

Principles of Accounting - ICOM Part 2 Principles of Accounting Chapter 5 Short Questions Preparation

Q1. Write the merits of straight line method of depreciation.

Ans 1: Three merits of straight line method are given below:

1. It is simply and easy to work out.
2. The book value of an assets can be reduced to zero.
3. Useful for providing depreciation in leasehold property.

Q2. Define the term tangible assets.

Ans 1: Assets which have physical existence and which can be seen, touches and can be felt are called tangible assets.

Q3. What is scrape value or residual value or break up value?

Ans 1: The price at which an assets will be sold at the end of its working life, it is also known as Residual value or break up value, it is always less than market price and cost and purchase price.

Q4. Define depletion.

Ans 1: The term depletion is used for decrease in the value of wasting asstes such as mines oil welts, forest etc. Or the decrease in the value propostionate to the quantum of production such as mines ,oil wells forest etc.

Q5. What are internal cause of depreciation?

Ans 1: Depreciation which occur for certain inherent normal cause it known as internal cause of depreciation.

Q6. Define reserve food.

Ans 1: When the amount of reserve is invested outside the business in government paper or in gilt ,edged securities, then it is known as Reserve Fund.

Q7. What are external cause of depreciation?

Ans 1: Depreciation which occurs for certain external cause are known as external cause of depreciation.
Example: Obsolescence and efflux of time and accident.

Q8. What are wasting assets?

Ans 1: Assets whose value gradually reduces on account of use and finally exhausts completely are called wasting assets.
Example : Mine ,Forest.

Q9. Write two objects of depreciation.

Ans 1: It is necessary for the following reasons:

- 1.Ascertainment of true profit and loss
- 2.Ascertainment of true cost production
- 3.Keeping capital intact
- 4.True valuation of an asset.
- 5.Replacement of asset.

Q10. Write other names of reducing balance sheet.

Ans 1: Reducing balance method is a method under which the depreciation of an assets to calculated on the book value of asset ,It is also known as diminishing balance method or book value method,In this method the price of an asset changes every year or decrease every year.
