under the old

method depreciation charged for the first year is for six

Months i.e. Rs. 5000. For the second year depreciation is charged for the

full year Rs. 10,000. Therefore, Rs. 15,000 has been charged.

The total amount that has been charged.

On machinery one and machinery 2 for two years amounted to 55,000.

Under the new method, depreciation has been provided.

Under written down value method at 15% per annum,

this depreciation amounts to rupees 30,000 in the first

year and 25,500 in the second year.

Total depreciation to be provided under new method

amounts to rupees 55,500.

On machinery 2 for the first year depreciation under written

down value method at 15% per annum on one lakh.

for six months is provided which comes to 7500.

In the second year, one lakh

minus 7500. amounts to 92,500. on this amount.

depreciation is provided at 15%on the written down value

method, which amounts to Rs.13,875
Therefore, total amount of Rs. 76,875 depreciation is required

to be provided under the new method i.e.

written down value method.

On machinery one Rs.55,500 and machinery two Rs.

21,375, which amounts to rupees

76,875. The depreciation that has been

already provided is Rs. 55,000,but the depreciation that is

required to be provided is Rs. 76,875. That means we have

provided a short depreciation of Rs.21,875 in the books of accounts under the old method, which is now
required to be transferred to profit and loss account.

The Journal entry for this is
profit and Loss Account debit with Rs. 21,875

To machinery account 21,875

Narration being the entry for short

depreciation charged on machinery one and two as per

Old Method now transferred to Profit and

Loss Account.
Now we will go back to machinery account for

the third year.

So machinery account is credited with Rs.21,875.

The short depreciation that was provided, now transferred

to profit and loss account.
depreciation for the current year has been charged on written

down value at 15%.

This depreciation should be charged on the opening balance

to Rs. 2, 45,000 minus the short depreciation that is credited to

machinery account Rs. 21,875.

That is Rs.2,23,125.
On this value, we have

to calculate depreciation at 15%.

which amounts to 33,469.
Therefore, the balance to be carried down is.

Rs. 1,89,656.

As we have come to the end of this session, let us quickly go

through the summary of the same.

In case of change in the method of depreciation with

retrospective effect. The depreciation should be the

depreciation to be charged as per new method should be

computed and compared with the amount of depreciation already

provided in the books of

accounts. The difference, if any, should be transferred to

profit and loss account in case of deficit which should be

debited to profit and loss account. And in case if there is

surplus it should be credited to profit and loss account.

I have referred to this books for my session. You may kindly go through the same. Thank you all.