2. **Depreciation of Fixed Assets**

Blue Haulage Ltd prepares its final accounts to 31 December each year. The company's policy is to depreciate its vehicles at the rate of 15% 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. (Calculations to the nearest Euro.)

On 01/01/2011, Blue Haulage Ltd owned the following vehicles:

No. 1 purchased on 01/01/2007 for €50,000
No. 2 purchased on 01/04/2008 for €60,000
No. 3 purchased on 01/09/2009 for €70,000

On 01/09/2011, Vehicle No. 1 was traded in for €20,000 against a new vehicle costing €75,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2009 costing €15,000. This refrigeration unit was depreciated by 30% for the first two years and thereafter at the same rate as Vehicle No. 1. On 01/04/2012, Vehicle No. 3 was crashed and traded in against a new vehicle costing €86,000. The company received compensation from the insurance company to the value of €25,000 and the Profit and Loss Account at 31/12/2012 showed a profit on disposal of €1,125 for Vehicle No. 3.

You are required to show, with workings, for each of the two years 2011 and 2012:

(a) The Vehicles Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Vehicles Disposal Account. (14)
(d) (i) Why does a company charge depreciation in calculating profit?
(ii) Why would a company choose one method of depreciation over another? (8)

(60 marks)

2013 HL

2013

Question 2

60

(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.

L Kelly

3. Depreciation of Fixed Assets

Trans Haulage Ltd prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of ***20% of Book Value*** **(reducing balance)** per annum, calculated from the date of purchase to the date of disposal and to accumulate this depreciation in a Provision for Depreciation Account. (Calculations to the nearest Euro.)

On 01/01/2008, Trans Haulage Ltd owned the following vehicles:

No. 1 purchased on 01/01/2004 for €40,000
No. 2 purchased on 01/01/2005 for €50,000
No. 3 purchased on 01/01/2006 for €60,000

On 01/08/2008, Vehicle No. 1 was traded in for €12,000 against a new vehicle costing €66,000. Vehicle No. 1 had a refrigeration unit fitted on 01/01/2007 costing €16,000. This refrigeration unit was depreciated at the rate of 40% for the first year and thereafter at the same rate as Vehicle No. 1. On 01/05/2009, Vehicle No. 3 was crashed and traded in against a new vehicle costing €72,000. The company received compensation from the insurance company to the value of €20,000 and the cheque paid for the new vehicle was €61,000.

You are required to show, with workings, for each of the two years 2008 and 2009:

(a) The Vehicles Account. (6)
(b) The Provision for Depreciation Account. (32)
(c) The Vehicles Disposal Account. (14)
(d) (i) Explain what is meant by depreciation.
(ii) Why does a company charge depreciation in calculating profit? (8)

(60 marks)

4. Creditors Control Account

The Creditors Ledger Control Account of P. Whelan showed the following balances - €54,225 cr and €650 dr on 31/12/2009. These figures did not agree with the Schedule (List) of Creditors' Balances extracted from the creditors ledger on the same date. An examination of the books revealed the following:

(i) A credit note was received from M. Jones for €215. The only entry made in the books was €251 credited to the creditors account.
(ii) An invoice received from K. Kelly showing the purchase of goods for €1,500 less trade discount 10% had been entered correctly in the appropriate day book but had not been posted to the personal account.
(iii) A creditor had charged Whelan interest of €95 on an overdue account. The only entry made in Whelan's books for this interest had been €35 debited to the creditors account. After a complaint by Whelan this charge had been reduced to €55 but this reduction had not been reflected in the books.
(iv) Discount disallowed by a supplier of €52 had been treated as discount received in the books.
(v) Cash purchases by Whelan of €900 had been debited to a suppliers account.
(vi) Whelan had returned goods €840 to a supplier and entered this correctly in the books. A credit note arrived showing a deduction of 10% as a restocking charge. The total amount of this credit note was credited to the creditors account. No other entry was made in the books.

You are required to:

(a) Prepare the Adjusted Creditors Ledger Control Account. (24)
(b) Prepare the Adjusted Schedule of Creditors showing the original balance. (28)
(c) Give reasons why the balance in the Creditors' Control Account may not agree with the balance in the Schedule of Creditors. (8)

(60 marks)

2010

Question 3

(a)

6

Vehicles Account

1/1/2008	Balance b/d (W1)	166,000 [1]	01/08/2008	Disposal		56,000 [1]
1/8/2008	Bank & trade-in No 4	66,000 [1]	31/12/2008	Balance c/d		176,000
		232,000				232,000
1/1/2009	Balance b/d	176,000	01/05/2009	Disposal		60,000 [1]
1/5/2009	Bank No 5	72,000 [1]	31/12/2009	Balance c/d		188,000 [1]
		248,000				248,000

(b)

32

Provision for Depreciation Account

[1]						
01/08/2008	Disposal (W3)	33,047 [2]	01/01/2008	Balance b/d	(W2)	76,016 [6]
31/12/2008	Balance c/d	64,300	31/12/2008	Profit & Loss	(W4)	21,331 [8]
[1]		97,347				97,347
01/05/2009	Disposal (W5)	31,328 [2]	01/01/2009	Balance b/d		64,300
31/12/2009	Balance c/d	60,816 [4]	31/12/2009	Profit & Loss	(W6)	27,844 [8]
		92,144				92,144
			01/01/2010	Balance b/d		60,816

(c)

14

Disposal of Vehicles Account

01/08/2008	Vehicle No 1	56,000 [1]	01/08/2008	Trade In	12,000 [2]
				Provision for Depreciation	33,047 [2]
			31/12/2008	Profit & Loss	10,953 [1]
		56,000			56,000
01/05/2009	Vehicle No 3	60,000 [1]	01/05/2009	Compensation	20,000 [2]
31/12/2009	Profit & Loss	2,328 [1]		Trade In	11,000 [2]
				Provision for Depreciation	31,328 [2]
		62,328			62,328

(d)

8

(i) Depreciation is the measure of the wearing away or loss in value of a fixed asset as a result of wear and tear, passage of time, obsolescence or extraction [4]

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

Number	Cost	Dep to 1/1/2008	B.V. on 1/1/2008	Dep for 2008	BV. on 1/1/2009	Dep for 2009	Total Dep	
1 Unit	40,000 16,000	23,616 6,400	16,384 9,600	1,911 1,120	- -		25,527 7,520	33,047 **W 3**
2	50,000	24,400	25,600	5,120	20,480	4,096		
3	60,000	21,600	38,400	7,680	30,720	2,048		31,328 **W 5**
4	66,000	-	-	5,500	60,500	12,100		
5	72,000					9,600		
		76,016 **(W2)**		21,331 **(W4)**		27,844 **(W6)**		

(W1) 1/1/2008 Cost Balance 40,000 + 16,000 + 50,000 + 60,000 = **166,000**

2. <u>Creditors Control Account</u>

The Creditors Ledger Control Account of N. Nolan showed the following balances – €62,125 cr and €772 dr on 31/12/2004. These figures did not agree with the Schedule (List) of Creditors' Balances extracted on the same date. An examination of the books revealed the following:

(i) An invoice received from T. Murphy showing the purchase of goods for €1,200 less trade discount 20% had been entered correctly in the appropriate day book but had not been posted to the personal account.

(ii) A credit note was received from a supplier for €277. The only entry made in the books was €27 credited to a creditor's account.

(iii) A creditor had charged Nolan interest of €85 on an overdue account. The only entry made in the books for this interest had been €25 debited to the creditor's account. After a complaint by Nolan this charge had been reduced to €45 but this reduction had not been reflected in the books.

(iv) Cash purchases by N. Nolan of €760 had been debited to a supplier's account.

(v) Nolan had returned goods €480 to a supplier and entered this correctly in the books. However, a credit note arrived showing a deduction of 10% as a restocking charge. The total amount of this credit note was credited to the creditor's account but no other entry was made in the books.

(vi) Discount disallowed by a supplier of €170 had been treated as discount received in the books.

You are required to:

(a) Prepare the Adjusted Creditors Ledger Control Account. (:
(b) Prepare the Adjusted Schedule of Creditors showing the original balance. (
(c) Explain why Creditors' Control Accounts are prepared.

(60 mar

2005

3. **<u>Depreciation of Fixed Assets</u>**

Ace Haulage Ltd. prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% 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 1/1/2003, Ace Haulage Ltd. owned the following vehicles:

No. 1 purchased on 1/1/1999 for €70,000
No. 2 purchased on 1/8/2000 for €80,000
No. 3 purchased on 1/4/2001 for €88,000

On 1/5/2003, Vehicle No. 2 was crashed and traded in against a new vehicle costing €90,000. The company received compensation to the value of €30,000 and the cheque paid for the new vehicle was €75,000. On 1/7/2004, Vehicle No. 1 was traded in for €24,000 against a new vehicle costing €95,000. Vehicle No. 1 had a refrigeration unit fitted on the 1/1/2001 costing €20,000. This refrigeration unit was depreciated at the rate of 30% of cost for the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, with workings, for each of the two years 2003 and 2004:

(a) The Vehicles Account.
(b) The Vehicle Disposal Account. (
(c) The Provision for Depreciation Account. (
(d) What factors are taken into account in arriving at the annual depreciation charge.

(60 mar

Question 3 - solution.

(a) 6

Vehicles Account

01/01/2003	Balance b/d	258,000 ❶	01/05/2003	Disposal	80,000 ❶
01/05/2003	Purchases	90,000 ❶	31/12/2003	Balance b/d	268,000
		348,000			348,000
01/01/2004	Balance b/d	268,000	01/07/2004	Disposal	90,000 ❶
01/07/2004	Purchases	95,000 ❶	31/12/2004	Balance c/d	273,000 ❶
		363,000			363,000
01/01/2005	Balance b/d	273,000			

(b) 16

Disposal of Vehicle Account

01/05/2003	Cost	80,000 ❷	01/05/2003	Provision for Dep	33,000 ❷
				Compensation	30,000 ❷
				Trade In	15,000 ❷
				Loss	2,000 ❶
		80,000			80,000
01/07/2004	Cost	90,000 ❷	01/07/2004	Prov.for Dep.	74,250 ❷
	Profit	8,250 ❶		Trade in	24,000 ❷
		98,250			98,250

(c) 32

Provision for Depreciation Account

01/05/2003	Disposal **W4**	33,000 ❷	01/01/2003	Balance b/d	**W1**	106,100 ❻
31/12/2003	Balance c/d	112,800	31/12/2003	P&L	**W2**	39,700 ❽
		145,800	❶			145,800
01/07/2004	Disposal **W5**	74,250 ❷	01/01/2004	Balance b/d		112,800
31/12/2004	Balance b/d	79,125 ❹	31/12/2004	P&L	**W3**	40,575 ❽
		153,375	❶			153,375
			01/01/2005	Balance b/d		79,125

(d) 6

Cost of asset
Estimated life of asset
Scrap value of asset

Workings

Vehicle No	Cost	Annual dep	Dep to 1/1/2003	Dep for 2003	Dep for 2004	Total dep	
1 Unit	70,000 20,000	10,500	42,000 12,000	10,500 3,000	5,250 1,500	**74,250**	**W 5**
2	80,000	12,000	29,000	4,000	-	**33,000**	**W 4**
3	88,000	13,200	23,100	13,200	13,200		
4	90,000	13,500	-	9,000	13,500		
5	95,000	14,250	-	-	7,125		
			106,100 **W 1**	**39,700** **W 2**	**40,575** **W 3**		

Provision Balance 1/1/2003

Vehicle 1.	42,000	
Unit.	12,000	
Vehicle 2.	29,000	
Vehicle 3.	23,100	
	106,100	**W 1**

Provision for Dep. 2003

Vehicle 1	10,500	
Unit	3,000	
Vehicle 2	4,000	
Vehicle 3	13,200	
Vehicle 4	9,000	
Vehicle 5	Nil	
	39,700	**W 2**

Provision for Dep. 2004

Vehicle 1	5,250	
Unit	1,500	
Vehicle 2	Nil	
Vehicle 3	13,200	
Vehicle 4	13,500	
Vehicle 5	7,125	
	40,575	**W 3**

Disposal vehicle 2

01/01/2003		
Depreciation	29,000	
2003		
Depreciation for	4,000	
	33,000	W 4

Disposal vehicle 1

01/01/2003		
Depreciation - Vehicle	42,000	
Depreciation -Unit	12,000	
2003		
Depreciation -Vehicle	10,500	
Depreciation -Unit	3,000	
2004		
Depreciation -Vehicle	5,250	
Depreciation -Unit	1,500	
	74,250	W 5

2. Depreciation of Fixed Assets

Trench Transport Ltd prepares its final accounts to the 31st December each year. The company's policy is to depreciate its vehicles at the rate of 15% 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 1/1/2000 Trench Transport Ltd owned the following vehicles:
No 1 purchased on 1/1/1996 for €66,000
No 2 purchased on 1/9/1997 for €72,000
No 3 purchased on 1/3/1998 for €78,000

On 1/4/2000 Vehicle No 3 was crashed and traded in against a new vehicle costing € 96,000. The company received compensation to the value of €28,000 and the cheque paid for the new vehicle was €57,000.
On 1/8/2001 Vehicle No 1 was traded in for €12,000 against a new vehicle costing €90,000. Vehicle No 1 had a refrigeration unit fitted on 1/1/1998 costing €16,000. This refrigeration unit was depreciated at the rate of 30% of cost for each of the first two years and thereafter at the rate of 15% of cost per annum.

You are required to show, with workings, for each of the two years 2000 and 2001:

(a) The Vehicles Account (8)
(b) The Provision for Depreciation Account (36)
(c) The Vehicles Disposal Account. (16)

(60 marks)

3. Correction of errors and suspense account

The Trial Balance of J. Townsend, a garage owner, failed to agree on 31/12/2001. The difference was entered in a Suspense Account and the final accounts were prepared which showed a net profit of €29,000.

On checking the books, the following errors and omissions were discovered:

(i) A motor car, purchased on credit from M. Browne, for €12,000, had been entered on the incorrect side of Browne's account and credited as €21,000 in the equipment account.
(ii) Car parts, previously sold on credit for €850, had been returned to Townsend. These returns had been incorrectly entered as €50 on the credit of the equipment account and as €580 on the debit of the purchases account.
(iii) A cheque for €3,000, paid by Townsend out of private bank account for 15 months rent of garage up to 31/3/2002, had not been entered in the books.
(iv) Townsend had returned a motor car, previously purchased on credit from a supplier for €10,500, and had entered this transaction in the relevant ledger accounts incorrectly as €15,100. However, a credit note subsequently arrived from the supplier showing a restocking charge of €400 to cover the cost of the return. The only entry made in respect of this credit note was a credit entry of €10,100 in the creditor's account.
(v) €1,400 received from the sale of an old display cabinet (book value €1,200), which was used by Townsend to store private materials, had not been entered in the books.

You are required to:

(a) Journalise the necessary corrections. (40)
(b) Prepare a Statement showing the correct net profit. (20)

(60 marks)

Question 2

(a) 8

Vehicles Account

1/1/00	Balance b/d	232,000 ❷	1/4/00	Disposal	78,000 ❶
1/4/00	New Vehicle (No 4)	96,000 ❶	31/12/00	Balance	250,000
		328,000			328,000
1/1/01	Balance	250,000	1/8/01	Disposal	82,000 ❷
1/8/01	New vehicle (No 5)	90,000 ❶	31/12/01	Balance	258,000 ❶
		340,000			340,000
1/1/02	Balance b/d	258,000			

(b) 36

Provision for Depreciation on Vehicles Account

1/4/00	Disposal	(W4)	24,375 ❺	1/1/00	Balance b/d	(W1)	95,850 ❼
31/12/00	Balance c/d		108,300	31/12/00	Profit & Loss	(W2)	36,825 ❽
			132,675				132,675
1/8/01	Disposal	(W5)	68,675 ❺	1/1/01	Balance b/d		108,300
31/12/98	Balance c/d		77,625 ❸	31/12/01	Profit & Loss	(W3)	38,000 ❽
			146,300				146,300
				1/1/02	Balance b/d		77,625

(c) 16

Vehicles Disposal Account

1/4/00	Vehicles	78,000 ❷	1/4/00	Depreciation	(W4)	24,375 ❶
	Profit & Loss a/c	13,375 ❶	1/4/00	Trade-in		39,000 ❹
				Bank (Ins. Comp.)		28,000 ❷
		91,375				91,375
1/8/01	Vehicles	82,000 ❷	1/8/01	Depreciation	(W5)	68,675 ❶
				Trade-in		12,000 ❷
			31/12/01	Profit & Loss (Loss)		1,325 ❶
		82,000				82,000

Workings

NO	Cost	Annual dep	Dep to 1/1/2000	Dep for 2000	Dep for 2001	Total dep	
1	66,000 16,000	9,900 2,400	39,600 9,600	9,900 2,400	5,775 1,400	68,675	*W 5*
2	72,000	10,800	25,200	10,800	10,800		
3	78,000	11,700	21,450	2,925		24,375	*W 4*
4	96,000	14,400	-	10,800	14,400		
5	90,000	13,500	-	-	5,625		
			95,850 W 1	36,825 W 2	38,000 W 3		