Depreciation of Fixed Assets

DUBLIN EXAMINATION BORAD

Depreciation of Fixed Assets

1. Explain the difference between the straight line method and the diminishing balance method of depreciation. (6)

2010

2. Explain the difference between the straight line method and the diminishing balance method of depreciation. (8)

2013

3. Why does a company charge depreciation in calculating profit?
4. Explain why a company would choose one method of depreciation over another. (8)

2018

2010

Explain the difference between the straight line method and the diminishing balance method of depreciation. (6) (2 × 3)

Straight Line Method Any 1

1. the total depreciable amount is charged to profits in equal amounts for each year of the expected life of the asset //
2. (Cost of purchase – Scrap value) ÷ Number of years useful life = Depreciation //

Diminishing Balance Method Any 1:

1. a greater amount of depreciation is charged to profits during the earlier years in the life of the asset and the amount of depreciation declines as the asset gets older //
2. the annual percentage depreciation is based on the net book value of the asset //

2013

Explain the difference between the straight line method and the diminishing balance method of depreciation. (6) (2 × 2)

Straight Line Method Any 2

1. the total depreciable amount is charged to profits in equal amounts for each year of the expected life of the asset //
2. (Cost of purchase – Scrap value) ÷ Number of years useful life = Depreciation //
3. based on a percentage of the cost of the fixed asset
4. an equal amount of depreciation is charged against profits each year

Diminishing Balance Method Any 2

1. a greater amount of depreciation is charged to profits during the earlier years in the life of the asset and the amount of depreciation declines as the asset gets older //

2. the annual percentage depreciation is based on the net book value of the asset //
3. based on a percentage of the net book value of the fixed asset
4. a greater amount of depreciation is charged against profits in the early years and a lesser amount in the later years

2018

Why does a company charge depreciation in calculating profit? (4)

depreciation is an expense (2) – failure to include depreciation in the final accounts will result in the profits being overstated (1) and the net assets in the balance sheet will not show a true value (1)

Explain why a company would choose one method of depreciation over another. (4)

Explanation (2)

– a method of depreciation is chosen by a company because of its policy on depreciation (1) and to ensure that the consistency concept (1) is applied when preparing accounts

Methods of Depreciation (2 × 1)

straight line method

1. this is same amount of the cost of the asset is written off each year (½)
2. appropriate in the case of an asset that remains in the business over a long period of time and loses value slowly, e.g. buildings (assets that generate profit over many years) (½)

reducing balance method

1. This is a fixed percentage of the value of the asset is written off each year;
2. the amount written off is high in early years and reduces each year until written off (½)
3. 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) (½)