2. Depreciation of Fixed Assets

Maple Transport Ltd prepares its final accounts to the 31 December each year. It is company policy to depreciate its vehicles at the rate of **20% 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.

On 01/01/2020 Maple Transport Ltd owned the following vehicles:

No. 1 purchased on 01/01/2017 for €60,000.
No. 2 purchased on 01/10/2018 for €72,000.
No. 3 purchased on 01/01/2019 for €78,000.

On 01/07/2020 vehicle no. 1 was traded in for €8,000 against a new vehicle costing €108,000. Vehicle no. 1 had a refrigeration unit fitted on 01/01/2018 costing €24,000. This refrigeration unit was depreciated at the rate of 30% of cost for the first two years and thereafter at a rate of 20% of cost per annum.

On 01/05/2021 vehicle no. 3 was crashed and traded in against a new vehicle costing €96,000. The company received compensation to the value of €20,000 and the cheque paid for the new vehicle was €75,000.

You are required to show, **with workings**, **for each of the years 2020 and 2021**:

(a) The vehicles account. (6)

(b) The provision for depreciation on vehicles account. (32)

(c) The vehicles disposal account. (14)

(d) (i) Explain why a company charges depreciation in calculating profit.

(ii) List the factors that should be considered when determining the depreciation policy for a particular asset. (8)

(60 marks)