Depreciation
Depreciation is that part of the original cost of a fixed asset that is consumed during its period of use by the business. It needs to be charged to profit and loss every year. The amount charged in a year to profit and loss for depreciation is based upon an estimate of how much of the overall economic usefulness of a fixed asset has been used up in that accounting period.

CAUSES OF DEPRECIATION

There are four causes of depreciation

1) **Physical deterioration**
   - Wear and tear (usage) e.g. Motor Vehicles, Machinery, Fixtures
   - Erosion, rust, rot and decay. E.g. metals, wood in assets

2) **Economic Factors**
   - Obsolescence (Process of becoming out of date) e.g. musical, medical equipment
   - Inadequacy (not up to the required use) e.g. boat, machine

3) **Time factor (due to time)** e.g. lease of building, patents (Amortization)

METHODS OF DEPRECIATION

1) **Straight Line / Cost Method.**

   Straight line method normally used for

   1) Furniture
   2) Fixtures & Fittings
   3) Buildings

Under straight line method, amount of depreciation remains same throughout its useful life.

$$\textbf{Straight line method} = \frac{\textbf{Cost - Scrap value}}{\textbf{Useful life}}$$

OR

$$\textbf{(Cost - Scrap Value) X Rate\%}$$

Cost = Historical cost / Original cost / Purchase price / List price

Scrap value / salvage value / Residual Value

Useful life / estimated life / Life

Advantages of Straight line Method

• It is very simple, easy to understand and apply

• If we are generating equal benefit from a Non-Current Asset each year its cost shall also be spread equally. Straight line is the method which charges equal depreciation

• Asset can be depreciation to scrap value or zero, thus it helps to distribute full depreciable cost over useful life of the asset

• Every year, same amount is charged as depreciation to income statement, this makes comparison of profits of different years easy

• It is suitable for assets whose useful life can be estimated accurately and where the use of the asset is consistent from year to year

Disadvantages of Straight line Method

• This method is based on the unrealistic assumption of same utility of the asset in different accounting periods.

• As the asset gets older, repair and maintenance cost increases, but the depreciation remains the same, therefore increasing overall expense

2) Reducing Balance Method / Diminishing Balance Method:

Reducing Balance normally used for Technological Assets:

1) Machine
2) Equipment / Computers
3) Motor vehicles

Under reducing balance method amount of depreciation decreases year by year.

Reducing balance method = (Cost – Accumulated depreciation) x Rate%

Accumulated depreciation = Total depreciation / Provision for depreciation.

In the early years		***In the later years***
A higher charge for depreciation + A lower charge for repairs and upkeep	will tend to be fairly equal to	A lower charge for depreciation + A higher charge for repairs and upkeep

Advantages of Reducing Balance Method

• Technological assets such as Equipment, Motor Vehicles loose more of its value and utility in early years, therefore it is fair to charge higher depreciation in early years.

• In early years of life low repair and maintenance cost is incurred therefore higher rate of depreciation is charged and vice versa

• As the large proportion of cost is depreciation in early years, loss due to obsolescence gets reduced.

Disadvantages of Reducing Balance Method

• As depreciation is calculated as a percentage of NBV each year, the value of the asset can never be zero

• It is difficult to ascertain a suitable rate of depreciation

3) Revaluation Method

Revaluation method normally used for low cost items such as:

I) Loose tools

2) Laboratory items

3) Crockery

Asset NBV Account (Loose Tools, Crockery etc)

Balance b/d	xxx	Disposal	xxx
Bank / Payable (Addition)	xxx	**Income Statement** (Current Year Depreciation)	**xxx**
		Balance c/d	xxx
	xxx		**xxx**

Shortcut formula

Depreciation = Opening Value + Addition - Disposal - Closing Value

Advantages of Revaluation Method

• A more realistic depreciation expense used is charged to income statement

• Value in statement of financial position is realistic market value

• It is simple and straight forward to use

• Avoids the need for keeping detailed records

Disadvantages of Revaluation Method

• Value of the asset at end of the year is not an objective value rather it is just an opinion by the appraiser

• It produces a different figure for depreciation expense each year even when there is no difference in the use of asset

• To value the asset accurately at end of the year is time consuming

Policies for Charging Depreciation:

1) Charge full year's depreciation in the year of purchase of asset but no depreciation in the year of disposal **(Use when required in question or when dates are not given and no other information is given)**

2) Charge depreciation on Pro-rata / Time proportion basis
(Use when required in question or when dates are given in question)

DOUBLE ENTRY FOR DEPRECIATION

Income statement	xxx	
Provision for depreciation		xxx

(To record the depreciation expenses for the year)

DISPOSAL ENTRIES

1) **To write off cost of an asset**

Disposal account	xxx	
Machine/Vehicle/Equipment		xxx

(To write off an assets account on its disposal)

2. **To write off total depreciation charged from the date of purchase to date of sale.**

Accumulated Dep / Provision for depreciation	xxx	
Disposal Account		xxx

(To write off the total deprecation of the asset sold)

3. **To record the cash or cheque receipt on disposal**

Cash/Bank/Debtor	xxx	
Disposal account		xxx

(To record the cash or cheque received on sale)

4. **To record the Gain or loss on disposal Gain Entry**

Disposal Account	xxx	
Income Statement (Gain)		xxx

(To record the gain on disposal)

Loss Entry

Income Statement (Loss)	xxx	
Disposal Account		xxx

(To record the loss on Disposal)

Asset Account (Equipment / Machine / Vehicle / Building)

Opening balance b/d	xxx	Disposal	xxx
Bank / Liability (Addition)	xxx	Closing balance c/d	xxx
	xxx		**xxx**
Opening balance b/d	xxx		

Provision for Dep / Accumulated Dep (Machine / Vehicle / Building)

Disposal	xxx	Opening balance b/d	xxx
Closing balance c/d	xxx	Income Statement (Current Year Depreciation)	xxx
	xxx		**xxx**
		Opening balance b/d	xxx

Disposal Account

(Machine / Vehicle / Building)	xxx	Provision for Dep / AccDep	xxx
Income Statement (Gain)	xxx	Bank / Cash / Debtor	xxx
	xxx	Income Statement (Loss)	xxx
			xxx

Income Statement (Extract)

Gross Profit	XXX
Add: Other Income	
Gain on Disposal of Asset	XX
	XXX

Less: Expenses

Depreciation Building	XXX	
Depreciation Equipment	XXX	
Loss on Disposal of Asset	XXX	(XXX)
Net Profit		**XXX**

Statement of Financial Position Extract

Non Current Assets	Cost	Accumulated Dep	NBV
Buildings	XXX	(XX)	XX
Equipment	XXX	(XX)	XX
Motor Vehicles	XXX	(XX)	XX
Total Non Current Assets			**XXX**

Depreciation provisions and the replacement of assets
Making a provision for depreciation does not mean that money is invested somewhere to finance the replacement of the asset when it is put out of use. It is simply a bookkeeping entry, and the end result is that lower net profits are shown because the provisions have been charged to the profit and loss account.

Schedule of Non-Current Assets

(To be included in Company Financial Statements – Notes to the Accounts)

	Building	**Motor Vehicles**	**Equipment**	**Total**
	$	$	$	$
Cost				
Balance at 1.Jan.2019	XXX	XXX	XXX	XXXX
Addition	-	XX	XX	XX
Disposal	-	(X)	-	(X)
Balance at 31.Dec.2019	XXX	XXX	XXX	XXXX
Depreciation				
Balance at 1.Jan.2019	XX	XX	XX	XXX
Charge for the year	X	X	X	XX
Disposal	-	(X)	-	(X)
Balance at 31.Dec.2019	XX	XX	XX	XX
Net Book Value				
As at 31.Dec.2019	XX	XX	XX	XX
As at 31.Dec.2018	XX	XX	XX	XX

Q1. ARD Textiles started its operations on 1st Jan 2013. Its transactions relating to Non Current Assets are as follows:

1 Feb 2013 Machine at Cost $100,000
1 Aug 2014 2 Machines each at Cost $35000 from Honda Ltd
1 Sep 2016 It sold the machine which was bought in 2013 for $40000

Depreciation is at the rate of 15% Straight Line

Note: Full year Depreciation is charged in the year of purchase but no depreciation in the year of disposal

Required:
1) Machine Account
2) Provision for Depreciation Account
3) Disposal Account (Stating Gain / Loss on Disposal)
4) Income Statement and Balance sheet extracts

For the year ended 2013, 2014, 2015 and 2016

Now Resolve the question if the Depreciation method would have been 20% Reducing Balance.

Past Paper Questions

Q1. Amirtha commenced business on 1 January 2010. During the first two years of business the following non-current assets were purchased on the dates shown:

Motor vehicles

2010		$
1 January	MV1	26 000
1 July	MV2	18 000
2011		
1 April	MV3	24 000

Equipment

2010		
1 January	EQ1	30 000
2011		
1 January	EQ2	44 000

Amirtha has a policy to depreciate motor vehicles at 20% per annum on cost (straight line method) and equipment at 15% per annum on cost (straight line method), rates being charged for each month of ownership.

REQUIRED

(a) Calculate the total depreciation for each of the years 2010 **and** 2011.

(i) Motor vehicles

(ii) Equipment

Early in 2012, consideration was given to changing to the reducing (diminishing) balance method, with the following rates applying to the balance at the end of each year.

Motor vehicles	25%
Equipment	20%

A full year's depreciation would be charged irrespective of the date of purchase.

REQUIRED

(b) Calculate the total depreciation for **each** of the years 2010 **and** 2011, using the reducing (diminishing) balance method for:

(i) Motor vehicles

(ii) Equipment.

The original profits for the first two years in business were:

2010	$86 000
2011	$94 000

REQUIRED

(c) Prepare a statement to show the revised profits for the years 2010 and 2011, if the reducing (diminishing) balance method had been used.

(d) Explain why it is appropriate to use the reducing (diminishing) balance method for motor vehicles.

Q2. Sarah runs a wholesale business. An extract from her statement of financial position (balance sheet) at 31 December 2009 shows:

Motor vehicles at cost	$371 000
Motor vehicle accumulated depreciation	$130 000

During the financial year ended 31 December 2010 the following transactions took place.

1 A motor vehicle purchased on 1 January 2006 for $9200 was sold on 30 June 2010 for $500.

2 A motor vehicle was purchased on 1 April 2010 for $15 000.

Depreciation is charged at 20% per annum on cost, with the rate being applied for each part of the year. No allowance is made for any residual value.

All motor vehicles held by the company at 31 December 2010 had been purchased within the previous five years.

All transactions are by cheque.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 December 2010.

(i) Motor vehicles account

(ii) Provision for depreciation of motor vehicles account

(iii) Motor vehicle disposal account

(b) Prepare an extract from the statement of financial position (balance sheet) for non-current assets at 31 December 2010.

(c) Explain why businesses provide for depreciation on their non-current assets.

Q3. Depreciation may be thought of as the difference between the cost of an asset and the amount received from it on disposal.

The following extract from the schedule of non-current (fixed) assets applies to the year ended 30 April 2009.

Non-current (fixed) assets	Machinery	Motor vehicles
	$000	$000
Cost at 1 May 2008	4200	3200
Additions during year	1200	800
Disposals during year	(700)	(1000)
Cost at 30 April 2009	4700	3000
Depreciation at 1 May 2008	1560	840
Add charge for year	470	750
Less disposals for year	(520)	(800)
Depreciation at 30 April 2009	1510	790
Net book value at 30 April 2009	3190	2210

During the year ended 30 April 2010 the following took place:

1 New machinery costing $900 000 was purchased on 1 November 2009. Machinery, which had cost $400 000 on 1 July 2005, was sold for $200 000 in December 2009.

2 Three new motor vehicles were purchased on 1 April 2010 for $280 000 **each**. Two motor vehicles, which had been purchased on 1 March 2007, for $200 000 **each**, were taken in part-exchange. The part-exchange allowance for **each** vehicle was $60 000.

3 One vehicle which had been purchased for $360 000 on 31 January 2009 was involved in an accident on 2 December 2009. The insurance company decided that it could not be repaired and gave compensation of $210 000.

Depreciation is charged for the full year on all non-current (fixed) assets held at the year-end, using the straight-line method.

No depreciation is charged on a non-current (fixed) asset in the year of disposal.

Rates of depreciation have remained constant since the business began trading.

REQUIRED

(a) (i) Calculate the profits or losses on disposals during the year ended 30 April 2010.

(ii) Prepare a schedule of non-current (fixed) assets for the year ended 30 April 2010, using the layout given at the beginning of the question.

(b) (i) State **three** causes of depreciation.

(ii) Give an example of a non-current (fixed) asset for which **each** cause given in **(b)(i)** above might be appropriate.

(c) State **four** factors which must be taken into account when deciding how much depreciation to charge.

Q4. SMC Limited is a wholesale business. An extract from their statement of financial position at 31 December 2012 showed:

Non-current Assets			
	$	$	$
Fittings and fixtures	240000	96000	144000
Equipment	60000	18000	42000

SMC Ltd has a policy to depreciate fittings and fixtures at 20% per annum on cost (straight line method) and equipment at 10% per annum on cost. Depreciation is charged for each month of ownership.

No allowance is made for any residual value.

All fittings and fixtures held by the company at the end of the financial year had been purchased within the previous four years. All equipment had been purchased within the previous seven years.

During the year ended 31 December 2013 the following transactions took place:

Purchases

1 January 2013 fittings and fixtures $16000, purchased on credit from Walker.
1 July 2013 equipment $14000, purchased on credit from Arcadia Limited.

Disposals

31 March 2013 equipment (original cost $8000, bought on 1 January 2010) was sold for $6000.

Disposal proceeds were received in full by cheque.

(a) Prepare journal entries to record the following (narratives are not required).

(i) The purchase of the equipment.

(ii) The depreciation charge for fittings and fixtures for the year ended 31 December 2013.

(iii) The depreciation charge for equipment for the year ended 31 December 2013.

(iv) The disposal of equipment.

(b) **(i)** Explain the purposes of the journal.

(ii) State two examples of transactions which would be recorded in the journal, other than the purchase of non-current assets on credit.

Additional information

SMC is considering changing the depreciation method for equipment to reducing balance method.

REQUIRED

(c) **(i)** State an accounting concept which is applied when depreciation is provided.

(ii) Explain the possible reasons why the business is considering this change.

Q5. Helen Ossetia provides the following information for the year ended 31 May 2013.

Non-current assets	Buildings $000	Machinery $000	Motor vehicles $000	Total $000
Cost	2000	2000	700	4700
Accumulated depreciation at 31 May 2013	(120)	(800)	(300)	(1220)
Net Book Value	1880	1200	400	3480
Depreciation charge for the year	40	400	100	540

A full year's depreciation is charged in the year of purchase and no depreciation is charged in the year of disposal.

Buildings and machinery are depreciated using the straight line method.

Motor vehicles are depreciated using the reducing (diminishing) balance method.

REQUIRED

(a) Explain why Helen needs to depreciate her non-current assets.

(b) State **three** causes of depreciation of motor vehicles.

(c) Calculate the rate of depreciation used by Helen at 31 May 2013 to depreciate **each** class of non-current asset.

(d) Explain why machinery is usually depreciated using the straight line method while motor vehicles are usually depreciated using the reducing balance method.

Additional information

During the year ended 31 May 2014:

1 Helen bought new machinery costing $720000 and sold old machinery which had cost $160000. The old machinery had been bought on 1 December 2011.

2 Helen bought a new motor vehicle. She traded in an old vehicle valued at $40000 and paid the balance of $160000, by cheque.

The trade in vehicle had cost $100000 and had a net book value of $60000 at the date of disposal.

3 A new building costing $1000000 was completed during the year.

REQUIRED

(e) Complete the non-current asset schedule below for the year ended 31 May 2014.

	Buildings	Machinery	Motor vehicles	Total
	$000	$000	$000	$000
COST				
Balance at 31 May 2013	2000	2000	700	4700
Additions				
Disposals				
Balance at 31 May 2014				
DEPRECIATION				
Balance at 31 May 2013	120	800	300	1220
Charge for the year				
Disposals				
Balance at 31 May 2014				
NBV at 31 May 2014				
NBV at 31 May 2013	1880	1200	400	3480

[16]

Q6. Businesses depreciate their non-current assets.

REQUIRED

(a) State **two** reasons why a business depreciates its non-current assets.

(b) Explain with examples why a business uses different rates of depreciation for different types of assets.

Additional information

Annette runs a trading business. Her trading year end is 30 June. She provided the following information relating to her non-current assets at 30 June 2014.

	Plant and machinery $	Motor vehicles $
Cost	500 000	300 000
Accumulated depreciation	200 000	100 000

During the year ended 30 June 2014 she provided depreciation of $50 000 on motor vehicles.

Her accounting policy is to depreciate non-current assets as follows:

Plant and machinery at 10% per annum using the straight-line basis
Motor vehicles using the reducing balance basis
A full year's depreciation is charged in the year of purchase
No depreciation is charged in the year of disposal

During the year ended 30 June 2015 Annette purchased new machinery at a cost of $180 000. She sold some old equipment for $38 000. This had cost $40 000 and had been purchased on 1 January 2013.

REQUIRED

(c) Calculate the depreciation charge for the year ended 30 June 2015 in respect of the plant and machinery.

(d) Calculate the rate of depreciation used by Annette for motor vehicles.

Additional information:

Annette is thinking of changing the method of depreciation each year in order to show the highest profit possible.

REQUIRED

(e) Advise Annette whether or not she should do this, giving **two** reasons for your answer.

Q7. On April 2015 ARD motors Limited commenced business as motor vehicle dealers and servicing engineers.

During the following two years the company's transactions included:

1 April 2015 Purchase of workshop machinery at a cost of $34,000 from the CAT Engineering.

1 August 2015 Purchase of breakdown recovery vehicle BRV123 at a cost of $16,000 from Sultan Motors. The vehicle was bought in a damaged condition and required major repairs in the company's workshops.

1 October 2015 Breakdown recovery vehicle BRV123 was fully operational upon leaving the company's workshops. Workshop costs totaled $9,000.

1 January 2016 A fire in the workshop caused some damage to the company's machinery. The repairs were done by the company's own staff at a cost $500. The company's insurers agreed to pay $400 in settlement of the repair claim. When undertaking the fire repairs, additional cost of safety devices were installed on the workshop machinery at a cost of $2400.

1 April 2016 A car AXV623 was transferred from the company's showroom for permanent use by the company's workshop manager in the course of his company duties. The vehicle had a sale a price of $20,000 in the company's showroom. This would have produced a gross profit of 30% on the sale price.

1 July 2016 Breakdown recovery vehicle BRV123 was given in part exchange for a new breakdown vehicle N466TLT whose list price was $32,000 .The deal was completed with a cheque payment of $13,000 to Honda Ltd.

The depreciation policy of the company requires depreciation to be provided on Non Current Assets when fully operational as follows:

On workshop Machinery – At 10% per annum on the reducing balance basis.

On motor vehicles – At 20% per annum on cost.

REQUIRED:

A) Prepare the following ledger accounts in the books of ARD Motors Limited for each of the years ended on **31 March 2016 and 2017:**

1) Workshop Machinery –at cost
2) Workshop Machinery-provision for depreciation
3) Motor vehicles-at cost
4) Motor vehicles-provision for depreciation
5) Motor vehicles-disposal

B) Prepare an extract of the statement of financial position (Balance sheet) as at **31 March 2017** of ARD Motors Limited in respect to Workshop Machinery and Motor Vehicles.

Q8 The following details relate to the fixed assets of Wetherby Traders for the year ended 31 December 2008.

(i) Fixed assets at cost as at 1 January 2008:

	£
Machinery	860 000
Motor vehicles	1 200 000
Office equipment	220 000

(ii) Provision for depreciation as at 1 January 2008:

	£
Machinery	345 000
Motor vehicles	480 000
Office equipment	66 000

(iii) On 1 July 2008 machinery costing £82 000 was purchased and payment made by cheque.

(iv) On 1 December 2008 machinery costing £36 000 was purchased on credit from Rock Machinery Ltd.

(v) On 30 June 2008 motor vehicles which originally cost £30 000 and with a net book value of £12 000 at the date of sale, were sold at a profit of £800. The disposal receipt was paid into the bank account.

(vi) No purchases of motor vehicles took place during the year ended 31 December 2008.

(vii) Depreciation policy:

Machinery	20% per annum on cost, straight line method. The rate being charged for each proportion of the year the machinery is owned. No disposals of machinery took place during the year ended 31 December 2008. All machinery held at 31 December 2008 had been purchased since 2005.
Motor vehicles	25% per annum on cost, straight line method. The rate being charged for each proportion of the year the motor vehicle is owned. All motor vehicles held at 31 December 2008 had been purchased since 2005.
Office equipment	10% per annum on cost, straight line method. No purchases or disposals of office equipment took place during the year ended 31 December 2008. All office equipment held at 31 December 2008 had been purchased since 2004.

REQUIRED

(a) The following ledger accounts of Wetherby Traders for the year ended 31 December 2008, where appropriate showing the balance carried down to the next financial year. Dates are not required.

- **(i)** Machinery. **[4]**
- **(ii)** Provision for Depreciation of Machinery. **[6]**
- **(iii)** Motor Vehicles. **[3]**
- **(iv)** Provision for Depreciation of Motor Vehicles. **[6]**
- **(v)** Disposal of Motor Vehicles. **[4]**
- **(vi)** Office Equipment. **[2]**
- **(vii)** Provision for Depreciation of Office Equipment. **[3]**

(b)* Evaluate the depreciation policies of Wetherby Traders. **[8]**

Total marks [36]

Q9 Jo Parkes started business on 1 May 2008. On that date she purchased the following fixed assets at cost.

	Reference	£
Fixtures and fittings	F1	64000
Motor vehicle	MV1	12000

There were no other purchases or disposals of fixed assets during the first year of trading.

The provision for depreciation as at 1 May 2009 was:

	£
Fixtures and fittings	16000
Motor vehicle	3600

During the **second** year of trading the following transactions took place.

(i) Purchases

		Reference	£
1 May 2009	Fixtures and fittings	F2	10000
1 November 2009	Motor vehicle	MV2	25000

(ii) Disposals

31 October 2009 Motor vehicle (MV1) was sold for £2600

(iii) All transactions took place through the bank account.

(iv) The following depreciation policy was applied in the business.

Fixtures and fittings 25% per annum using the straight line method.

Motor vehicles 30% per annum using the reducing balance method.

Depreciation is applied from the date an asset is purchased until it is sold.

From 1 May 2010 Jo Parkes has decided to classify any repair expenses on the motor vehicles as capital expenditure.

REQUIRED

(a) For Jo Parkes, prepare the following ledger accounts for the second year of trading – the year ended 30 April 2010. Where appropriate, show the closing entries to the final accounts at 30 April 2010.

Dates are not required.

(i) Fixtures and Fittings **[3]**

(ii) Provision for Depreciation of Fixtures and Fittings **[4]**

(iii) Motor Vehicles **[4]**

(iv) Provision for Depreciation of Motor Vehicles **[5]**

(v) Disposal of Motor Vehicles **[6]**

(b)* Evaluate the appropriateness of the methods used for depreciating the fixed assets in Jo Parkes' business. **[8]**

(c) Evaluate the effects on the final accounts of Jo Parkes' decision to classify repair expenses on motor vehicles as capital expenditure. **[4]**

Total marks [34]

Q10. At 1 October 2010 the following information was extracted from the books of Gurung Ltd.

	Machine references	£
Machinery at cost	M1 & M2	15000
Total depreciation to date	M1 & M2	10500

During the financial year ended 30 September 2011 the following transactions took place.

Purchases

Machine reference	Purchase date	Cost £
M3	1 January 2011	8800
M4	1 July 2011	9600

Disposals

Machine reference	Purchase date	Disposal date	Original Cost £	Sale proceeds £
M2	1 July 2005	31 March 2011	8000	4000

All payments and receipts were made by cheque.

Depreciation is charged at 12.5% per annum, using the straight line method with the rate being applied for each part of the year the machinery is owned. All machinery had been purchased in the last seven years. No allowance is made for any residual value.

REQUIRED

(a) The following accounts for the year ended 30 September 2011:

(i) Machinery **[3]**

(ii) Provision for Depreciation of Machinery **[6]**

(iii) Machinery Disposals Account **[6]**

(b) The Profit and Loss Account extract to show the entries relating to the provision for depreciation of machinery and machinery disposals for the year ended 30 September 2011. **[2]**

Q11 K Limited has been trading for many years and prepares financial statements annually to 30 April. It had the following balances at 1 May 2016:

	$	$
Plant and equipment		
at cost	84 695	
provision for depreciation		32 855

On 1 February 2017, the company bought new equipment, $12 785, and the cost of installing this equipment was $1595.

On 31 December 2016 the company sold a motor vehicle which had cost $14 850 on 1 August 2015. The proceeds of $8900 were paid by cheque.

The company's depreciation policy is as follows:

Plant and equipment	20% on cost per annum
Motor vehicles	25% reducing balance per annum

Depreciation is charged on a month-by-month basis.

REQUIRED

(a) **(i)** Calculate the depreciation charge for plant and equipment for the year ended 30 April 2017. Workings **must** be shown.

(ii) Prepare the motor vehicle disposal account for the year ended 30 April 2017. Workings **must** be shown.

(b) Explain **two** accounting concepts which are being applied when depreciation is provided.

Q12 The directors of W Limited have provided the following balances at 1 August 2016:

	Cost	Accumulated depreciation	Net book value
	$	$	$
Motor vehicles	125 000	43 750	81 250

The company policy is to provide depreciation on motor vehicles at 20% per annum using the reducing balance method. Depreciation is charged on a month-by-month basis.

During the year ended 31 July 2017, the following transactions took place:

1 A motor vehicle was purchased on 31 January 2017 at a cost of $28 230.

2 A motor vehicle was sold on 28 February 2017 for $14 600. It had originally been purchased on 30 April 2015 at a cost of $19 500.

3 There were no other additions or disposals of motor vehicles during the year.

REQUIRED

(a) State the double entry required to record the disposal of a non-current asset **before** the profit or loss on disposal is transferred to the income statement (amounts are **not** required).

(b) Prepare the provision for depreciation on motor vehicles account for W Limited for the year ended 31 July 2017 (dates are **not** required).

(c) Calculate the effect on profit for the year of **each** of transactions 1 and 2.