

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

Q1. How yearly depreciation is calculated under straight line method?

Ans 1: The formula which is used to calculate the value of depreciation in straight line method is given below
Annual Depreciation = $\frac{\text{cost} - \text{scrap value}}{\text{Estimated life}}$.

Q2. Define the term tangible assets.

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

Q3. Define the term fluctuation.

Ans 1: Fluctuation is decrease or increase in the market value of an asset not due to use in business. In fluctuation the price of things may decrease or increase in the market.

Example: Increase in value of land or building not due to use in business.

Q4. Write four methods of charging depreciation.

Ans 1:

1. Fixed installment method
2. Diminishing balance method
3. Annuity method
4. Years digit method.

Q5. Define depletion.

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

Q6. 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.

Q7. Write other names of reducing balance sheet.

Ans 1: Reducing balance method is a method under which the depreciation of an asset is 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 decreases every year.

Q8. 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.

Q9. Define amortization.

Ans 1: The decrease in the value of intangible assets such as patentes,copyright ,goodwill etc. is called amortization.

Q10. Define fixed assets?

Ans 1: Assets which have long life and which are brought for use for a long period of time are called fixed assets ,These are not bought for selling purpose.
Example: Land,building m,machinery ,Furniture etc.
