3. <u>Depreciation of Fixed Assets</u>

Trans Haulage Ltd prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of **20% of *Book Value*** **(reducing balance)** per annum, calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account. (Calculations to the nearest Euro.)

On 01/01/2008, Trans Haulage Ltd owned the following vehicles:

No. 1 purchased on 01/01/2004 for €40,000
No. 2 purchased on 01/01/2005 for €50,000
No. 3 purchased on 01/01/2006 for €60,000

On 01/08/2008, Vehicle No. 1 was traded in for €12,000 against a new vehicle costing €66,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2007 costing €16,000. This refrigeration unit was depreciated at the rate of 40% for the first year and thereafter at the same rate as Vehicle No. 1. On 01/05/2009, Vehicle No. 3 was crashed and traded in against a new vehicle costing €72,000. The company received compensation from the insurance company to the value of €20,000 and the cheque paid for the new vehicle was €61,000.

You are required to show, with workings, for each of the two years 2008 and 2009:

(a) The Vehicles Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Vehicles Disposal Account. (14)
(d) (i) Explain what is meant by depreciation.
(ii) Why does a company charge depreciation in calculating profit? (8)

(60 marks)