

Q3 Depreciation of Fixed Assets

	Annual Depreciation	To 31/12/2018	2019	2020	Total
60,000	9,000	36,000	9,000	6,000	51,000
24,000	4,800/3,600	11,400	3,600	2,400	17,400
74,000	11,100	30,525	11,100	11,100	
84,000	12,600	17,850	5,250		23,100
90,000	13,500		7,875	13,500	
96,000	14,400			4,800	

95,775 36,825 37,800

(a)

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Vehicles Account

01/01/19	Balance b/d	242,000	[2]	01/06/19	Disposal - 3	84,000	[1]
01/06/19	Bank and Trade In	90,000	[1]	31/12/19	Balance c/d	248,000	
		<u>332,000</u>				<u>332,000</u>	
01/01/20	Balance b/d	248,000		01/09/20	Disposal - 1	84,000	[1]
01/09/20	Bank	96,000	[1]	31/12/20	Balance c/d	260,000	
		<u>344,000</u>				<u>344,000</u>	

(b)

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Provision for Depreciation Account

01/06/19	Disposal - 3	23,100	[4]	01/01/19	Balance c/d	95,775	[6]
31/12/19	Balance c/d	109,500		31/12/19	P & L	36,825	[7]
		<u>132,600</u>				<u>132,600</u>	
01/09/20	Disposal - 1	68,400	[4]	01/01/20	Balance b/d	109,500	
31/12/20	Balance c/d	78,900	[3]	31/12/20	P & L	37,800	[8]
		<u>147,300</u>				<u>147,300</u>	

(c)

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Vehicle Disposal Account

01/06/19	Vehicles - 3	84,000	[1]	01/06/19	Depreciation - 3	23,100	[2]
					Compensation	50,000	[2]
					Trade In	4,000	[2]
		<u>84,000</u>		31/12/19	P & L	6,900	[1]
						<u>84,000</u>	
01/09/20	Vehicles - 1	84,000	[1]	01/09/20	Depreciation - 1	68,400	[2]
31/12/20	P & L	400	[1]		Trade In	16,000	[2]
		<u>84,400</u>				<u>84,400</u>	

(d)

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

Depreciation is charged so as to write off the cost of the tangible fixed asset over its useful economic life. Depreciation is an expense in the Income Statement /Profit and Loss Account.

Failure to include depreciation in the final accounts causes

- the profit to be overstated
- the net worth to be overstated

The financial statements would not show a true and fair view of the business

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

Profit and loss account for the year ending 31/12/2020

Less Selling Expenses	Vehicles Depreciation	37,800
Add Profit on Disposal		400