2. **Depreciation of Fixed Assets**

Blue Haulage Ltd prepares its final accounts to 31 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. (Calculations to the nearest Euro.)

On 01/01/2011, Blue Haulage Ltd owned the following vehicles:

No. 1 purchased on 01/01/2007 for €50,000
No. 2 purchased on 01/04/2008 for €60,000
No. 3 purchased on 01/09/2009 for €70,000

On 01/09/2011, Vehicle No. 1 was traded in for €20,000 against a new vehicle costing €75,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2009 costing €15,000. This refrigeration unit was depreciated by 30% for the first two years and thereafter at the same rate as Vehicle No. 1. On 01/04/2012, Vehicle No. 3 was crashed and traded in against a new vehicle costing €86,000. The company received compensation from the insurance company to the value of €25,000 and the Profit and Loss Account at 31/12/2012 showed a profit on disposal of €1,125 for Vehicle No. 3.

You are required to show, with workings, for each of the two years 2011 and 2012:

(a) The Vehicles Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Vehicles Disposal Account. (14)
(d) (i) Why does a company charge depreciation in calculating profit?
(ii) Why would a company choose one method of depreciation over another? (8)

(60 marks)