Q.2 Depreciation of Fixed Assets

	Annual depreciation	To 31/12/2015	2016	2017	Total
50,000	7,500	30,000	7,500	4,375	41,875
22,000	6,600/3,300	16,500	3,300	1,925	21,725
66,000	9,900	28,050	9,900	9,900	
74,000	11,100	13,875	2,775		16,650
86,000	12,900		9,675	12,900	
90,000	13,500			5,625	
		88,425	33,150	34,725	

(a)

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Vehicles Account

Date	Details	Amount	Date	Details	Amount
01/01/2016	Balance b/d	212,000 [2]	01/04/2016	Disposal	74,000 [1]
01/04/2016	Bank & trade-in no. 1	86,000 [1]	31/12/2016	Balance c/d	224,000
		298,000			298,000
01/01/2017	Balance b/d	224,000	31/07/2017	Disposal	72,000 [1]
31/07/2017	Bank no. 1	90,000 [1]	31/12/2017	Balance c/d	242,000
		314,000			314,000
01/01/2018	Balance b/d	242,000			

(b)

Provision for Depreciation Account

Date	Details	Amount	Date	Details	Amount
01/04/2016	Disposal	16,650 [4]	01/01/2016	Balance b/d	88,425 [6]
31/12/2016	Balance c/d	104,925	31/12/2016	P & L	33,150 [7]
		121,575			121,575
31/07/2017	Disposal	63,600 [4]	01/01/2017	Balance b/d	104,925
31/12/2017	Balance c/d	76,050 [3]	31/12/2017	P & L	34,725 [8]
		139,650			139,650
			01/01/2018	Balance b/d	76,050

(c)

Vehicles Disposal Account

Date	Details	Amount	Date	Details	Amount
01/04/2016	Vehicle no. 3	74,000 [1]	01/04/2016	Depreciation	16,650 [2]
31/12/2016	P & L	6,650 [1]		Trade in	21,000 [2]
				Compensation	43,000 [2]
		80,650			80,650
31/07/2017	Vehicle no. 1	72,000 [1]	31/07/2017	Depreciation	63,600 [2]
31/12/2017	P & L	4,600 [1]		Trade in	13,000 [2]
		76,600			76,600

(d) **8**

(i) Deprecation is the measure of loss in value of a fixed asset over its useful economic life as a result of wear and tear, passage of time, obsolescence and extraction. The amount allocated in each accounting period is treated as an expense to be set against revenue in the calculation of profit. Depreciation is an example of the matching concept in practice. The value of the asset is used up in the business (its depreciable amount) is matched to those accounting periods that are expected to benefit from it.

(ii) The 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 assets such as buildings that generate profit over many years.

The straight-line method involves spreading the depreciable amount evenly over the estimated useful life of the asset. Using this method, the depreciation is the same figure each year, which suggests that the asset is being used up at an even rate.

The reducing balance applies a constant percentage to the gradually carrying amount balance so that the amount of depreciation expense diminishes over the useful life of the asset. 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).

It should be noted that relatively few businesses use the reducing balance method and, where it is used, the percentage figure is often an approximation.