20 Lecture - MGT101

Important Subjective

1. **What is depreciation, and why is it charged on fixed assets?**
   Answer: Depreciation is the decrease in the value of fixed assets due to wear and tear, obsolescence, and aging. It is charged to spread the cost of the asset over its useful life.

2. **What is the straight-line method of depreciation, and how is it calculated?**
   Answer: The straight-line method charges a constant amount of depreciation over the useful life of the asset. It is calculated by dividing the cost of the asset by its useful life.

3. **What is the reducing balance method of depreciation, and how is it calculated?**
   Answer: The reducing balance method charges a higher amount of depreciation in the early years of the asset's life, and then reduces the amount as the asset gets older. It is calculated by applying a fixed rate to the net book value of the asset.

4. **What is the double-declining balance method of depreciation, and how is it calculated?**
   Answer: The double-declining balance method charges a higher rate of depreciation in the early years of the asset's life, and then reduces the rate as the asset gets older. It is calculated by multiplying the net book value of the asset by a fixed rate.

5. **What is meant by salvage value, and how is it used in calculating depreciation?**
   Answer: Salvage value is the estimated value of the asset at the end of its useful life. It is used to calculate the depreciable value of the asset, which is the cost of the asset minus its salvage value.

6. **What is the effect of disposing of a fixed asset before the end of its useful life?**
   Answer: If a fixed asset is disposed of before the end of its useful life, then any remaining balance of the asset's cost that has not yet been depreciated must be written off as an expense in the period of disposal.

7. **How is depreciation calculated when a fixed asset is acquired partway through an accounting period?**
   Answer: Depreciation is calculated based on the number of months the asset is owned during the accounting period. The annual depreciation charge is prorated for the number of months owned.

8. **What is the difference between capital expenditure and revenue expenditure, and how does it affect the depreciation of fixed assets?**
   Answer: Capital expenditure is an expenditure that creates a new asset or extends the useful life of an existing asset, while revenue expenditure is an expense that is incurred to maintain or operate an existing asset. Only capital expenditure is eligible for depreciation.

9. **How is the disposal of a fixed asset recorded in the accounting records?**
   Answer: The disposal of a fixed asset is recorded by debiting the accumulated depreciation account for the asset and crediting the asset account for its cost. Any proceeds received from the disposal are credited to a gain or loss account.

10. **How does the choice of depreciation method affect the amount of depreciation charged to fixed assets?**
Answer: The choice of depreciation method affects the amount of depreciation charged to fixed assets by changing the amount charged in each accounting period. Different methods result in different patterns of depreciation charges over the useful life of the asset.