Question 2

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(a)

Vehicles Account

01/01/2011	Balance b/d (W1)	195,000	[1]	01/09/2011	Disposal	65,000	[1]
01/9/2011	Bank No 4	75,000	[1]	31/12/2011	Balance c/d	205,000	[1]
		270,000				270,000	
01/01/2012	Balance b/d	205,000		01/04/2012	Disposal	70,000	[1]
01/04/2012	Bank No 5	86,000	[1]	31/12/2012	Balance c/d	221,000	
		291,000				291,000	
01/01/2013	Balance B/D	221,000					

(b)

Provision for Depreciation Account

[1]							
01/09/2011	Disposal (W3)	45,500	[4]	01/01/2011	Balance b/d (W2)	77,750	[6]
31/12/2011	Balance c/d	62,000		31/12/2011	Profit & Loss (W4)	29,750	[8]
		107,500				107,500	
[1]							
01/04/2012	Disposal (W5)	27,125	[2]	01/01/2012	Balance b/d	62,000	
31/12/2012	Balance c/d	67,425	[2]	31/12/2012	Profit & Loss (W6)	32,550	[8]
		94,550				94,550	
				01/01/2013	Balance b/d	67,425	

(c)

Disposal of Vehicles Account

01/09/2011	Vehicle No 1	65,000	[1]	Trade-in allowance	20,000	[2]
31/12/2011	Profit & Loss a/c	500	[1]	Provision for Depreciation	45,500	[2]
		65,500			65,500	
01/04/2012	Vehicle No 3	70,000	[1]	Compensation – Insurance	25,000	[2]
31/12/2012	Profit & Loss a/c	1,125	[1]	Bank	19,000	[2]
				Provision for Depreciation	27,125	[2]
		71,125			71,125	

Number	Cost	Dep to 1/1/2011	Dep for 2011	Dep for 2012	Total Dep	
1	50,000	30,000	5,000	-	35,000	
Unit	15,000	9,000	1,500	-	10,500	**45,500 (W3)**
2	60,000	24,750	9,000	9,000		
3	70,000	14,000	10,500	2,625		**27,125 (W5)**
4	75,000		3,750	11,250		
5	86,000		-	9,675		
		77,750 (W2)	**29,750 (W4)**	**32,550 (W6)**		

(W1) 01/01/2011 - Cost Balance [50,000 + 15,000 + 60,000 + 70,000] = **195,000**

(d)

Why make a charge for depreciation [4]
Depreciation is an expense. Failure to include depreciation in the final accounts will result in the profits being overstated and the net assets in the balance sheet will not show a true value.

Why would a company choose one method over another [4]
A method of depreciation is chosen by a company because of its policy on depreciation and ensuring that the consistency concept is applied when preparing accounts.

Straight Line Method is where the same amount of the cost of the asset is written off each year. It is appropriate in the case of an asset that remains in the business over a long period of time and loses value slowly, for example Buildings, (assets that generate profit over many years).

Reducing Balance Method is where a fixed percentage of the value of the asset is written off each year. The amount written off is high in early years and reduces each year until written off. This method is appropriate in the case of an asset which loses most of its value in the years immediately after purchase e.g. vehicles, computer, equipment etc., (assets that become obsolete quickly because of changes in technology).

The general principle of providing depreciation is based on the matching concept.