2. Depreciation of Fixed Assets

Euro Ltd, a sportswear manufacturer, prepares its final accounts to 31 December each year. The company's policy is to depreciate its machinery on a straight line basis over 10 years. Scrap value is estimated at 5% of the original cost of the machine. Depreciation is charged from the date of purchase to the date of sale.
(Calculations should be to the nearest euro.)

On 01/01/2013, Euro Ltd owned the following machines:

No. 1 purchased on 01/07/2010 for €50,000
No. 2 purchased on 01/09/2011 for €65,000
No. 3 purchased on 01/01/2012 for €75,000

On 01/03/2013, Machine No. 1 was ruined by a malfunction which completely destroyed the motor sensor. The insurance company paid out €25,000 in respect of this damage and €500 was received from the sale of the machine to a scrap dealer. On the same date a new Machine, No. 4, was purchased to replace Machine No. 1 at a cost of €60,000.

Machine No. 3 had modifications carried out on its motor to increase productivity on 01/01/2014 costing €4,000. The depreciation on this modification is €475 per year.

On 01/04/2014, Machine No. 2 was traded in for €27,500 against a new Machine, No. 5, costing €55,000. The balance of the purchase price was paid immediately. It cost €2,000 to have the machine delivered and €400 to have it installed.

You are required to show, with workings, the following accounts for each of the two years 2013 and 2014:

(a) The Machinery Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Machinery Disposal Account. (14)
(d) (i) Explain why a company charges depreciation in calculating profit.
(ii) List the factors which should be considered when determining the depreciation policy on a particular asset. (8)

(60 marks)