

Question 2

60

(a)

Vehicles Account

| | | | |
|-----------------------------|-------------------|------------------------|--------------------|
| 01/01/2011 Balance b/d (W1) | 195,000 [1] | 01/09/2011 Disposal | 65,000 [1] |
| 01/9/2011 Bank No 4 | <u>75,000 [1]</u> | 31/12/2011 Balance c/d | <u>205,000 [1]</u> |
| | <u>270,000</u> | | <u>270,000</u> |
| 01/01/2012 Balance b/d | 205,000 | 01/04/2012 Disposal | 70,000 [1] |
| 01/04/2012 Bank No 5 | <u>86,000 [1]</u> | 31/12/2012 Balance c/d | <u>221,000</u> |
| | <u>291,000</u> | | <u>291,000</u> |
| 01/01/2013 Balance B/D | 221,000 | | |

(b)

Provision for Depreciation Account

| | | | |
|--------------------------|-------------------|-------------------------------|-------------------|
| [1] | | | |
| 01/09/2011 Disposal (W3) | 45,500 [4] | 01/01/2011 Balance b/d (W2) | 77,750 [6] |
| 31/12/2011 Balance c/d | <u>62,000</u> | 31/12/2011 Profit & Loss (W4) | <u>29,750 [8]</u> |
| | <u>107,500</u> | | <u>107,500</u> |
| [1] | | | |
| 01/04/2012 Disposal (W5) | 27,125 [2] | 01/01/2012 Balance b/d | 62,000 |
| 31/12/2012 Balance c/d | <u>67,425 [2]</u> | 31/12/2012 Profit & Loss (W6) | <u>32,550 [8]</u> |
| | <u>94,550</u> | | <u>94,550</u> |
| | | 01/01/2013 Balance b/d | 67,425 |

(c)

Disposal of Vehicles Account

| | | | |
|------------------------------|------------------|----------------------------|-------------------|
| 01/09/2011 Vehicle No 1 | 65,000 [1] | Trade-in allowance | 20,000 [2] |
| 31/12/2011 Profit & Loss a/c | <u>500 [1]</u> | Provision for Depreciation | <u>45,500 [2]</u> |
| | <u>65,500</u> | | <u>65,500</u> |
| 01/04/2012 Vehicle No 3 | 70,000 [1] | Compensation – Insurance | 25,000 [2] |
| 31/12/2012 Profit & Loss a/c | <u>1,125 [1]</u> | Bank | 19,000 [2] |
| | <u>71,125</u> | Provision for Depreciation | <u>27,125 [2]</u> |
| | | | <u>71,125</u> |

| Number | Cost | Dep to 1/1/2011 | Dep for 2011 | Dep for 2012 | Total Dep | |
|--------|--------|--------------------|--------------------|--------------------|-----------|--------------------|
| 1 | 50,000 | 30,000 | 5,000 | - | 35,000 | |
| Unit | 15,000 | 9,000 | 1,500 | - | 10,500 | 45,500 (W3) |
| 2 | 60,000 | 24,750 | 9,000 | 9,000 | | |
| 3 | 70,000 | 14,000 | 10,500 | 2,625 | | 27,125 (W5) |
| 4 | 75,000 | | 3,750 | 11,250 | | |
| 5 | 86,000 | | - | 9,675 | | |
| | | 77,750 (W2) | 29,750 (W4) | 32,550 (W6) | | |

(W1) 01/01/2011 - Cost Balance [50,000 + 15,000 + 60,000 + 70,000] = **195,000**

(d)

Why make a charge for depreciation [4]

Depreciation is an expense. Failure to include depreciation in the final accounts will result in the profits being overstated and the net assets in the balance sheet will not show a true value.

Why would a company choose one method over another [4]

A method of depreciation is chosen by a company because of its policy on depreciation and ensuring that the consistency concept is applied when preparing accounts.

Straight Line Method is where the same amount of the cost of the asset is written off each year. It is appropriate in the case of an asset that remains in the business over a long period of time and loses value slowly, for example Buildings, (assets that generate profit over many years).

Reducing Balance Method is where a fixed percentage of the value of the asset is written off each year. The amount written off is high in early years and reduces each year until written off. This method is appropriate in the case of an asset which loses most of its value in the years immediately after purchase e.g. vehicles, computer, equipment etc., (assets that become obsolete quickly because of changes in technology).

The general principle of providing depreciation is based on the matching concept.