

### 3. Depreciation of Fixed Assets

Ace Haulage Ltd. prepares its final accounts to 31<sup>st</sup> December each year. The company's policy is to depreciate its vehicles at the rate of 15% of cost per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account.

On 1/1/2003, Ace Haulage Ltd. owned the following vehicles:

- No. 1 purchased on 1/1/1999 for €70,000
- No. 2 purchased on 1/8/2000 for €80,000
- No. 3 purchased on 1/4/2001 for €88,000

On 1/5/2003, Vehicle No. 2 was crashed and traded in against a new vehicle costing €90,000. The company received compensation to the value of €30,000 and the cheque paid for the new vehicle was €75,000.

On 1/7/2004, Vehicle No. 1 was traded in for €24,000 against a new vehicle costing €55,000.

Vehicle No. 1 had a refrigeration unit fitted on the 1/1/2001 costing €20,000. This refrigeration unit was depreciated at the rate of 30% of cost for the first two years and thereafter at the rate of 15% of cost per annum.

**You are required to show, with workings, for each of the two years 2003 and 2004:**

1. The Vehicles Account. (6)
  2. The Vehicle Disposal Account. (16)
  3. The Provision for Depreciation Account. (32)
  4. What factors are taken into account in arriving at the annual depreciation charge? (6)
- (60 marks)