

IGCSE

Accounting

Depreciation

1 Peter bought a non-current asset for \$5000 and depreciated it at 10% per annum on the straight line basis. At the end of year 2 he sold it for \$4100.

What was the profit or loss on disposal?

- A \$50 loss
- B \$50 profit
- C \$100 loss
- D \$100 profit

Answer: D. \$100 profit

2 Safir bought a machine for \$10 000 and depreciated it at the rate of 30% per annum on the reducing (diminishing) balance basis.

What was the net book value at the end of year 2?

- A \$4000
- B \$4900
- C \$5100
- D \$6000

Answer: B. \$4900

3 Why is depreciation provided?

- A to estimate the cost to the business of wear and tear
- B to set aside funds for future repairs to the asset
- C to show market values in the statement of financial position
- D to spread the cost of an asset over its useful life

Answer: D. to spread the cost of an asset over its useful life

- 4 On 1 January 2014 Alex had a motor vehicle with an original cost of \$17000 on which depreciation of \$6800 had been provided.

On 1 April 2014 he bought a new vehicle, costing \$24 000. He sold the old one and received a cheque for \$9400.

Alex provides depreciation on motor vehicles at the rate of 40% per annum on the reducing (diminishing) balance basis. He allows a full year's depreciation in the year of purchase and none in the year of disposal.

REQUIRED

- (a) Prepare the following ledger accounts for the year ended 31 December 2014. Balance the account(s) where necessary and bring down the balance(s) on 1 January 2015.

Alex
Provision for depreciation of motor vehicles account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
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Motor vehicle disposal account

| Date | Details | \$ | Date | Details | \$ |
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Answer:

Alex
Provision for depreciation account

| Date | Details | \$ | Date | Details | \$ |
|--------|------------------|--------|--------|------------------|--------|
| 2014 | | | 2014 | | |
| Apr 1 | Disposal account | 6 800 | Jan 1 | Balance b/d | 6 800 |
| Dec 31 | Balance c/d | 9 600 | Dec 31 | Income statement | 9 600 |
| | | 16 400 | | | 16 400 |
| | | | 2015 | | |
| | | | Jan 1 | Balance b/d | 9 600 |

Alex
Disposal account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------------|--------|-------|-------------------|--------|
| 2014 | | | 2014 | | |
| Apr 1 | Motor vehicle | 17 000 | Apr 1 | Prov depreciation | 6 800 |
| | | | | Bank | 9 400 |
| | | | | Income statement | 800 |
| | | 17 000 | | | 17 000 |

(b) Prepare an extract from the statement of financial position at 31 December 2014 showing the entries for motor vehicles.

Alex
Statement of Financial Position (extract) at 31 December 2014

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Answer:

Alex
Statement of Financial Position (extract) at 31 December
2014 Non-current assets

| | Cost | Accumulated depreciation | Net book value |
|----------------|--------|--------------------------|----------------|
| | \$ | \$ | \$ |
| Motor vehicles | 24 000 | 9 600 | 14 400 |

(c) Calculate the depreciation which will be provided on the new vehicle in the year ending 31 December 2015.

.....
.....

Answer: $14\,400 \times 40\% = 5\,760$

(d) Name the two books of prime entry used in preparing the disposal account.

1
2

Answer: 1. *general journal*
2. *cash book*

(e) State the meaning of the term revenue expenditure. Give one example.

.....
.....

Answer: *Money spent on day to day running expenses*
Suitable example

5 (a) State two causes of depreciation of non-current assets.

1
2

Answer: *Physical deterioration*
Economic reasons
Passage of time
Depletion

(b) Explain the straight line method of depreciation.

.....
.....

Answer: *The depreciation is calculated on the net cost price and the same amount is written off each year.*

(c) Explain the reducing (diminishing) balance method of depreciation.

.....
.....

Answer: *The same percentage is written off each year but it is calculated on the net book value of the asset.*

(d) Explain how charging depreciation is an example of the application of the principle of prudence.

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Answer: *Ensures that non-current assets are shown at more realistic values.
Ensures that the profit for the year is not overstated.*

(e) Name one other accounting principle which is applied when charging depreciation.

.....
.....

Answer: *Accruals (matching).*

6 On 1 October 2013 Natasha Salim started a business altering and mending clothes. On that date she purchased a machine, \$4000, paying by cheque.

On 1 January 2014 she purchased another machine, \$6000, on credit from ABC Machines.

She decided to depreciate the machines using the reducing (diminishing) balance method at 20% per annum. A whole year's depreciation was to be charged in the year of purchase, but no depreciation in the year of sale.

On 1 February 2015 Natasha Salim decided that the machine purchased on 1 October 2013 was no longer required. She sold it for \$2100, cash.

REQUIRED

(a) Prepare the following accounts in the ledger of Natasha Salim for each of the two years ended 30 September 2014 and 30 September 2015.

Balance the accounts and bring down the balances on 1 October 2014 and 1 October 2015. See next page.

Natasha Salim
Machinery account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
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Provision for depreciation of machinery account

| Date | Details | \$ | Date | Details | \$ |
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Answer:

Natasha Salim
Machinery Account

| | \$ | | \$ |
|--------------------|--------|---------------------|--------|
| 2013 | | 2014 | |
| Oct 1 Bank | 4 000 | Sept 30 Balance c/d | 10 000 |
| 2014 | | | |
| Jan 1 ABC Machines | 6 000 | | |
| | 10 000 | | 10 000 |
| 2014 | | 2015 | |
| Oct 1 Balance b/d | 10 000 | Feb 1 Disposal | 4 000 |
| | 10 000 | Sept 30 Balance c/d | 6 000 |
| | | | 10 000 |
| 2015 | | | |
| Oct 1 Balance b/d | 6 000 | | |

Provisions for depreciation of machinery account

| | \$ | | \$ |
|---------------------|-------|--------------------------|-------|
| 2014 | | 2014 | |
| Sept 30 Balance c/d | 2 000 | Sept 30 Income Statement | |
| | 2 000 | 800(1) + 1200 | 2 000 |
| | | | 2 000 |
| 2015 | | 2014 | |
| Feb 1 Disposal | 800 | Oct 1 Balance b/d | 2 000 |
| Sept 30 Balance c/d | 2 160 | 2015 | |
| | 2 960 | Sept 30 Income Statement | 960 |
| | | | 2 960 |
| | | 2015 | |
| | | Oct 1 Balance b/d | 2 160 |

(b) Calculate the profit or loss on the disposal of the machine on 1 February 2015.

.....

.....

Answer: Proceeds of Sale
 Provision for depreciation
 Less Cost Price
 Profit/Loss on disposal

7 Asma bought a motor vehicle for \$10 000. She depreciated it at the rate of 10% per annum on cost, calculated monthly.

After 18 months she sold the motor vehicle for \$9200.

What was the profit on disposal?

- A \$200
- B \$650
- C \$700
- D \$1200

Answer: C. \$700

8 The directors of the company know that the factory machinery is very old and they are considering replacing it at a cost of \$100 000. They provide the following information.

- 1 The old machinery was being depreciated at \$6000 per annum. This machinery would be sold at net book value.
- 2 The new machinery would be depreciated in equal instalments over ten years.
- 3 The purchase of the new machinery would be financed by a loan on which annual interest of 8% would be paid.
- 4 The cost of raw material used would decrease by 4% if the new machinery was purchased.
- 5 Machinery repairs would be reduced by \$9000 a year if the new machinery was purchased.

REQUIRED

(a) Complete the following table to calculate the change in profit for the year if the new machinery was purchased.

| Savings | \$ |
|--------------------------------------|-------|
| | |
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| | |
| Less additional costs | |
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| | |
| Increase/(decrease) in profit | |

Answer:

| | | |
|------------------------------|---|----------------|
| Savings | | |
| <i>old depreciation</i> | | 6 000 |
| <i>repairs</i> | | 9 000 |
| <i>raw materials 110 000</i> | x | <u>4 400</u> |
| | | <u>19 400</u> |
| Less additional costs | | |
| <i>new depreciation</i> | | (10 000) |
| <i>additional interest</i> | | <u>(8 000)</u> |
| Increase in profit | | <u>1 400</u> |

9 Bradley is a wholesaler. His financial year ends on 31 December.

On 1 January 2015 Bradley had a delivery vehicle A which had cost \$35 000 and had been depreciated by \$13 125.

On 1 October 2015 he purchased delivery vehicle B for \$40 000 by cheque.

On 1 July 2016 he purchased delivery vehicle C on credit from XZ Motors for \$28 000.

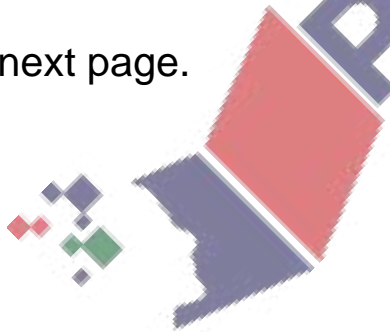
All the delivery vehicles are depreciated by 25% per annum on cost calculated from the date of purchase.

REQUIRED

(a) Prepare the following accounts for each of the years ended 31 December 2015 and 31 December 2016.

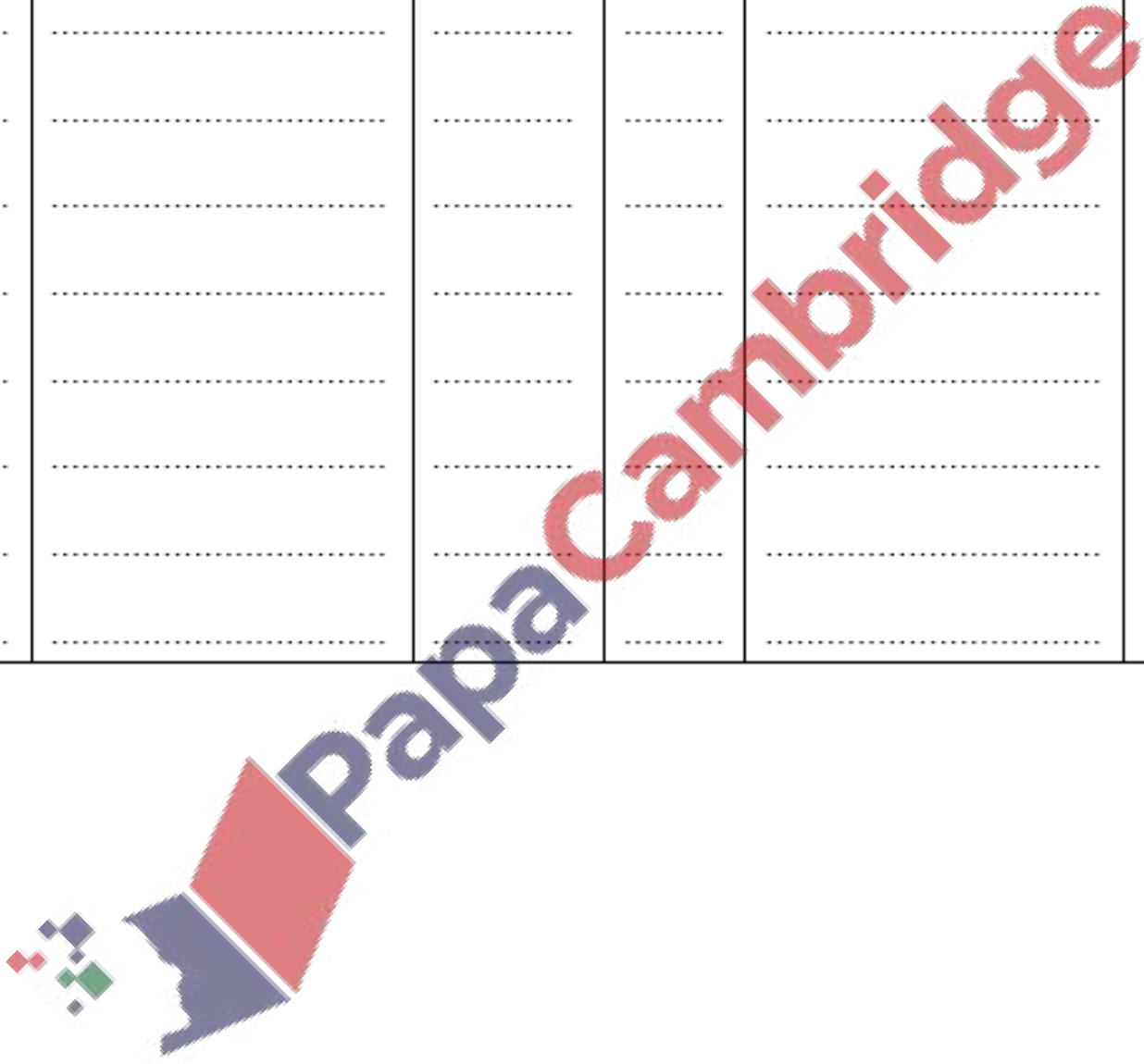
Balance the accounts and bring down the balances on 1 January 2016 and 1 January 2017.

See next page.



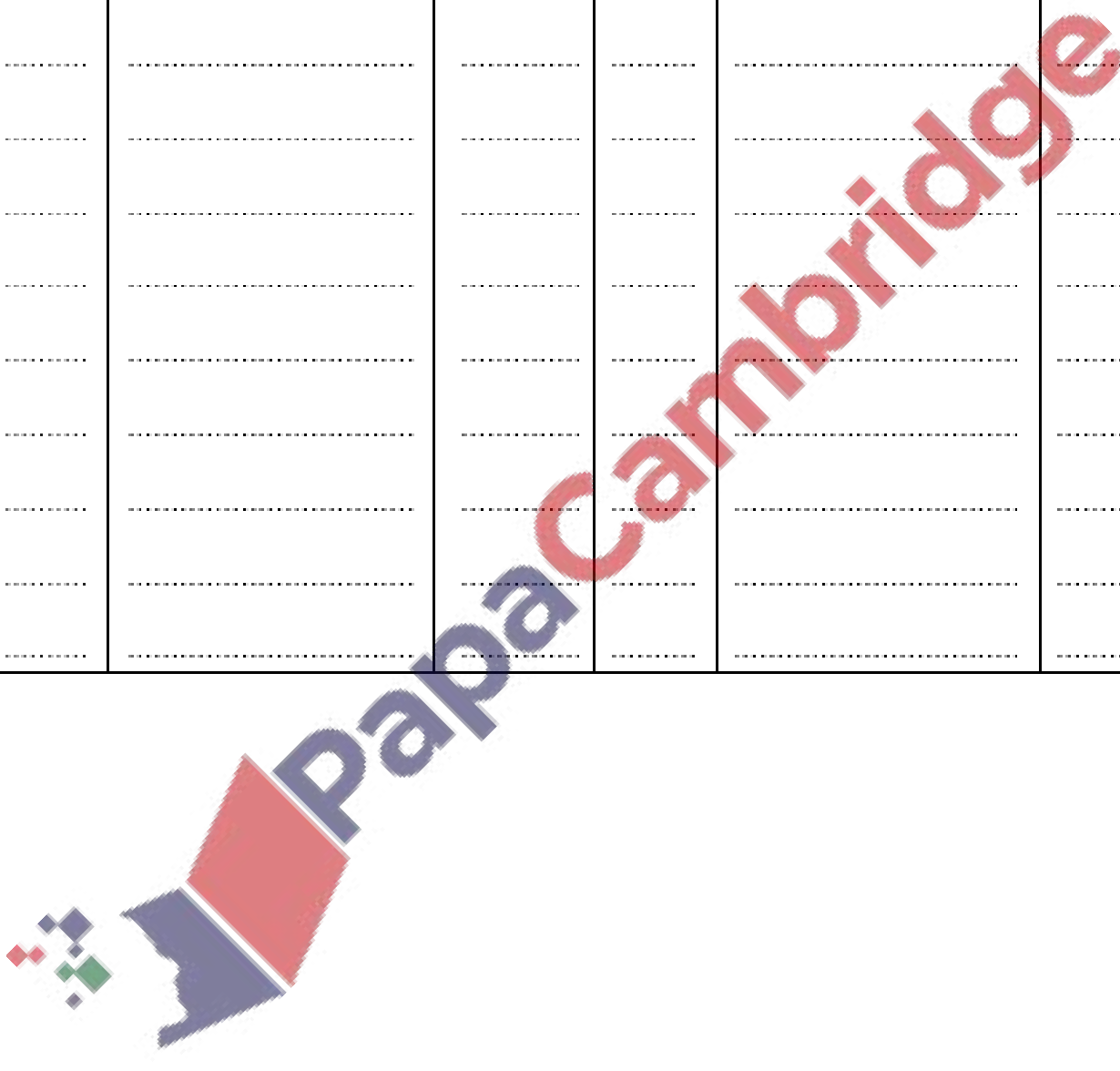
Bradley
Delivery vehicles account

| Date | Details | \$ | Date | Details | \$ |
|--------------|----------------------|---------------|-------|---------|-------|
| 2015 | | | | | |
| <i>Jan 1</i> | <i>Balance A b/d</i> | <i>35 000</i> | | | |
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Provision for depreciation of delivery vehicles account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|-------|----------------------|-------|
| | | | 2015 | | |
| | | | Jan 1 | <i>Balance A b/d</i> | 13125 |
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Answer:

| | | Bradley Delivery vehicles account | | | |
|--------|---------------|--------------------------------------|--|--------|----------------|
| | | \$ | | \$ | |
| 2015 | | | | 2015 | |
| Jan 1 | Balance A b/d | 35 000 | | Dec 31 | Balance c/d |
| Oct 1 | BANK b | 40 000 | | | 75 000 |
| | | <u>75 000</u> | | | <u>75 000</u> |
| 2016 | Balance b/d | | | 2016 | |
| Jan 1 | A 35 000 | | | Dec 31 | Balance c/d |
| | B 40 000 | 75 000 | | | 103 000 |
| July 1 | XZ Motors C | 28 000 | | | <u>103 000</u> |
| | | <u>103 000</u> | | | <u>103 000</u> |
| 2017 | | | | | |
| Jan 1 | Balance b/d | | | | |
| | A 35 000 | | | | |
| | B 40 000 | | | | |
| | C 28 000 | 103 000 | | | |

| | | Provision for depreciation of delivery vehicles account | | | |
|--------|-------------|---|--|------------------|------------------|
| | | \$ | | \$ | |
| 2015 | | | | 2015 | |
| Dec 31 | Balance c/d | 24 375 | | Jan 1 | Balance A c/d |
| | | | | Dec 31 | Income Statement |
| | | | | | A 8 750 |
| | | | | | B 2 500 |
| | | <u>24 375</u> | | | 11 250 |
| 2016 | | | | 2016 | Balance b/d |
| Dec 31 | Balance c/d | 46 625 | | Jan 1 | A 21 875 |
| | | | | Dec 31 | B 2 500 |
| | | | | Income Statement | |
| | | | | | A 8 750 |
| | | | | | B 10 000 |
| | | | | | C 3 500 |
| | | | | | 22 250 |
| | | | | | <u>46 625</u> |
| | | | | 2017 | |
| | | | | Jan 1 | Balance b/d |
| | | | | | A 30 625 |
| | | | | | B 12 500 |
| | | | | | C 3 500 |
| | | | | | 46 625 |

On 1 January 2017 it was decided that delivery vehicle C (purchased on 1 July 2016) was unsuitable. The delivery vehicle was sold on credit to DDE Transport for \$25 500.

REQUIRED

(b) Prepare journal entries on 1 January 2017 to record the disposal of delivery vehicle. See next page.

C. Narratives are not required.

Bradley Journal

| | Debit \$ | Credit \$ |
|-------|-------------|--------------|
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Answer:

Bradley Journal

| | Debit \$ | Credit \$ |
|--|-------------|--------------|
| <i>Disposal of delivery vehicle</i> | 28 000 | |
| <i>Delivery vehicles</i> | | 28 000 |
| <i>Provision for depreciation of delivery vehicles</i> | 3 500 | |
| <i>Disposal of delivery vehicle</i> | | 3 500 |
| <i>DDE Transport</i> | 25 500 | |
| <i>Disposal of delivery vehicle</i> | | 25 500 |

10 The financial year of Doshi Manufacturing Company ends on 31 January. The following trial balance was extracted from the books on 31 January 2017.

| | \$ | \$ |
|---|---------|-----------|
| Inventory 1 February 2016 | | |
| Raw materials | 49 500 | |
| Work in progress | 28 750 | |
| Finished goods | 63 100 | |
| Revenue | | 1 246 850 |
| Returns inwards | 12 250 | |
| Purchases | | |
| Raw materials | 394 600 | |
| Finished goods | 21 700 | |
| Returns of purchases of raw materials | | 16 400 |
| Carriage inwards on purchases of finished goods | 1 500 | |
| Wages | | |

| | | |
|--|------------------|------------------|
| Factory operatives | 297 100 | |
| Factory supervisors | 152 000 | |
| Office and sales staff | 108 700 | |
| General expenses | 160 000 | |
| Premises at cost | 366 000 | |
| Factory machinery at cost | 250 000 | |
| Office equipment at cost | 72 000 | |
| Loose tools at valuation | 21 150 | |
| Provision for depreciation 1 February 2016 | | |
| Factory machinery | | 122 000 |
| Office equipment | | 32 400 |
| Capital 1 February 2016 | | 630 000 |
| Drawings | 96 750 | |
| Trade receivables | 76 150 | |
| Trade payables | | 41 500 |
| Interest-free short term loan | | 50 000 |
| Bank overdraft | | 32 100 |
| | <u>2 171 250</u> | <u>2 171 250</u> |

The following additional information is available.

- | | | | |
|---|----------------------|---------------------|--------|
| 1 | At 31 January | | \$ |
| | inventory | raw materials | 41 100 |
| | | work in progress | 31 250 |
| | | finished goods | 59 100 |
| | wages accrued | factory supervisors | 12 000 |
| | | office staff | 4 300 |
| | value of loose tools | | 19 050 |
- The factory machinery is being depreciated at 20% per annum on the reducing (diminishing) balance method.
 - The office equipment is being depreciated at 15% per annum on the straight line (equal instalment) method.
 - The loose tools are revalued at the end of each financial year.
 - The general expenses are to be apportioned 3/5 to the factory and 2/5 to the office.

REQUIRED

(a) Select the relevant figures and prepare the manufacturing account for the year ended 31 January 2017. See next page.

Doshi Manufacturing Company
Income Statement for the year ended 31 January 2017

| | \$ | \$ | \$ |
|--|----|----|----|
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Answer:

| | \$ | \$ | \$ |
|--|---------------|----------------|-----------------------|
| Doshi Manufacturing Company | | | |
| <u>Manufacturing Account for the year ended 31 January 2017</u> | | | |
| <i>Cost of materials consumed</i> | | | |
| Opening inventory of raw materials | | 49 500 | |
| Purchases of raw materials | 394 600 | | |
| Less Purchases returns | <u>16 400</u> | <u>378 200</u> | 427 700 |
| Closing inventory of raw materials | | | 41 100 |
| | | | <u>386 600</u> |
| <i>Direct factory wages</i> | | | 297 100 |
| <i>Prime cost</i> | | | <u>683 700</u> |
| <i>Factory overheads</i> | | | |
| Factory supervisors' wages (152 000 + 12 000) | | 164 000 | |
| General expenses (3/5 × 160 000) | | 96 000 | |
| Depreciation factory machinery (20% × (250 000 – 122 000)) | | 25 600 | |
| Depreciation loose tools (21 150 – 19 050) | | <u>2 100</u> | 287 700 |
| | | | <u>971 400</u> |
| Opening work in progress | | | 28 750 |
| | | | <u>1 000 150</u> |
| Closing work in progress | | | 31 250 |
| Cost of production | | | <u><u>968 900</u></u> |

Doshi Manufacturing Company
Income Statement for the year ended 31 January 2017

| | \$ | \$ | \$ |
|---|--------------|---------------|---------------|
| Revenue | | | 1 246 850 |
| Less returns inwards | | | <u>12 250</u> |
| | | | 1 234 600 |
| Cost of sales | | | |
| Opening inventory of finished goods | | 63 100 | |
| Cost of production | | 968 900 | |
| Purchases of finished goods | 21 700 | | |
| Carriage inwards | <u>1 500</u> | <u>23 200</u> | |
| | | 1 055 200 | |
| Closing inventory finished goods | | <u>59 100</u> | 996 100 |
| Gross profit | | | 238 500 |
| Less Wages of office & sales staff (108 700 + 4 300) | | 113 000 | |
| General expenses (2/5 × 160 000) | | 64 000 | |
| Depreciation office equipment (15% × 72 000) | | 10 800 | 187 800 |
| Profit for the year | | | <u>50 700</u> |

(c) Suggest one reason why the loose tools are revalued at the end of each financial year rather than by using the straight line (equal instalment) or reducing (diminishing) balance method of depreciation.

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.....

Answer: *Low value items which are not easy to depreciate separately/Not practical to keep detailed records of such assets/other.*

11 Sonia started her business on 1 January 2015. She decided on the following depreciation policy.

Motor vehicles were to be depreciated at the rate of 25% per annum using the reducing (diminishing) balance method.

Equipment was to be depreciated at the rate of 10% per annum using the straight line (equal instalment) method.

A full year's depreciation was to be provided in the year of purchase.

Sonia provided the following information about her purchases of assets.

| | in the year ended 31 December 2015 | in the year ended 31 December 2016 |
|-----------------|---------------------------------------|---------------------------------------|
| | \$ | \$ |
| motor vehicle A | 30 000 | |
| motor vehicle B | | 20 000 |
| equipment | 28 000 | 18 000 |

REQUIRED

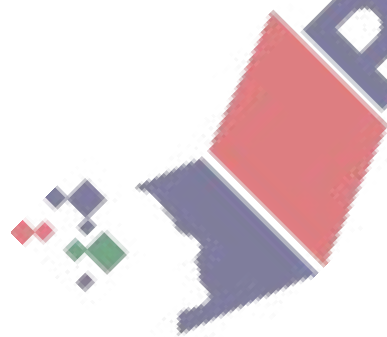
(a) Complete the following table. Indicate with a tick (✓) in which column of a trial balance each ledger account balance would appear.

| | debit column | credit column |
|---|--------------|---------------|
| equipment | | |
| provision for depreciation of equipment | | |

Answer:

| | debit side | credit side |
|---|------------|-------------|
| equipment | ✓ | |
| provision for depreciation of equipment | | ✓ |

(b) Complete the following table showing the depreciation charges, the accumulated depreciation and the net book values of the different assets on the dates shown. A space is provided for your workings. See next page.



| | motor vehicle A | motor vehicle B | equipment |
|---|-----------------|-----------------|-----------|
| | \$ | \$ | \$ |
| depreciation charge for the year ended 31 December 2015 | | | |
| net book value at 31 December 2015 | | | |
| depreciation charge for the year ended 31 December 2016 | | | |
| accumulated depreciation at 31 December 2016 | | | |
| net book value at 31 December 2016 | | | |
| workings | | | |

Answer:

| | vehicle A | vehicle B | equipment |
|---|-----------|-----------|-----------|
| | \$ | \$ | \$ |
| depreciation charge for the year ended 31 December 2015 | 7 500 | | 2 800 |
| net book value at 31 December 2015 | 22 500 | | 25 200 |
| depreciation charge for the year ended 31 December 2016 | 5 625 | 5 000 | 4 600 |
| accumulated depreciation at 31 December 2016 | 13 125 | 5 000 | 7 400 |
| net book value at 31 December 2016 | 16 875 | 15 000 | 38 600 |

(c) Prepare the extract from the statement of financial position at 31 December 2016 showing full details of the value of motor vehicles and equipment.

Sonia
Statement of Financial Position (extract) at 31 December 2016

.....

.....

.....

.....

.....

Answer:

Sonia
Statement of Financial Position (extract) at 31 December 2016

| | Cost | Accumulated depreciation | Net book value |
|-----------|--------|-----------------------------|-------------------|
| | \$ | \$ | \$ |
| Vehicles | 50 000 | 18 125 | 31 875 |
| Equipment | 46 000 | 7 400 | 38 600 |
| | 96 000 | 25 525 | 70 475 |

(d) Name the section of the statement of financial position where motor vehicles and equipment appear.

.....

.....

Answer: *Non-current assets.*

12 Bayani depreciates his fixtures and fittings using the straight line (equal instalment) method of depreciation. He provides a full year's depreciation in the year of purchase and none in the year of disposal. He provided the following information.

| | fixtures and fittings | |
|---------------------|-----------------------|-----------------------------|
| | cost | accumulated depreciation |
| | \$ | \$ |
| at 31 December 2013 | 42 600 | 12 780 |
| at 31 December 2014 | 42 600 | 17 040 |

There were no additions or disposals during the year ended 31 December 2014.

REQUIRED

(a) Calculate the rate of depreciation Bayani is applying.

.....
.....

Answer: $\frac{(17\ 040 - 12\ 780)}{42\ 600} \times 100 = 10\%$

Additional information

On 1 May 2015 Bayani bought new fixtures and fittings, cost \$12 000, paying by cheque.

On 1 August 2016 he sold old fixtures and fittings, which had cost \$10 000 and on which four years' depreciation had been provided. The purchaser paid Bayani in cash.

REQUIRED

(b) Name the books of prime (original) entry used on 1 May 2015 and 1 August 2016.

1 May 2015

.....
.....

1 August 2016

.....
.....

Answer: 1 May 2015: *Cash book*
1 August 2016: 1. *Nominal (general) journal*
2. *Cash book*

- (c) Complete the following table by inserting the amounts to be shown in the financial statements. Show your workings in the spaces provided.

| | workings | \$ |
|---|----------|----|
| fixtures and fittings at cost on 31 December 2015 | | |
| fixtures and fittings at cost on 31 December 2016 | | |
| depreciation charge for the year ended 31 December 2015 | | |
| accumulated depreciation at 31 December 2015 | | |
| depreciation charge for the year ended 31 December 2016 | | |
| accumulated depreciation at 31 December 2016 | | |

Answer:

| | workings | \$ |
|---|-----------------------------|--------|
| fixtures and fittings at cost on 31 December 2015 | $42\,600 + 12\,000$ | 54 600 |
| fixtures and fittings at cost on 31 December 2016 | $54\,600 - 10\,000$ | 44 600 |
| depreciation charge for the year ended 31 December 2015 | $(54\,600 \times 10\%)$ | 5 460 |
| accumulated depreciation at 31 December 2015 | $17\,040 + 5\,460$ | 22 500 |
| depreciation charge for the year ended 31 December 2016 | $(44\,600 \times 10\%)$ | 4 460 |
| accumulated depreciation at 31 December 2016 | $22\,500 + 4\,460 - 4\,000$ | 22 960 |

- (d) State the double entry needed to record the depreciation charge for the year ended 31 December 2015.

| debit entry | credit entry |
|-------------|--------------|
| | |

Answer:

| debit entry | credit entry |
|-------------------------|--|
| <i>income statement</i> | <i>provision for depreciation of fixtures and fittings account</i> |

(e) State the double entry needed to eliminate the accumulated depreciation on the fixtures and fittings sold on 1 August 2016.

| debit entry | credit entry |
|-------------|--------------|
| | |

Answer:

| debit entry | credit entry |
|--|-------------------------|
| <i>provision for depreciation of fixtures and fittings account</i> | <i>disposal account</i> |

(f) Name one method of depreciation, other than the straight line (equal instalment) method, and explain how it is calculated.

Name of method

Method of calculation

.....

.....

Answer: *Reducing (diminishing) balance method.*

Annual percentage rate is applied to the net book value of the asset.

OR

Revaluation method.

The difference between the opening and closing valuations is taken and adjusted for any purchases or disposals.

Additional information

Bayani also bought a motor vehicle. The costs relating to the purchase were as follows:

| | |
|----------------------|--------|
| | \$ |
| cost of vehicle | 17 200 |
| number plates | 120 |
| fuel | 80 |
| insurance of vehicle | 450 |

REQUIRED

(g) Complete the following table, indicating with a tick (3) whether each item is a capital expenditure or a revenue expenditure.

| | capital expenditure | revenue expenditure |
|----------------------|---------------------|---------------------|
| cost of vehicle | | |
| number plates | | |
| fuel | | |
| insurance of vehicle | | |

Answer:

| | capital expenditure | revenue expenditure |
|----------------------|---------------------|---------------------|
| cost of vehicle | ✓ | |
| number plates | ✓ | |
| fuel | | ✓ |
| insurance of vehicle | | ✓ |

(h) Give one example of a capital receipt.

.....

Answer: *Capital introduced*
Receipt of loan
Proceeds of sale of non-current asset

13 Dipak is a manufacturer. His financial year ends on 30 November. Dipak depreciates all his non-current assets at the end of each year.

REQUIRED

(a) Explain how providing for depreciation of non-current assets is an application of the principle of prudence.

.....

.....

.....

.....

Answer: *Ensures that the profit for the year is not overstated in the income statement.*
Ensures that the non-current assets are not overstated in the statement of financial position.

Dipak depreciates his motor vehicles using the reducing (diminishing) balance method at 20% per annum on all motor vehicles held at the end of each financial year. No depreciation is charged in the year of disposal.

On 1 December 2015 Dipak owned motor vehicle A, which had cost \$40 000 and had been depreciated by \$14 400.

On 1 August 2016 Dipak purchased motor vehicle B on credit from ZY Motors for \$50 000.

REQUIRED

(b) Prepare a journal entry to record the purchase of motor vehicle B. A narrative is not required.

Dipak
Journal

| | Debit \$ | Credit \$ |
|-------|-------------|--------------|
| | | |
| | | |
| | | |

Answer:

Dipak
Journal

| | Debit \$ | Credit \$ |
|----------------|-------------|--------------|
| Motor vehicles | 50 000 | |
| ZY Motors | | 50 000 |

(c) Calculate the depreciation on motor vehicle A for each of the two years ended 30 November 2016 and 30 November 2017.

.....

.....

.....

.....

.....

.....

Answer:

| | |
|--|---------------|
| | \$ |
| Cost | 40 000 |
| Depreciation to 30 November 2015 | 14 400 |
| Book value at 30 November 2015 | <u>25 600</u> |
| Depreciation for the year ended 30 November 2016 | 5 120 |
| Book value at 30 November 2016 | <u>20 480</u> |
| Depreciation for the year ended 30 November 2017 | <u>4 096</u> |

(d) Calculate the depreciation on motor vehicle B for each of the two years ended 30 November 2016 and 30 November 2017.

.....

.....

.....

.....

.....

Answer:

| | |
|--|---------------|
| | \$ |
| Cost | 50 000 |
| Depreciation for the year ended 30 November 2016 | 10 000 |
| Book value 30 November 2016 | <u>40 000</u> |
| Depreciation for the year ended 30 November 2017 | <u>8 000</u> |

(e) Prepare a journal entry to record the transfer to the income statement of the total depreciation on motor vehicles for the year ended 30 November 2017.

A narrative is not required.

Dipak
Journal

| | Debit \$ | Credit \$ |
|-------|-------------|--------------|
| | | |
| | | |
| | | |

Dipak sold motor vehicle A on 31 December 2017.

REQUIRED

(f) Calculate the total depreciation provided on motor vehicle A up to the date of disposal.

.....

.....

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.....

Answer:

| | |
|---|---------------|
| | \$ |
| <i>Depreciation to 30 November 2015</i> | 14 400 |
| <i>Depreciation for the year ended 30 November 2016</i> | 5 120 |
| <i>Depreciation for the year ended 30 November 2017</i> | 4 096 |
| | <u>23 616</u> |

(g) Prepare journal entries to record the following:

- 1 the transfer of the original cost of motor vehicle A from the asset account
- 2 the transfer of the accumulated depreciation on motor vehicle A from the provision for depreciation account.

Narratives are required. See next page.



Dipak Journal

| | | Debit \$ | Credit \$ |
|---|-------|-------------|--------------|
| 1 | | | |
| | | | |
| | | | |
| | | | |
| 2 | | | |
| | | | |
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Answer:

Dipak Journal

| | | Debit \$ | Credit \$ |
|---|--|-------------|--------------|
| 1 | <i>Disposal of motor vehicle</i> | 40 000 | |
| | <i>Motor vehicles</i> | | 40 000 |
| | <i>Transferring cost of motor vehicle to disposal account</i> | | |
| 2 | <i>Provision for depreciation of motor vehicles</i> | 23 616 | |
| | <i>Disposal of motor vehicle</i> | | 23 616 |
| | <i>Transferring the accumulated depreciation on motor vehicle sold to the disposal account</i> | | |

14 Jamil started a business on 1 January 2014. He considered using the straight line (equal instalment) method to depreciate all his non-current assets.

REQUIRED

(a) Name one other method Jamil could use to depreciate his non-current assets.

Answer: *Reducing (diminishing) balance method*
Revaluation method

(b) Suggest two reasons why the straight line (equal instalment) method would not be a suitable method of depreciation to apply to the hand tools used in Jamil's factory.

1

.....

2

.....

Answer: *Principle of materiality – not practical/too many items/too difficult/too costly to depreciate each item separately*

Do not depreciate by an equal amount each year.

May be certain amount of loss of tools each year.

Jamil decided to depreciate his office machinery at 20% per annum using the straight line (equal instalment) method calculated on a month-by-month basis from the date of purchase to the date of disposal.

He provided the following information.

| | | |
|------|-----------|---|
| 2014 | January 1 | Purchased office machine A, \$15 000, paying by cheque. |
| 2016 | October 1 | Purchased office machine B, \$18 000, paying by cheque. |
| 2017 | July 1 | Purchased office machine C, \$20 000, on credit from XY Limited. XY Limited agreed to accept office machine A in part exchange at a valuation of \$6000. |

REQUIRED

(c) Calculate the depreciation on office machinery for the year ended 31 December 2016. Show your calculations and insert your answers in the spaces provided. See next page

Calculation of depreciation for the year ended 31 December 2016

| depreciation on office machine A | depreciation on office machine B | total |
|----------------------------------|----------------------------------|----------|
| calculation | calculation | |
| answer \$ | answer \$ | \$ |

Answer:

Calculation of depreciation for the year ended 31 December 2016

| depreciation on office machine A | depreciation on office machine B | total |
|--------------------------------------|--|---------|
| calculation $20\% \times 15\,000$ | calculation $20\% \times 18\,000 \times \frac{3}{12}$ | |
| answer \$3 000 | answer \$900 | \$3 900 |

(d) Calculate the depreciation on office machinery for the year ended 31 December 2017. Show your calculations and insert your answers in the spaces provided.

Calculation of depreciation for the year ended 31 December 2017

| depreciation on office machine A | depreciation on office machine B | depreciation on office machine C | total |
|----------------------------------|----------------------------------|----------------------------------|----------|
| calculation | calculation | calculation | |
| answer \$ | answer \$ | answer \$ | \$ |

Answer:

Calculation of depreciation for the year ended 31 December 2017

| depreciation on office machine A | depreciation on office machine B | depreciation on office machine C | total |
|---|----------------------------------|---|---------|
| calculation | calculation | calculation | |
| $20\% \times 15\,000 \times \frac{6}{12}$ | $20\% \times 18\,000$ | $20\% \times 20\,000 \times \frac{6}{12}$ | |
| answer \$1 500 | answer \$3 600 | answer \$2 000 | \$7 100 |

(e) Prepare the following accounts in the ledger of Jamil for each of the two years ended 31 December 2016 and 31 December 2017.

Balance the accounts and bring down the balances on 1 January 2017 and 1 January 2018.

Jamil
Office machinery account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------------|--------|-------|---------|-------|
| 2016 | | | | | |
| Jan 1 | Balance A b/d | 15 000 | | | |
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Provision for depreciation of office machinery account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|-------|---------------|-------|
| | | | 2016 | | |
| | | | Jan 1 | Balance A b/d | 6 000 |
| | | | | | |
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Answer:

Jamil
Office machinery account

| Date | Details | \$ | Date | Details | \$ |
|--------|---------------|--------|--------|-------------|--------|
| 2016 | | | 2016 | | |
| Jan 1 | Balance A b/d | 15 000 | Dec 31 | Balance c/d | 33 000 |
| Oct 1 | Bank B | 18 000 | | | |
| | | 33 000 | | | 33 000 |
| 2017 | | | 2017 | | |
| Jan 1 | Balance b/d | 33 000 | July 1 | Disposal A | 15 000 |
| July 1 | XY Limited C | 20 000 | Dec 31 | Balance c/d | 38 000 |
| | | 53 000 | | | 53 000 |
| 2018 | | | | | |
| Jan 1 | Balance b/d | 38 000 | | | |

Provision for depreciation of office machinery account

| Date | Details | \$ | Date | Details | \$ |
|----------------|-------------|--------|---------------|------------------|--------|
| 2016 Dec 31 | Balance c/d | 9 900 | 2016 Jan 1 | Balance A b/d | 6 000 |
| | | | Dec 31 | Income statement | 3 900 |
| | | 9 900 | | | 9 900 |
| 2017 July 1 | Disposal A | 10 500 | 2017 Jan 1 | Balance b/d | 9 900 |
| Dec 31 | Balance c/d | 6 500 | Dec 31 | Income statement | 7 100 |
| | | 17 000 | | | 17 000 |
| | | | 2018 Jan 1 | Balance b/d | 6 500 |

(f) Calculate the profit or loss on the disposal of office machine A.

.....

.....

.....

.....

Answer:

| | |
|---|--------------|
| Cost | \$ 15 000 |
| Depreciation to date (6000 + 3000 + 1500) | 10 500 |
| Book value | <u>4 500</u> |
| Proceeds of sale | 6 000 |
| Profit on disposal | <u>1 500</u> |

15 Agatha depreciates her fixtures and fittings at the rate of 10% per annum.

On 1 January 2015 she bought new fixtures and fittings costing \$800. In error she debited the repairs account with the purchase.

What was the effect of this error on the profit for the year ended 31 December 2015?

- A \$720 overstated
- B \$720 understated
- C \$880 overstated
- D \$880 understated

| |
|--------------------------|
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |
| <input type="checkbox"/> |

Answer: B. \$720 understated

16 Mohan is a trader. His financial year ends on 31 December.

Mohan depreciates his motor vehicles at 20% per annum on cost, calculated from the date of purchase.

The following information was available on 1 January 2014.

| | Cost | Accumulated depreciation |
|-----------------|--------|--------------------------|
| | \$ | \$ |
| Motor vehicle A | 12 000 | 7 200 |
| Motor vehicle B | 13 000 | 3 900 |

On 1 July 2014 Motor vehicle C was purchased for \$15 000, by cheque.

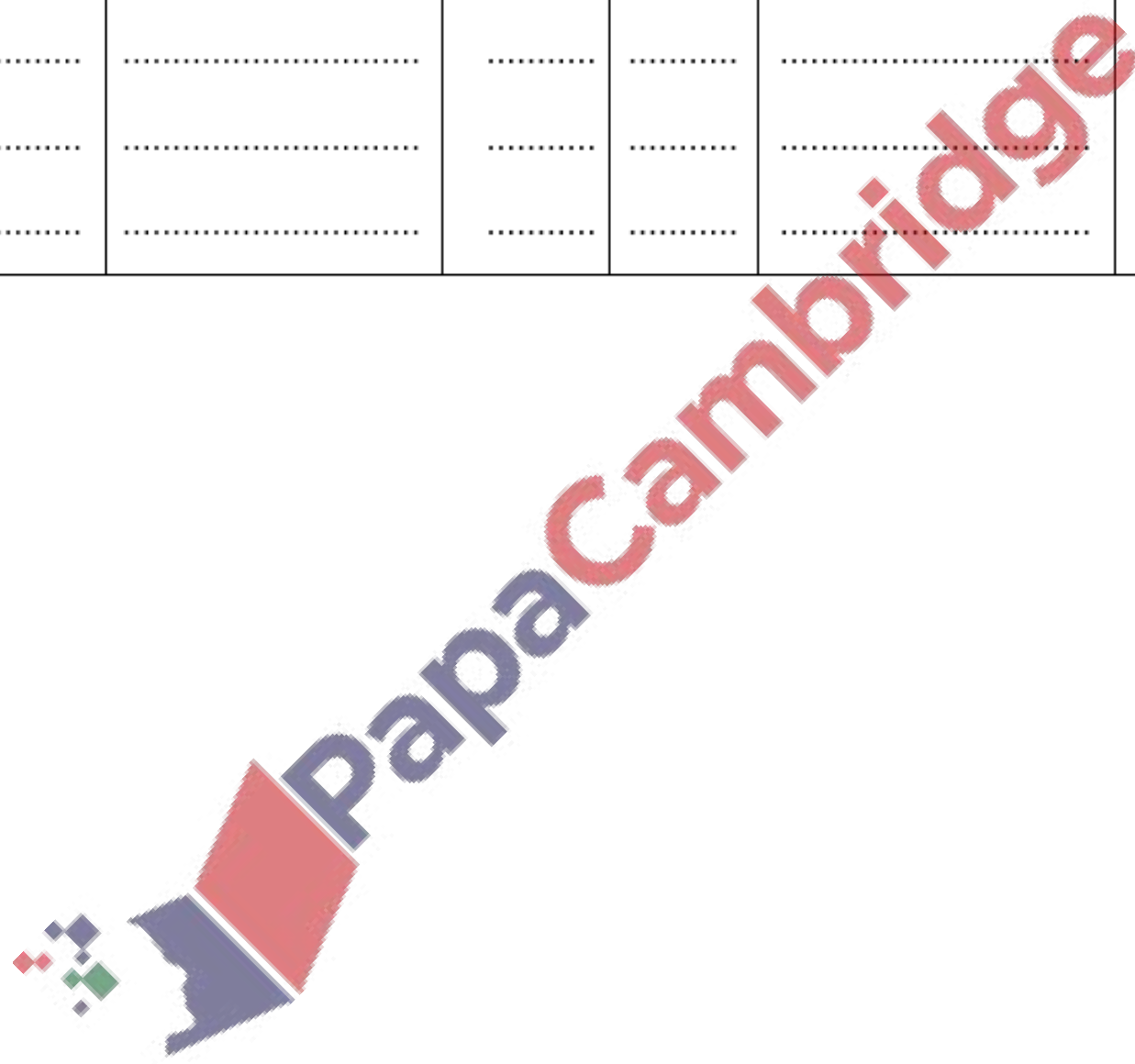
REQUIRED

(a) Prepare the following accounts for each of the two years ended 31 December 2014 and 31 December 2015.

Balance the accounts and bring down the balances on 1 January 2015 and 1 January 2016. See next page.

Mohan
Motor vehicles account

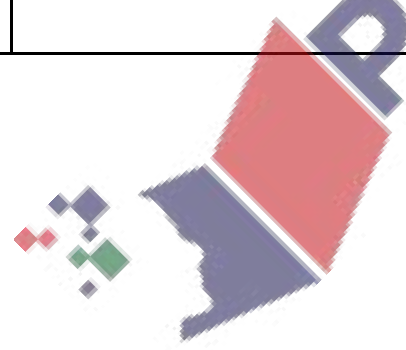
| Date | Details | \$ | Date | Details | \$ |
|---------------|--|--------|-------|---------|-------|
| 2014 Jan 1 | Balance b/d A – 12 000 B – <u>13 000</u> | 25 000 | | | |
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Provision for depreciation of motor vehicles account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|---------------|-----------------|--------|
| | | | 2014 Jan 1 | Balance b/d | |
| | | | | A - 7200 | |
| | | | | B - <u>3900</u> | 11 100 |
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Answer:



| Mohan | | | <u>Motor vehicles account</u> | |
|--------|-------------------|---------------|-------------------------------|---------------|
| \$ | | | \$ | |
| 2014 | | | 2014 | |
| Jan 1 | Balance b/d | | Dec 31 | Balance c/d |
| | A - 12 000 | | | 40 000 |
| | B - <u>13 000</u> | 25 000 | | |
| July 1 | Bank C | 15 000 | | |
| | | <u>40 000</u> | | <u>40 000</u> |
| 2015 | | | 2015 | |
| Jan 1 | Balance b/d | | Dec 31 | Balance c/d |
| | A - 12 000 | | | 40 000 |
| | B - 13 000 | | | |
| | C - <u>15 000</u> | 40 000 | | |
| | | <u>40 000</u> | | <u>40 000</u> |
| 2016 | | | | |
| Jan 1 | Balance b/d | | | |
| | A - 12 000 | | | |
| | B - 13 000 | | | |
| | C - <u>15 000</u> | 40 000 | | |
| | | | | |

Provision for depreciation of motor vehicles
account

| | \$ | | \$ |
|--------------------|---------------|-------------------------|---------------|
| 2014 | | 2014 | |
| Dec 31 Balance c/d | 17 600 | Jan 1 Balance b/d | |
| | | A – 7 200 | |
| | | B – <u>3 900</u> | 11 100 |
| | | Dec 31 Income statement | |
| | | A – 2 400 | |
| | | B – 2 600 | |
| | | C – <u>1 500</u> | 6 500 |
| | <u>17 600</u> | | <u>17 600</u> |
| 2015 | | 2015 | |
| Dec 31 Balance c/d | 25 600 | Jan 1 Balance b/d | |
| | | A – 9 600 | |
| | | B – 6 500 | |
| | | C – <u>1 500</u> | 17 600 |
| | | Dec 31 Income statement | |
| | | A – 2 400} | |
| | | B – 2 600} | |
| | | C – <u>3 000</u> | 8 000 |
| | <u>25 600</u> | | <u>25 600</u> |
| | | 2016 | |
| | | Jan 1 Balance b/d | |
| | | A – 12 000 | |
| | | B – 9 100 | |
| | | C – <u>4 500</u> | 25 600 |

On 1 January 2016 Motor vehicle B was sold for \$2900, cash.

REQUIRED

(b) Calculate the depreciation on Motor vehicle B up to the date of disposal.

.....

.....

.....

Answer: +
$$\begin{array}{r} 3900 \\ 2600 \\ \hline 2600 \\ \hline 9100 \end{array}$$

- (c) Complete the following table to name the ledger accounts to be debited and credited to record the disposal of the motor vehicle.

| | account debited | account credited |
|---|-----------------|------------------|
| transferring the original cost of the motor vehicle from the asset account | | |
| transferring the accumulated depreciation on the motor vehicle from the provision account | | |
| recording the proceeds of sale of the motor vehicle | | |

Answer:

| | account debited | account credited |
|---|---|-----------------------|
| transferring the original cost of the motor vehicle from the asset account | <i>Disposal</i> | <i>Motor vehicles</i> |
| transferring the accumulated depreciation on the motor vehicle from the provision account | <i>Provision for depreciation of motor vehicles</i> | <i>Disposal</i> |
| recording the proceeds of sale of the motor vehicle | <i>Cash</i> | <i>Disposal</i> |

- 17 A club records its equipment at valuation.

How does it calculate its depreciation?

- A** value at start of year – equipment purchased – value at end of year
- B** value at start of year – equipment purchased + value at end of year
- C** value at start of year + equipment purchased – value at end of year
- D** value at start of year + equipment purchased + value at end of year

Answer: C. value at start of year + equipment purchased – value at end of year

- 18 David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of \$12 000 and that profits and losses are to be shared in the ratio 2:1.

The following balances were extracted from the partnership books on 31 March 2016.

| | \$ |
|---|--------------|
| Capital accounts – David | 80 000 |
| – Harold | 25 000 |
| Current accounts – David | 8 100 debit |
| – Harold | 6 200 credit |
| Fixtures and fittings at cost | 37 200 |
| Provision for depreciation of fixtures and fittings | 11 160 |
| Inventory at 1 April 2015 | 36 000 |
| Trade receivables | 7 000 |
| Trade payables | 6 140 |
| Bank | 12 100 debit |
| Sales (Revenue) | 142 000 |
| Purchases | 83 100 |
| Rent | 12 000 |
| Other operating expenses | 11 800 |
| Wages | 16 500 |
| Drawings – David | 32 000 |
| – Harold | 14 700 |

Additional information

- 1 Other operating expenses included \$500 for insurance which was paid in advance at 31 March 2016.
- 2 Inventory on 31 March 2016 amounted to \$26 800.
- 3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.
- 4 All the fixtures and fittings were purchased when the partnership was formed.

REQUIRED

- (a) Calculate how many years' depreciation had been charged.

.....

.....

.....

.....

Answer: Annual depreciation \$3720

$$11\ 160 / 3720 = 3 \text{ years}$$

(b) Prepare the income statement for the year ended 31 March 2016.

| | \$ | \$ |
|-------|----|----|
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Answer:

David and Harold
Income Statement for the year ended 31 March 2016

| | | |
|----------------------------|---------------|---------------|
| | \$ | \$ |
| Revenue (sales) | | 142 000 |
| Inventory at 1 April 2015 | 36 000 | |
| Purchases | <u>83 100</u> | |
| | 119 100 | |
| Inventory at 31 March 2016 | <u>26 800</u> | |
| Cost of sales | | <u>92 300</u> |
| Gross profit | | 49 700 |
| Depreciation | 3 720 | |
| Rent | 12 000 | |
| Wages | 16 500 | |
| Other operating expenses | <u>11 300</u> | |
| | | 43 520 |
| Profit for the year | | <u>6 180</u> |

(c) Prepare the appropriation account for the year ended 31 March 2016.

David and Harold
Appropriation Account for the year ended 31 March 2016

| | | |
|-------|-------|-------|
| | \$ | \$ |
| | | |
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Answer:

David and Harold
Appropriation Account for the year ended 31 March 2016

| | | |
|--------------------------------|---------|-----------------|
| | | \$ |
| Profit for the year | | 6 180 |
| Salary – David | | <u>(12 000)</u> |
| | | (5 820) |
| Share of residual loss – David | (3 880) | |
| – Harold | (1 940) | (5 820) |

19 Virginia depreciates motor vehicles at the rate of 25% per annum using the reducing (diminishing) balance method. She provides a full year's depreciation in the year of purchase and none in the year of disposal. Her accounting year end is 31 December.

She purchased a motor vehicle, cost \$10 000, on 1 April 2013, and sold it on 28 May 2015 for \$7210 cash. On the same date she bought a new motor vehicle for \$17 000, paying by cheque.

REQUIRED

(a) Calculate the depreciation which had been provided on the old motor vehicle at the date of disposal.

.....

.....

.....

.....

Answer:

| | | |
|--------|-----------------------|------|
| | | \$ |
| Year 1 | $10\,000 \times 0.25$ | 2500 |
| Year 2 | 7500×0.25 | 1875 |
| Total | | 4375 |

(b) Prepare the following ledger accounts for the year ended 31 December 2015.

Virginia
Motor vehicles account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
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Provision for depreciation of motor vehicles account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
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Motor vehicle disposal account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
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Answer:

| | | | Virginia Motor vehicle account | | |
|--------|-------------|--------|-----------------------------------|-------------|--------|
| 2015 | | \$ | 2015 | | \$ |
| Jan 1 | Balance b/d | 10 000 | May 28 | Disposal | 10 000 |
| May 28 | Bank | 17 000 | Dec 31 | Balance c/d | 17 000 |
| | | 27 000 | | | 27 000 |
| 2016 | | | | | |
| Jan 1 | Balance b/d | 17 000 | | | |

Provision for depreciation of motor vehicle account

| | | | | | | |
|--------|-------------|------|--|--------|------------------|------|
| 2015 | | \$ | | 2015 | | \$ |
| May 28 | Disposal | 4375 | | Jan 1 | Balance b/d | 4375 |
| Dec 31 | Balance c/d | 4250 | | Dec 31 | Income statement | 4250 |
| | | 8625 | | | | 8625 |
| | | | | 2016 | | |
| | | | | Jan 1 | Balance b/d | 4250 |

Motor vehicle disposal account

| | | | | | | |
|--------|------------------|--------|--|--------|----------------------------|--------|
| 2015 | | \$ | | 2015 | | \$ |
| May 28 | Motor vehicle | 10 000 | | May 28 | Provision for depreciation | 4 375 |
| Dec 31 | Income statement | 1 585 | | | Cash | 7 210 |
| | | 11 585 | | | | 11 585 |

(c) Name the financial statement in which the provision for depreciation appears. State in which section it appears.

Name of financial statement

Section

Answer: *Statement of financial position*
Non-current assets

(d) State how providing depreciation is an application of the accounting principle of accruals (matching).

.....

.....

.....

Answer: *The cost of the non-current asset and the revenues arising from its use are matched in an accounting period.*

OR

The cost of the non-current asset is spread over its useful life.

(e) Name one other accounting principle which is applied when depreciation is provided.

.....

Answer: *Prudence.*

(f) State the type of asset for which the revaluation method of depreciation is suitable.

.....

Answer: *Small items of equipment e.g. loose tools.*

20 Tom's financial year ends on 31 July. He depreciates his non-current assets using the reducing (diminishing) balance method.

REQUIRED

(a) Name one other method of depreciation which Tom could apply.

.....

Answer: *Straight line/fixed instalment
Revaluation*

(b) Explain how providing for depreciation of non-current assets is an application of the principle of accruals (matching).

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Answer: *The loss in value of the non-current asset during the year is set against the revenue for the same period.*

OR

The cost of the non-current asset is spread over the years which benefit from the use of that asset.

(c) Name one other accounting principle which is applied when providing for depreciation of non-current assets.

.....

Answer: *Prudence*

Tom depreciates his machinery using the reducing (diminishing) balance method at 20% per annum on all machinery held at the end of the year. No depreciation is charged in the year of disposal.

On 1 August 2014 he owned one machine (Machine A) which had cost \$3000, and which had been depreciated by \$600.

On 1 January 2015 Tom purchased another machine (Machine B) for \$3500, paying by cheque.

REQUIRED

(d) (i) Calculate the depreciation of Machine A for each of the years ended 31 July 2015 and 31 July 2016.

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| | | |
|----------------|---|-------------|
| Answer: | <i>Machine A</i> | \$ |
| | <i>Cost 1 August 2014</i> | <i>3000</i> |
| | <i>Depreciation to 1 August 2014</i> | <i>600</i> |
| | <i>Book value 1 August 2014</i> | <i>2400</i> |
| | <i>Depreciation for year ended 31 July 2015</i> | <i>480</i> |
| | <i>Book value at 1 August 2015</i> | <i>1920</i> |
| | <i>Depreciation for year ended 31 July 2016</i> | <i>384</i> |
| | <i>Book value at 1 August 2016</i> | <i>1536</i> |

(ii) Calculate the depreciation of Machine B for each of the years ended 31 July 2015 and 31 July 2016.

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Answer:

| | |
|---|------------|
| <i>Machine B</i> | \$ |
| <i>Cost 1 January 2015</i> | 3500 |
| <i>Depreciation for year ended 31 July 2015</i> | <u>700</u> |
| <i>Book value 1 August 2015</i> | 2800 |
| <i>Depreciation for year ended 31 July 2016</i> | <u>560</u> |
| <i>Book value at 1 August 2016</i> | 2240 |

(e) Prepare the following accounts in the ledger of Tom.

(i) Machinery account

Balance the account on 31 July 2015 and bring down the balance on 1 August 2015.

Tom
Machinery account

| Date | Details | \$ | Date | Details | \$ |
|---------------|--------------------|-------|-------|---------|-------|
| 2014 Aug 1 | Balance (A) b/d | 3000 | | | |
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(ii) Provision for depreciation of machinery account

Balance the account at the end of each year and bring down the balance on 1 August 2015 and 1 August 2016.

Tom
Provision for depreciation of machinery account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|---------------|-------------|-------|
| | | | 2014 Aug 1 | Balance b/d | 600 |
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Answer:

Tom
Machinery account

| | | | | | |
|---------------|-----------------|-------------|-----------------|-------------|-------------|
| Date | Details | \$ | Date | Details | \$ |
| 2014 Aug 1 | Balance (A) b/d | 3000 | 2015 July 31 | Balance c/d | 6500 |
| 2015 Jan 1 | Bank (B) | <u>3500</u> | | | <u>6500</u> |
| | | <u>6500</u> | | | |
| 2015 Aug 1 | Balance b/d | 6500 | | | |

Provision for depreciation of machinery account

| Date | Details | \$ | Date | Details | \$ |
|-----------------|-------------|-------------|-----------------|---------------------------------|-------------|
| 2015 July 31 | Balance c/d | 1780 | 2014 Aug 1 | Balance b/d | 600 |
| | | | 2015 July 31 | Income statement (480 + 700) | 1180 |
| | | <u>1780</u> | | | <u>1780</u> |
| 2016 July 31 | Balance c/d | 2724 | 2015 Aug 1 | Balance b/d | 1780 |
| | | | 2016 July 31 | Income statement (384 + 560) | 944 |
| | | <u>2724</u> | | | <u>2724</u> |
| | | | 2016 Aug 1 | Balance b/d | 2724 |

