

2. Depreciation of Fixed Assets

O'Brien Transport Ltd prepares its final accounts to 31 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 01/01/2016, O'Brien Transport Ltd owned the following vehicles:

- No. 1 purchased on 01/01/2012 for €50,000
- No. 2 purchased on 01/03/2013 for €66,000
- No. 3 purchased on 01/10/2014 for €74,000

On 01/04/2016, vehicle no. 3 was crashed and traded in against a new vehicle costing €86,000. The company received compensation to the value of €43,000 and the cheque paid for the new vehicle was €65,000.

On 31/07/2017, vehicle no. 1 was traded in for €13,000 against a new vehicle costing €90,000. Vehicle no. 1 had a refrigeration unit fitted on 01/01/2013 costing €22,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of 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 2016 and 2017:

- (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) Distinguish between the straight line method and reducing balance method of depreciation. (8)
- (60 marks)**