

3. Depreciation of Fixed Assets

Trans Haulage Ltd prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of **20% of Book Value (reducing balance)** per annum, calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account. (Calculations to the nearest Euro.)

On 01/01/2008, Trans Haulage Ltd owned the following vehicles:

- No. 1 purchased on 01/01/2004 for €40,000
- No. 2 purchased on 01/01/2005 for €50,000
- No. 3 purchased on 01/01/2006 for €60,000

On 01/08/2008, Vehicle No. 1 was traded in for €12,000 against a new vehicle costing €66,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2007 costing €16,000. This refrigeration unit was depreciated at the rate of 40% for the first year and thereafter at the same rate as Vehicle No. 1. On 01/05/2009, Vehicle No. 3 was crashed and traded in against a new vehicle costing €72,000. The company received compensation from the insurance company to the value of €20,000 and the cheque paid for the new vehicle was €61,000.

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. (14)
- (d) (i) Explain what is meant by depreciation. (8)
- (ii) Why does a company charge depreciation in calculating profit? (8)

(60 marks)

4. Creditors Control Account

The Creditors Ledger Control Account of P. Whelan showed the following balances - €54,225 cr and €650 dr on 31/12/2009. These figures did not agree with the Schedule (List) of Creditors' Balances extracted from the creditors ledger on the same date. An examination of the books revealed the following:

- (i) A credit note was received from M. Jones for €215. The only entry made in the books was €251 credited to the creditors account.
- (ii) An invoice received from K. Kelly showing the purchase of goods for €1,500 less trade discount 10% had been entered correctly in the appropriate day book but had not been posted to the personal account.
- (iii) A creditor had charged Whelan interest of €95 on an overdue account. The only entry made in Whelan's books for this interest had been €35 debited to the creditors account. After a complaint by Whelan this charge had been reduced to €55 but this reduction had not been reflected in the books.
- (iv) Discount disallowed by a supplier of €52 had been treated as discount received in the books.
- (v) Cash purchases by Whelan of €900 had been debited to a suppliers account.
- (vi) Whelan had returned goods €840 to a supplier and entered this correctly in the books. A credit note arrived showing a deduction of 10% as a restocking charge. The total amount of this credit note was credited to the creditors account. No other entry was made in the books.

You are required to:

- (a) Prepare the Adjusted Creditors Ledger Control Account. (24)
- (b) Prepare the Adjusted Schedule of Creditors showing the original balance. (28)
- (c) Give reasons why the balance in the Creditors' Control Account may not agree with the balance in the Schedule of Creditors. (8)

(60 marks)