3. Depreciation of Fixed Assets

Ryan 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 01/01/2019, Ryan Transport Ltd owned the following vehicles:

No. 1 purchased on 01/01/2015 for €60,000
No. 2 purchased on 01/04/2016 for €74,000
No. 3 purchased on 01/08/2017 for €84,000

On 01/06/2019, vehicle no. 3 was crashed and traded in against a new vehicle costing €90,000. The company received compensation to the value of €50,000 and the cheque paid for the new vehicle was €86,000.

On 01/09/2020, vehicle no. 1 was traded in for €16,000 against a new vehicle costing €96,000. Vehicle no. 1 had a refrigeration unit fitted on 01/07/2016 costing €24,000. This refrigeration unit was depreciated at the rate of 20% 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 2019 and 2020**:

(a) The vehicles account. (6)

(b) The provision for depreciation account. (32)

(c) The vehicles disposal account. (14)

(d) (i) Explain why a company charges depreciation in calculating profit.

(ii) Show the relevant extract from the profit and loss account year ended 31/12/2020. (8)

(60 marks)