

Accounting for depreciation and disposal of non-current assets

J11/12/ (11/13 same)

5 Piranha Limited is planning to buy a computer system costing \$4 500 for use in its business.

It estimates the computer system will have a useful life of three years and will have a scrap value of \$750 after that time.

The company decides it will depreciate the computer system on the reducing balance method at the rate of 40% per annum.

REQUIRED

(a) State **two** other methods of calculating depreciation.

- (i)
- (ii) [2]

(b) Calculate the depreciation to be charged on the computer system for **each** of the three years of its useful life. Show your workings for **each** year.

- (i) Year 1.....
.....
.....
- (ii) Year 2.....
.....
.....
- (iii) Year 3.....
.....
..... [9]

(c) Complete the following extract from the company's Statement of Financial Position at the end of the third year.

Piranha Limited
Statement of Financial Position at end of third year (extract)

	Cost	Provision for Depreciation	Net book value	
	\$	\$	\$	
Non-current assets				
Computer system	[3]

- (d) Piranha Limited compared the calculated net book value of the computer system after three years with its expected scrap value after three years, \$750.

State whether you consider the percentage rate the company should be using to calculate the depreciation should be higher or lower. Give a reason for your answer.

.....

[2]

[Total: 22]

J11/22

4 Youssef El Rahman is a business consultant. His financial year ends on 31 March.

Youssef El Rahman depreciates his office equipment by 20% per annum on cost. Depreciation on new office equipment is calculated from the date of purchase. No depreciation is charged in the year of disposal.

REQUIRED

- (a) Name the accounting principle Youssef El Rahman applies when he writes off the same percentage of depreciation each year.

.....[1]

- (b) Explain how depreciation of non-current assets is an application of the accounting principle of prudence.

.....

[2]

- (c) Name **one** other accounting principle which is applied when non-current assets are depreciated.

.....[1]

On 1 April 2010 the balances on Youssef El Rahman’s books included the following:

	\$
Office equipment at cost	7 500
Provision for depreciation of office equipment	4 500

On 1 October 2010 Youssef El Rahman purchased new office equipment, \$3500, by cheque.

On 31 December 2010 Youssef El Rahman sold equipment on credit to AH Company for \$2 000. The equipment had been purchased on 1 April 2008 for \$4 000.

REQUIRED

- (d) Write up the office equipment account, provision for depreciation of office equipment account and office equipment disposal account on the following pages for the year ended 31 March 2011.

Youssef El Rahman
Office equipment account

Date	Details	\$	Date	Details	\$

[5]

Provision for depreciation of office equipment account

Date	Details	\$	Date	Details	\$

[7]

Office equipment disposal account

Date	Details	\$	Date	Details	\$

[4]

[Total: 20]

J12/12

4 Bamber is a manufacturer. He knows that it is important to distinguish between capital expenditure and revenue expenditure.

REQUIRED

(a)(i) Explain the effect on Bamber’s income statement of recording capital expenditure as revenue expenditure.

.....
.....
.....
.....[2]

(ii) Explain the effect on Bamber’s Statement of Financial Position of recording capital expenditure as revenue expenditure.

.....
.....
.....
.....[2]

On 1 April 2011 Bamber bought a new computer for his business costing \$4 800. He also bought a new laser printer costing \$750.

On 1 January 2012 Bamber replaced the hard disk in the computer as the existing one had failed. The cost was \$450.

REQUIRED

(b) In the table below, place a tick (✓) under the most appropriate heading to show whether the item is capital or revenue.

	Capital Expenditure	Revenue expenditure
Purchase of new computer		
Purchase of new laser printer		
Replacement of hard disk in computer		

[3]

Bamber decided to depreciate the capital items using the straight line method. He considered the useful life of the items would be three years and that they would have a total scrap value of \$600 at the end of this time.

REQUIRED

(c)(i) Calculate the depreciation for the year ended 31 March 2012. Show your workings.

.....

 [4]

(ii) Calculate the net book value of the assets at 31 March 2012. Show your workings.

.....

 [2]

When preparing his Statement of Financial Position, Bamber wishes to show his assets in the correct category.

REQUIRED

(d) In the following table, place a tick (✓) under the heading to show the correct category of each asset.

	Non-current tangible asset	Non-current intangible asset	Current asset
Office building			
Motor vehicle			
Goodwill			
Work in progress			

[4]
 [Total: 17]

N12/12

5 Agricola bought a tractor, \$6 400, on 1 January 2010 for use on his farm. The tractor will have a useful life of four years and is expected to have a scrap value of \$800 after that time.

REQUIRED

(a) State **two** methods used to calculate depreciation of a non-current asset.

- 1
- 2[2]

Agricola decided to use the most suitable method to depreciate his tractor.

REQUIRED

(b) Calculate the following. Show your workings.

(i) Depreciation for **each** of the two years ended 31 December 2010 and 31 December 2011.

.....

.....

.....

.....

.....

.....

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.....

.....[3]

(ii) Net book value at 31 December 2011.

.....

.....[2]

(c) Agricola sold the tractor on 1 January 2012 for \$2600. Prepare the disposal account.

Agricola
Disposal of tractor account

Date	Details	\$	Date	Details	\$

[5]

(d)(i) State **one** reason why there was a profit or loss on the sale of Agricola’s tractor.

.....

.....

.....[2]

- (ii) Suggest one way in which a loss on a sale of a non-current asset may be reduced or avoided.

.....

[2]

N12/23

2 Sajeev Kumar opened a retail store on 1 August 2010. On that date he purchased fixtures, \$2 600, paying by cheque. On 1 December 2011 he purchased additional fixtures, \$1 440, on credit from A1 Supplies.

He decided to depreciate the fixtures at 25% per annum using the straight line (equal instalment) method, calculated from the date of purchase. No depreciation is to be charged in the year of disposal.

REQUIRED

- (a) Prepare the following accounts in the ledger of Sajeev Kumar for each of the years ended 31 July 2011 and 31 July 2012:
 (i) Fixtures account
 (ii) Provision for depreciation of fixtures account.

(i) Fixtures account

Date	Details	\$	Date	Details	\$

[3]

(ii) Provision for depreciation of fixtures account

Date	Details	\$	Date	Details	\$

[5]

On 30 September 2012 Sajeev Kumar decided to sell some of the fixtures purchased on 1 August 2010 and to replace them with more modern fixtures. He sold the old fixtures for cash.

He decided to open an account in the ledger to record the disposal of the fixtures.

REQUIRED

- (b) Complete the following table to name the ledger accounts to be debited and credited to record the disposal of the fixtures.

	account to be debited	account to be credited
Transferring the accumulated depreciation on the fixtures from the ledger		
Transferring the original cost of the fixtures from the ledger		
Recording the proceeds of the sale of the fixtures		

[6]

- (c) Explain the difference between capital expenditure and revenue expenditure.

.....

.....

.....

.....[2]

After the preparation of the financial statements for the year ended 31 July 2012 Sajeev Kumar discovered that the premises account has been debited with \$3 000, of which \$300 was for repairs to the premises and \$2 700 was for improvements.

No depreciation is charged on premises.

REQUIRED

- (d) State the effect of the error on **each** of the following. Give a reason for each of your answers. The first one has been completed as an example.

Non-current assets at 31 July 2012

Effect Overstated by \$300
Reason The value shown for premises includes repairs, which is an expense not an asset.

- (i) Profit for the year ended 31 July 2012

Effect

Reason

.....[2]

(ii) Capital employed at 31 July 2012

Effect

Reason

.....[2]

After correcting the above error, Sajeev Kumar compared his results for the year ended 31 July 2012 with those of the previous financial year. He discovered that:

The gross profit as a percentage of revenue had increased.
The net profit as a percentage of revenue had decreased.

REQUIRED

(e)(i) Suggest **one** reason why the gross profit as a percentage of revenue increased.

.....

.....[2]

(ii) Suggest **one** reason why the net profit as a percentage of revenue decreased.

.....

.....[2]

(iii) State whether the efficiency of the business has increased or decreased. Give a reason for your answer.

Increased or decreased

Reason

.....[2]

[Total: 26]

J13/11

5(a) Non-current assets depreciate for a variety of reasons including wear and tear. State three other reasons why assets depreciate.

1

2

3[3]

On 1 January 2011 Youssef bought three machines costing \$9 000 each paying by cheque. They were expected to have a useful life of 4 years and a resale value of \$1 000 each.

Youssef charges depreciation on the straight line basis according to the time the asset is in use in the business.

On 1 July 2012 Youssef sold one machine receiving a cheque for \$5 800.

- (b) Prepare the following ledger accounts for each of the years ended 31 December 2011 and 31 December 2012. Bring down the balances on 1 January 2013.

Machinery account

Date	Details	\$	Date	Details	\$

[4]

Provision for depreciation of machinery account

Date	Details	\$	Date	Details	\$

[7]

- (c) Prepare the disposal account.

Disposal account

Date	Details	\$	Date	Details	\$

[4]

[Total: 18]

N13/11

2(e) Explain the purpose of depreciation.

.....
.....[1]

(f) Athene bought a non-current asset at a cost of \$8000 on 1 January 2011. Calculate its net book value on 31 December 2012 if it is depreciated:

(i) at 20% per annum on the straight line basis

.....
.....
.....
.....
.....
.....[2]

(ii) at 25% per annum on the reducing (diminishing) balance basis.

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.....
.....
.....
.....
.....[2]

(g) State **one** other method of depreciation which Athene could use. Suggest **one** asset which could be depreciated by this method.

Method
Asset[2]

(h) Name the ledger account which a business opens when it sells a non-current asset.

.....[1]

N13/13

3 Samantha runs a delivery company. On 1 January 2012 the business had three delivery vans. The following information is available.

Van	Original cost	Accumulated depreciation at 1 January 2012
	\$	\$
A	20 000	11 562
B	24 000	10 500
C	30 000	13 125

Further information is as follows.

- Delivery vans are depreciated at the rate of 25% per annum on the reducing (diminishing) balance basis. A full year's depreciation is provided in the year of purchase and none in the year of disposal.
- On 1 July 2012 Samantha sold van B.
- On 1 August 2012 Samantha bought van D for \$28 000 from DM Limited. She paid half the cost by cheque. The balance was to be paid to the supplier in 12 months' time.

(a) State how many years' depreciation had been provided on van B at the date of disposal.

.....
 [2]

(b) Complete the ledger account below.

Date	Details	\$	Date	Details	\$
2012			2012		
Jan.1	Balance b/d		July 1		
Aug.1	Bank		Dec.31	Balance c/d	78 000
2013					
Jan.1	Balance b/d	78 000			

[6]

(c) Calculate the depreciation charge for the year ended 31 December 2012 for each delivery van and in total.

Van	Calculation	Depreciation for the year
		\$
A		
B		
C		
D		
Total		

[5]

(d) Prepare the provision for depreciation account for the year ended 31 December 2012.

Provision for depreciation of delivery vans account

Date	Details	\$	Date	Details	\$

[4]

(e) Prepare a Statement of Financial Position extract for delivery vans at 31 December 2012.

	\$	\$

[3]

(f) Name the accounting principle being applied when the same method of depreciation is used every year.

.....[1]

(g) State **three** causes of depreciation.

1.....

2.....

3.....[3]

[Total: 24]

J14/21

3(a)(i) Describe the straight line method of depreciation.

.....

[1]

(ii) State the circumstances when this method of depreciation may be used.

.....
[1]

(b)(i) Describe the reducing (diminishing) balance method of depreciation.

.....
.....
.....[1]

(ii) State the circumstances when this method of depreciation may be used.

.....
.....[1]

(c) State which of the above methods of depreciation would be most appropriate to use for each of the following non-current assets.

- 1 Computer equipment [1]
- 2 Buildings [1]
- 3 Motor vehicle [3]

(d)(i) Describe the revaluation method of depreciation.

.....
.....
.....[1]

(ii) State the circumstances when this method of depreciation may be used.

.....
.....[1]

(iii) Suggest **one** non-current asset which may be depreciated using this method.

.....[1]

Tony Yeo is in business. His financial year ends on 30 April. He depreciates his non-current assets each year.

On 1 May 2013 the balances in Tony Yeo's ledger included the following:

	\$
Equipment at cost	8 600
Provision for depreciation of equipment	3 260

The equipment is being depreciated at 20% per annum using the straight line method, calculated from the date of purchase. No depreciation is to be charged in the year of disposal.

On 31 October 2013 equipment which had cost \$2 000 on 1 May 2011 was sold for \$750 cash.

On 1 November 2013 equipment costing \$3400 was purchased on credit from New2You.

REQUIRED

- (e) Write up the following accounts in the ledger of Tony Yeo for the year ended 30 April 2014. Balance the accounts where necessary and bring the balances down on 1 May 2014.

Tony Yeo
Equipment account

Date	Details	\$	Date	Details	\$

[3]

Provision for depreciation of equipment account

Date	Details	\$	Date	Details	\$

[5]

Disposal of equipment account

Date	Details	\$	Date	Details	\$

[4]

[Total: 22]

N14/13

5 Ajith has a financial year end of 31 December. He provided the following information at 1 January 2013.

	\$
Fixtures and fittings at cost	31 200
Accumulated depreciation	9 702

Ajith depreciates his fixtures and fittings at the rate of 20% per annum on the reducing (diminishing) balance basis. He provides a full year's depreciation in the year of purchase and none in the year of disposal.

On 1 June 2013 he sold some fixtures and fittings which had cost \$1 200 when bought on 15 May 2011. He received a cheque for \$600 in settlement.

On 1 August 2013 he bought new fixtures and fittings, \$2 500, paying in cash.

REQUIRED

(a) Calculate the accumulated depreciation provided on the fixtures and fittings sold on 1 June 2013.

.....

.....

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.....

.....

..... [3]

(b) Prepare the following ledger accounts for the year ended 31 December 2013. Where necessary balance the account and bring down the balance on 1 January 2014.

Fixtures and fittings account

Date	Details	\$	Date	Details	\$

Provision for depreciation account

Date	Details	\$	Date	Details	\$

Disposal account

Date	Details	\$	Date	Details	\$

[15]

(c) Prepare the following extracts from Ajith’s financial statements using your answer to (b).

Ajith
Extract from Income Statement for the year ended 31 December 2013

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.....

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.....

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Ajith
Extract from Statement of Financial Position at 31 December 2013

.....

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.....

.....

.....[4]

[Total: 22]

N15/13

3(b) Explain how a non-current asset differs from a current asset.

.....

.....

.....[2]

(e) Name the account which is opened when a non-current asset is sold.

.....[1]

(f) Name the accounting principle applied when the same rate of depreciation is maintained each year.

.....[1]

N15/22

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

- 1
- 2[2]

(b) Explain the straight line method of depreciation.

.....
.....
.....
.....[2]

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

.....
.....
.....
.....[2]

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

.....
.....
.....
.....[2]

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

.....[1]

On 1 October 2013 Natasha Salim started a business altering and mending clothes. On that date she purchased a machine, \$4 000, 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

- (f) 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.

Natasha Salim
Machinery account

Date	Details	\$	Date	Details	\$

Provision for depreciation of machinery account

Date	Details	\$	Date	Details	\$

[12]

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

.....

.....

.....

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.....

.....

.....

[4]

[Total: 25]

J16/12

- 4 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 \$7 210 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.

.....

[3]

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

Virginia
Motor vehicles account

Date	Details	\$	Date	Details	\$

Provision for depreciation of motor vehicles account

Date	Details	\$	Date	Details	\$

Motor vehicle disposal account

Date	Details	\$	Date	Details	\$

[14]

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

Name of financial statement
 Section[2]

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

.....

[2]

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

.....[1]

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

.....[1]

[Total: 23]

N16/12

4 Grindle is a trader. He provided the following information for his business.

1 Fixtures and fittings at cost were:

	\$
1 January 2015	17 200
31 December 2015	17 600

2 On 1 March 2015 new fixtures and fittings, cost \$3 600, were bought on credit from Bill.

3 On 1 August 2015 some fixtures and fittings, which were bought in 2014, were sold.

REQUIRED

(a) Prepare the fixtures and fittings account for the year ended 31 December 2015. Show the transfer to the disposal account. Bring down the balance on 1 January 2016.

Grindle
 Fixtures and fittings account

Date	Details	\$	Date	Details	\$

[6]

Grindle also provided the following information.

Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line (equal instalment) basis. A full year's depreciation is charged in the year of purchase and none in the year of disposal.

REQUIRED

(b) Calculate the depreciation charge for the year ended 31 December 2015.

.....

[2]

(c) Prepare the provision for depreciation of fixtures and fittings account for the year ended 31 December 2015. Bring down the balance on 1 January 2016.

Grindle
 Provision for depreciation of fixtures and fittings account

Date	Details	\$	Date	Details	\$
			2015		
			Jan 1	<i>Balance b/d</i>	5 800

[4]

(d) State whether the purchase of the fixtures and fittings was capital expenditure or revenue expenditure.

.....[1]

(e) State the effect this purchase had on Grindle's capital.

.....[1]

(f) Complete the following table by placing a tick (3) in the correct box to indicate the effect of depreciation charge on Grindle's capital.

Increase	Decrease

[1]

[Total: 15]

N16/13

2 (c) State how a book-keeper records a depreciation charge for the year.

debit entry	credit entry

[2]

N16/23

5 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.

..... [1]

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

.....
.....
.....
..... [2]

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

..... [1]

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 \$3 000, 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.

.....
.....
.....
.....
.....
.....
..... [2]

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

.....

 [2]

- (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	3 000			

- (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 (A) b/d	600

[7]

On 1 October 2016 Tom sold Machine A for \$1640.

REQUIRED

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

.....

.....

.....

..... [4]

[Total: 19]

J17/21

5 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.

Bradley
Delivery vehicles account

Date	Details	\$	Date	Details	\$

Provision for depreciation of delivery vehicles account

Date	Details	\$	Date	Details	\$

[12]

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 C. Narratives are **not** required.

Bradley
Journal

	Debit \$	Credit \$

[6]

N17/11

- 4 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.

.....

[3]

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

.....

.....[3]

(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		

[12]

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

debit entry	credit entry

[2]

(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

[2]

- (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

.....

.....[3]

J18/11

- 2 (d) State **two** causes of depreciation.

1

2[2]

- (e) Complete the following table by writing **either** True or False against **each** statement about depreciation.

	True or False
The depreciation is calculated on the cost price less residual value when the straight line (equal instalment) method is used.	
The percentage rate of depreciation decreases each year when the reducing (diminishing) balance method is used.	
The provision for depreciation of a non-current asset is deducted from the cost price in the statement of financial position.	
A provision for depreciation is a means of providing a fund to purchase a replacement non-current asset.	

[4]

J18/21

- 3 Masuma owns a furniture store. She maintains a full set of accounting records. Her financial year ends on 31 March.

Masuma provided the following information at 31 March 2018.

- On 1 April 2017 Amina, a credit customer, owed \$160. On 1 March 2018 she paid 75% of this and the balance was written off as a Irrecoverable debt.
- On 4 January 2018 additional fixtures and fittings, \$2 000, were purchased on credit from Office Traders, but this transaction was not recorded.
- The fixtures and fittings are depreciated at the rate of 20% per annum on the cost of equipment held at the end of each financial year.
- On 31 March 2018 the discount columns in the cash book showed the following totals for the month:

discount column on debit side \$55

discount column on credit side \$68

These totals had not been transferred to the discount accounts in the ledger.

REQUIRED

- (a) Record this information in the following accounts in Masuma's ledger at 31 March 2018. Some entries have already been made in the accounts during the year. Close all the accounts by balancing or by making a transfer to an appropriate account.

Masuma
Amina account

Date	Details	\$	Date	Details	\$
2017					
April 1	Balance b/d	160			

Irrecoverable debts account

Date	Details	\$	Date	Details	\$
2018					
Feb.28	Total written off	135			

Fixtures and fittings account

Date	Details	\$	Date	Details	\$
2017					
April 1	Balance b/d	4 000			

Provision for depreciation of fixtures and fittings account

Date	Details	\$	Date	Details	\$
			2017		
			April 1	Balance b/d	1 600

Discount allowed account

Date	Details	\$	Date	Details	\$
2018					
Feb.28	Total to date	3 590			

Discount received account

Date	Details	\$	Date	Details	\$
			2018		
			Feb.28	Total to date	4 130

[12]

The following account appeared in Masuma's ledger on 31 March 2018.

Disposal of motor vehicle account

Date	Details	\$	Date	Details	\$
2018			2018		
Feb.1	Motor vehicles	9 500	Feb.1	Prov. for depreciation of motor vehicles	4 636
				M6 Vans	3 500
			Mar.31	Income statement	1 364
		9 500			9 500

REQUIRED

- (b) Explain **each** entry in the disposal of motor vehicle account. Name the account in which the double entry would be made for **each** item. State whether that account would be debited or credited.

February 1 Motor vehicles

Explanation

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Double entry

February 1 Provision for depreciation of motor vehicles

Explanation

Double entry

February 1 M6 Vans

Explanation

Double entry

March 31 Income statement

Explanation

Double entry[8]

J18/22

3 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.

.....[1]

(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

.....[2]

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 \$6 000.

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.

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 \$	\$.....

[2]

(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 \$	\$.....

[3]

- (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			

Provision for depreciation of office machinery account

Date	Details	\$	Date	Details	\$
			2016		
			Jan.1	Balance A b/d	6 000

[11]

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

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.....[4]

[Total: 23]

N18/12

4 Ahmed's brother, Khalid, also has a business. His financial year ends on 31 March.

Khalid provided the following information.

1 April 2017:		\$
Office equipment:		
cost	9 000	
provision for depreciation	3 600	

Khalid provides depreciation on the office equipment at 20% per annum on the straight line (equal instalment) basis. A full year's depreciation is charged in the year of purchase and none in the year of sale.

On 31 March 2018 Khalid sold office equipment which had been purchased on 1 April 2016 at a cost of \$1 500. Sales proceeds, \$1 100, were received by cheque.

On the same day Khalid purchased new office equipment, costing \$2 500.

REQUIRED

(d) Prepare the provision for depreciation account for office equipment for the year ended 31 March 2018. Balance the account and bring down the balance on 1 April 2018.

Khalid
Provision for depreciation account for office equipment

Date	Details	\$	Date	Details	\$

[5]

(e) Prepare the office equipment disposal account.

Khalid
Office equipment disposal account

Date	Details	\$	Date	Details	\$

[4]

- (f) Prepare an extract from Khalid’s statement of financial position at 31 March 2018 to show the office equipment.

Khalid
Extract from Statement of Financial Position at 31 March 2018

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.....
.....
..... [3]

- (g) Name the accounting principle applied when charging depreciation.

..... [1]

J19/12

- 4 Sam’s financial year ends on 31 December.

On 1 November 2017 he sold old office equipment for \$1 900.

The equipment had been purchased on 1 April 2015 for \$4 000 and had been depreciated using the reducing (diminishing) balance method at 20% per annum. A full year’s depreciation was charged in the year of purchase, but no depreciation was to be charged in the year of disposal.

REQUIRED

- (a) Calculate the profit or loss on disposal of the office equipment.

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..... [5]

On 1 January 2018 Sam purchased new office equipment costing \$8 000 on credit from C Limited.

(b) Prepare a journal entry to record this purchase. A narrative **is** required.

Sam
General Journal

Date	Details	Debit \$	Credit \$
2018			

[3]

The new office equipment was expected to be used for 5 years and have a residual value of \$2 000. Sam was undecided about which method of depreciation to use for the new office equipment.

REQUIRED

(c) (i) Calculate the annual depreciation on the new office equipment using the straight-line (equal instalment) method.

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[2]

(ii) Calculate the depreciation for the **first year** on the new office equipment using the reducing (diminishing) balance method at 20% per annum.

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[1]

Sam decided to use the reducing (diminishing) balance method of depreciation.

REQUIRED

- (d) Prepare a journal entry to record the transfer to the income statement of the depreciation on office equipment for the year ended 31 December 2018. A narrative is required.

Sam
General Journal

Date	Details	Debit \$	Credit \$
2018			

[3]

N19/22

- 2 Amelia decided to depreciate her non-current assets using the reducing (diminishing) balance method at the following rates.

- Premises 2% per annum
- Office furniture 20% per annum
- Computer equipment 30% per annum

She decided that no depreciation would be charged in the year of disposal.

REQUIRED

- (b) Name **one** other method of depreciation which Amelia could apply.

..... [1]

- (c) Prepare the following accounts for **each** of the years ended 31 March 2018 and 31 March 2019. Balance the provision for depreciation of computer equipment account and bring down the balance on 1 April 2018 and 1 April 2019.

Amelia
Computer equipment account

Date	Details	\$	Date	Details	\$

Provision for depreciation on computer equipment account

Date	Details	\$	Date	Details	\$

[6]

On 30 September 2019 Amelia sold the office furniture as it was no longer suitable and received \$1 750 in cash.

REQUIRED

(d) Calculate the total depreciation on the office furniture up to the date of disposal.

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..... [3]

(e) Calculate the profit or loss on the disposal of the office furniture.

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..... [4]

N20/21

- 1 Sariah is preparing her financial statements for the year ended 30 September 2020. She provides the following information for fixtures and fittings.

2019

October 1	Fixtures and fittings at cost	\$28 600
	Provision for depreciation of fixtures and fittings	6 185

2020

January 31	Sold fixtures and received a cheque The fixtures had been purchased on 1 February 2018 for \$1 500	1 150
March 31	Purchased new fixtures paying by cheque	3 500

Sariah's policy is to provide depreciation on fixtures and fittings at 10% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase but none in the year of disposal.

REQUIRED

- (b) Prepare the following accounts for the year ended 30 September 2020. Close the accounts by balancing or by making an appropriate year end transfer.

Sariah
Fixtures and fittings account

Date	Details	\$	Date	Details	\$

Provision for depreciation of fixtures and fittings account

Date	Details	\$	Date	Details	\$

Disposal account

Date	Details	\$	Date	Details	\$

[11]
[Total: 15]

J21/21

3 The directors of TC Limited are considering the purchase of various low-value items of office equipment.

REQUIRED

(c) Advise the directors whether or not they should charge depreciation on these items. Justify your answer by providing **two** advantages and **two** disadvantages.

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 [5]