

THE FOOD CORPORATION OF INDIA  
HEAD QUARTERS : NEW DELHI

No. Accts/14(1)/94-95

DT: 20.4.1995

CIRCULAR NO. 679/ACCTS

Sub.: Accountal of assets sold/demolished/discarded/destroyed during the year—Reg.

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Reference is invited to Hqrs. Circular No. 651/Accts. dated 9.2.1994 regarding provision of depreciation in respect of assets sold/demolished/discarded/destroyed during the year.

It has been observed that despite instructions on the subject, certain Unit offices have not been working out depreciation correctly in the accounts, resulting in avoidable Journal entries have to be passed at Hqrs. on behalf of regions. It is, therefore again reiterated/stipulated that in respect of assets sold/discarded/demolished or destroyed during the year should be accounted for in the following manner :-

I. In case of sale of an asset, the excess/short amount has to be adjusted in the concerned block of asset by crediting the respective block of asset, debiting depreciation reserve to the extent available and Bank A/c for the amount realised on sale of such asset or any amount received from Insurance, Salvage or compensation treating the same as selling price. Thereafter the depreciation will be calculated, accordingly (whether the individual asset has the normal written down value or minus written down value, as the case may be) to arrive at the capital gains / loss for the year by claiming normal depreciation or minus depreciation on such assets. The examples are given as below :-

Purchase cost of an asset	:	Rs. 50,000/- plant & machinery
Depreciation Reserve	:	Rs. 30,000/- - do -
Rate of Depreciation	:	25% per annum
WDV (Rs. 50,000/- - Rs. 30,000/-):		Rs. 20,000/- - do -

Sale Price

- (i) Rs. 25,000/-
- (ii) Rs. 15,000/-

(I) In case where sale price is Rs. 25,000/- the following entry will be passed.

Bank Account	Dr.	Rs. 25,000/-
Depreciation Reserve		Rs. 30,000/-
To		

Block of Asset Plant & Machinery (Concerned Asset head)	Cr.	Rs. 55,000/-
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In other words, profit of Rs. 5,000/- on sale of this asset has to be adjusted in the block of assets as credit. Consequently receiving the value of Asset in the gross Block as well as in the WDV. This will mean that depreciation for the year (considering value of other assets in the group) would be charged less due to existing reduction in gross value of Asset. However, for the particular asset in question the position would be as under and the depreciation will be calculated as minus depreciation @ 25% per annum as per entry given below :-

6 series depreciation Reserve A/c Plant & Machinery	Dr. 1250/-	
To		
32 series depreciation Plant & Machinery (For claiming minus depreciation on Minus WDV)		1250/-

Thus the WDV at the year end would work out to minus Rs. 3750/- Likewise the minus WDV will also be adjusted in the subsequent years by charging depreciation as minus

(ii) In case where sale price is Rs. 15,000/- the following Journal entry will be passed :-

Bank Account A/c	Dr.	Rs.15,000/-	
Depreciation Reserve	Dr.	Rs. 30,000/-	
To			
Block of Asset (Concerned Asset head)			Credit
45,000/-			

In other words, the loss of Rs. 5,000/- on sale of this asset will be adjusted in the block of asset as normal WDV and depreciation will be calculated accordingly & charged in the accounts.

II(a) In case where nothing (no money) has been realised from Insurance Salvage or compensation for demolished/discarded or destroyed asset during the year, the amount of written down value to the extent available would be adjusted to the block of concerned asset after obtaining necessary approval from the Competent Authority to remove such asset. In this case, the depreciation reserve to the extent available be debited and the concerned block of asset would be credited thereby remaining balance in the block of asset. The position has been explained as under :-

Purchase Cost	Rs. 50,000/-
Depreciation Reserve	Rs. 30,000/-
WDV (Rs. 50,000/- - Rs. 30,000/-)	= 20,000/-

