

3. Depreciation of Fixed Assets

(60)

(a) **Vehicles a/c** (6)

Date	Details	€	Date	Details	€
1/1/2008	Balance b/d (W1)	226,000 (1)	1/4/2008	Disposal	78,000 (1)
1/4/2008	New Vehicle (No. 4)	72,000 (1)	31/12/2008	Balance c/d	220,000
		<u>298,000</u>			<u>298,000</u>
1/1/2009	Balance b/d	220,000	31/7/2009	Disposal	82,000 (1)
31/7/2009	New Vehicle (No. 5)	84,000 (1)	31/12/2009	Balance c/d	222,000 (1)
		<u>304,000</u>			<u>304,000</u>
1/1/2010	Balance b/d	222,000			

(b) **Provision for Depreciation on Vehicles a/c** (32)

Date	Details	€	Date	Details	€
1/4/2008	Disposal (W5)	*17,550 (2)	1/1/2008	Balance b/d (W2)	91,875 (6)
31/12/2008	Balance c/d	107,550	31/12/2008	Profit & Loss a/c (W3)	33,225 (8)
		<u>125,100</u>		↑(1)	<u>125,100</u>
31/7/2009	Disposal (W6)	*68,675 (2)	1/1/2009	Balance b/d	107,550
31/12/2009	Balance c/d	**72,000 (4)	31/12/2009	Profit & Loss a/c (W4)	33,125 (8)
		<u>140,675</u>		↑(1)	<u>140,675</u>
			1/1/2010	Balance b/d	72,000

\* Accept correct figure only.  
 \*\* Allow student's own figure (2 marks).

(c) **Vehicle Disposal a/c** (16)

Date	Details	€	Date	Details	€
1/4/2008	Vehicles a/c (No. 3)	78,000 (2)	1/4/2008	Depreciation a/c (W5)	**17,550 (2)
31/12/2008	Profit & Loss a/c	*3,550 (1)	1/4/2008	Trade In	12,000 (2)
		<u>81,550</u>	1/4/2008	Bank (Insurance comp.)	52,000 (2)
					<u>81,550</u>
31/7/2009	Vehicles a/c (No. 1)	82,000 (2)	31/7/2009	Depreciation a/c (W6)	**68,675 (2)
		<u>82,000</u>	31/7/2009	Trade In	11,000 (2)
			31/12/2009	Profit & Loss a/c	2,325 (1)
					<u>82,000</u>

\*\* Allow student's own figure.

Workings

W1 Opening balance of Vehicles a/c on 1/1/2008

	€
Vehicle No. 1	60,000
Refrigeration unit	22,000
Vehicle No. 2	66,000
Vehicle No. 3	78,000
	<u>226,000</u>

Vehicle	Cost	2004	2005	2006	2007	2008	2009	Total Dep.
	€	€	€	€	€	€	€	€
No. 1	60,000	9,000	9,000	9,000	9,000 (1)	9,000 (1)	5,250 (2)	50,250 (2)
Refrigeration unit	22,000	–	–	6,600	6,600 (1)	3,300 (2)	1,925 (2)	18,425 (2) (W6)
No. 2	66,000	–	8,250	9,900	9,900 (2)	9,900 (1)	9,900 (1)	
No. 3	78,000	–	–	2,925	11,700 (2)	2,925 (2)	–	17,550 (2) (W5)
No. 4	72,000	–	–	–	–	8,100 (2)	10,800 (1)	
No. 5	84,000	–	–	–	–	–	5,250 (2)	
Total Depreciation			<u>91,875</u>			<u>33,225</u>	<u>33,125</u>	
			(W2)			(W3)	(W4)	



- (d) Explain the difference between the straight line method and the diminishing balance method of depreciation. (2 × 3)

(6)

Straight Line Method

Any 1:

- the total depreciable amount is charged to profits in equal amounts for each year of the expected life of the asset //
- $(\text{Cost of purchase} - \text{Scrap value}) \div \text{Number of years useful life} = \text{Depreciation} // \text{etc.}$

Diminishing Balance Method

Any 1:

- a greater amount of depreciation is charged to profits during the earlier years in the life of the asset and the amount of depreciation declines as the asset gets older //
- the annual percentage depreciation is based on the net book value of the asset // etc.