3. Depreciation of Fixed Assets

Senator Transport Ltd prepares its final accounts to the 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% of cost per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account.

On 1/1/2008, Senator Transport Ltd owned the following vehicles:

No. 1 purchased on 1/1/2004 for €60,000
No. 2 purchased on 1/3/2005 for €66,000
No. 3 purchased on 1/10/2006 for €78,000

On 1/4/2008, Vehicle No. 3 was crashed and traded in against a new vehicle costing €72,000. The company received compensation to the value of €52,000 and the cheque paid for the new vehicle was €60,000. On 31/7/2009, Vehicle No. 1 was traded in for €11,000 against a new vehicle costing €84,000. Vehicle No. 1 had a refrigeration unit fitted on 1/1/2006 costing €22,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, with workings, for each of the two years 2008 and 2009:

(a) The Vehicles Account. (6)

(b) The Provision for Depreciation Account. (32)

(c) The Vehicles Disposal Account. (16)

(d) Explain the difference between the straight line method and the diminishing balance method of depreciation. (6)

(60 marks)