

Question 2

60

Machinery Account

Date	Details	€	Date	Details	€
01/01/13	Balance W 1	190,000 [1]	01/03/13	Disposal No 1	50,000 [1]
01/03/13	Bank - No 4	<u>60,000</u> [1]	31/12/13	Balance	<u>200,000</u>
		<u>250,000</u>			<u>250,000</u>
01/01/14	Balance	200,000	01/04/14	Disposal No 2	65,000 [1]
01/01/14	Bank	4,000 [1]	31/12/14	Balance	196,400
01/04/14	Bank – No 5	<u>57,400</u> [1]			<u>261,400</u>
		<u>261,400</u>			<u>261,400</u>

Provision for Depreciation Account

[1]	Details	€	Date	Details	€
01/03/13	Disposal No 1 W 5	12,667 [3]	01/01/13	Balance W 2	27,233 [6]
31/12/13	Balance	<u>33,408</u>	31/12/13	Profit & Loss a/c W 3	<u>18,842</u> [7]
		<u>46,075</u>			<u>46,075</u>
01/04/14	Disposal No 2 W 6	15,952 [2]	01/01/14	Balance	33,408
31/12/14	Balance	<u>36,390</u> [4]	31/12/14	Profit & Loss a/c W 4	<u>18,934</u> [8]
		<u>52,342</u>			<u>52,342</u>

Disposal Account

Date	Details	€	Date	Details	€
01/03/13	Machine No 1	50,000 [1]	01/03/13	Insurance	25,000 [2]
			01/03/13	Scrap allowance	500 [2]
			01/03/13	Depreciation	12,667 [2]
			31/12/13	Profit & Loss a/c	<u>11,833</u> [1]
		<u>50,000</u>			<u>50,000</u>
01/04/14	Machine No 2	65,000 [1]	01/04/14	Trade-in allowance	27,500 [2]
			01/04/14	Depreciation	15,952 [2]
			31/12/14	Profit & Loss a/c	<u>21,548</u> [1]
		<u>65,000</u>			<u>65,000</u>

(d)

(i) [4]

Depreciation is an expense. Depreciation is charged so as to write off the cost of the fixed asset over its useful economic life. Failure to include depreciation in the final accounts will result in the profit being overstated and the net worth being overstated in the Balance Sheet and will not show a true and fair view (true value).

(ii) [4]

The factors to be considered when accounting for depreciation are:

- Type of asset
- Estimated life of asset
- Cost of asset
- Scrap value of asset at end of life
- Method of depreciation

Workings: - Depreciation calculations per annum:

No 1.	$€50,000 - €2,500 = €47,500 \times 10\%$	Depreciation	=	€4,750
No 2.	$€65,000 - €3,250 = €61,750 \times 10\%$	Depreciation	=	€6,175
No 3.	$€75,000 - €3,750 = €71,250 \times 10\%$	Depreciation	=	€7,125
No 4.	$€60,000 - €3,000 = €57,000 \times 10\%$	Depreciation	=	€5,700
No 5.	$€57,400 - €2,870 = €54,530 \times 10\%$	Depreciation	=	€5,453
Motor Modification.	$\frac{€4,000 \times 95\%}{8 \text{ years}}$	Depreciation	=	€ 475

Machine	2010	2011	2012	Total at 1/1/2013	2013	2014	Total
1	2,375	4,750	4,750	11,875	792	Nil	12,667 W 5
2		2,058	6,175	8,233	6,175	1,544	15,952 W 6
3			7,125	7,125	7,125	7,125	
Modification				-	-	475	
4				-	4,750	5,700	
5				-		4,090	
Totals	2,375	6,808	18,050	27,233 W 2	18,842 W 3	18,934 W 4	

W1 - Balance in Machinery A/c 01/01/2014	=	€50,000 + €65,000 + €75,000	=	€190,000
Balance in Provision A/c 01/01/2013	=	€2,375 + 6,808 + 18,050	=	€27,233
Cost Machine No 5 - 01/04/201	=	€55,000 + 2,000 + 400	=	€57,400