

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE
(Autonomous)**

**Accredited by NAAC - UGC with 'A+ Grade (Cycle IV)
(Recognized by UGC, Approved by AICTE & Affiliated to Bharathiar University)
Coimbatore- 49**

**DEPARTMENT OF COMMERCE WITH INFORMATION
TECHNOLOGY**

**21UCR402 – FUNCTIONAL ACCOUNTING
Unit-1: Reserves and Provisions in Depreciation**

**Ms.S.Meenakshi, Assistant Professor
Department of Commerce with Information Technology**

- ❖ PROVISION FOR DEPRECIATION (Depreciation Provision)
- ❖ RESERVE RELATED TO DEPRECIATION (Replacement Reserve / Depreciation Reserve)

1. PROVISION FOR DEPRECIATION

What is a provision?

It's a charge against profits to meet a known expense or loss.

What is Provision for Depreciation?

It records the reduction in the value of fixed assets due to usage, wear and tear, and time.

How is it recorded?

Every year, debit the Profit & Loss Account and credit the Provision for Depreciation Account.



Depreciation A/c Dr
 To Provision for Depreciation A/c

Profit & Loss A/c Dr
 To Depreciation A/c

Balance Sheet Presentation

Asset side:

Fixed Asset
Less: Provision for Depreciation
= Net Book Value

EXAMPLE

Machine cost: ₹1,00,000

Depreciation (10%): ₹10,000

Journal entry:

Depreciation A/c Dr ₹10,000

To Provision for Depreciation A/c ₹10,000

In Balance Sheet:

Machine ₹1,00,000

Less: Provision for Depreciation ₹10,000

Net Book Value = ₹90,000

What is the total machine cost?

₹1,00,000.

What is the depreciation rate?

10%.

What is the depreciation amount?

₹10,000.



RESERVE RELATED TO DEPRECIATION (Replacement Reserve / Depreciation Reserve)

- ❖ A reserve is an amount set aside out of profits (not an expense) to strengthen the financial position or meet unknown future needs.
- ❖ A reserve created to accumulate funds so that the business can replace the fixed asset after its useful life.
- ❖ It is not a charge against profit; it is an appropriation of profit.

JOURNAL ENTRY

Profit & Loss Appropriation A/c Dr
 To Depreciation Reserve A/c

Example: Depreciation Reserve

Company sets aside ₹20,000 each year from profits for future replacement of machinery.

Entry:

Profit & Loss Appropriation A/c Dr ₹20,000
 To Depreciation Reserve A/c ₹20,000

Balance Sheet:

Liabilities → Reserves & Surplus → Depreciation Reserve ₹20,000

Basis	Provision for Depreciation	Depreciation Reserve
Nature	Charge against profit	Appropriation of profit
Purpose	To record fall in asset value	To save money to replace the asset
Compulsory?	Yes	No (depends on management)
Shown in B/S	Deducted from asset value	Shown under Reserves & Surplus
Affects Profit?	Reduces net profit	Reduces divisible profit

THANK YOU