

Practice Questions

Question 5

Kina Transport Ltd prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of 10% of book value per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in the Provision for Depreciation Account.

On 01/01/2011, Kina Transport Ltd owned the following vehicles:

- A concrete lorry purchased on 01/01/2008 for €40,000
- An articulated lorry purchased on 01/01/2009 for €100,000
- A crane lorry purchased on 01/10/2010 for €120,000

On 01/10/2011, the concrete lorry was traded in against a new vehicle costing €50,000. The concrete lorry had a conveyor costing €60,000 fitted on 01/01/2009. The rate of depreciation for the conveyor was in accordance with the company's agreed depreciation rate of 10% of book value. The trade-in allowance was €40,000.

On 01/05/2012, the articulated lorry was crashed and was traded in against a new vehicle costing €75,000. The company received compensation of €30,000 and the figure paid for the new vehicle was €40,000.

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

- (a) The Vehicles Account
- (b) The Provision for Depreciation Account
- (c) The Disposal Account
- (d) The relevant extracts from the Balance Sheet for the year ended 31/12/2012

Question 6

Lyons Ltd prepares its final accounts to 31st December each year. The company's policy is to depreciate its vehicles at the rate of 10% of book value per annum calculated from the date of purchase to the date of disposal and to accumulate this depreciation in the Provision for Depreciation Account. (Calculations to the nearest Euro.)

On 01/01/2011, Lyons Ltd owned the following vehicles:

- Vehicle A purchased on 01/01/2008 for €88,000
- Vehicle B purchased on 01/07/2009 for €50,000
- Vehicle C purchased on 01/10/2010 for €60,000

On 01/09/2011, Vehicle B was traded in against a new vehicle costing €80,000. The trade-in allowance was €10,000.

On 01/06/2012, Vehicle A was crashed and traded in against a new vehicle costing €60,000. The company received compensation of €25,000 and the figure paid for the new vehicle was €25,000.

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

- (a) The Vehicles Account
- (b) The Provision for Depreciation Account
- (c) The Disposal Account
- (d) The relevant extracts from the Balance Sheet for the year ended 31/12/2012

TIP

When you dispose of an asset, calculate depreciation on disposal.

Question 5 Kina Ltd

Vehicles Account

01/01/11	Balance	320,000	01/11/2011	Disposal	100,000
01/11/11	Bank	50,000			
		<u>370,000</u>	31/12/2011	Balance	270,000
					<u>370,000</u>
01/01/12	Balance	270,000	01/05/2012	Disposal	100,000
01/05/12	Bank	75,000	31/12/2012	Balance	245,000
		<u>345,000</u>			<u>345,000</u>
01/01/13	Balance	245,000			

40,000 + 60,000 = 100,000

Provision For Depreciation Account

01/11/11	Disposal	28,072	01/01/2011	Balance	44,240
31/12/11	Balance	43,050	31/12/2011	P & L	26,882
		<u>71,122</u>			<u>71,122</u>
01/05/12	Disposal	29,530	01/01/2012	Balance	43,050
31/12/12	Balance	36,355	31/12/2012	P & L	22,835
		<u>65,885</u>			<u>65,885</u>
			01/01/2013	Balance	36,355

Disposal Account

01/11/2011	Vehicle	100,000	01/11/2011	Depreciation	28,072
			01/11/2011	Trade In Allowance	40,000
				Loss	31,928
		<u>100,000</u>			<u>100,000</u>

Taking Account – Solutions to Chapter 1 DEPRECIATION

Disposal Account

01/05/2012	Vehicle	100,000	01/05/2012	Depreciation	29,530
			01/05/2012	Trade In Allowance	35,000
			01/05/2012	Compensation	30,000
			01/05/2012	Loss	5,470
		<u>100,000</u>			<u>100,000</u>

	Cost '08	Dep '08	NBV '09	Dep'09	NBV '10	Dep '10	Total Dep
Concrete	40,000	4,000	36,000	3,600	32,400	3,240	10,840
Conveyor			60,000	6,000	54,000	5,400	11,400
Artic			10,000	10,000	90,000	9,000	19,000
Crane					120,000	3,000	3,000
							<u>44,240</u>
	Cost	Dep 01/01/11	NBV 01/01	Dep 11	NBV '12	Dep '12	Disposal
Concrete	40,000	10,840	29,160	2,187			13,027
Conveyor	60,000	11,400	48,600	3,645			15,045
Artic	100,000	19,000	81,000	8,100	7,200	2,430	29,530
Crane	120,000	3,000	117,000	11,700	105,300	10,530	
New Concrete			50,000	1,250	48,750	4,875	
New Artic					75,000	5,000	
				<u>26,882</u>		<u>22,835</u>	

Question 6 Lyons Ltd

Vehicles Account

01/01/2011	Balance	198,000	01/09/2011	Disposal	50,000
01/09/2011	Bank	80,000			
		<u>278,000</u>	31/12/2011	Balance	<u>228,000</u>
					<u>278,000</u>
01/01/2012	Balance	228,000	01/06/2012	Disposal	88,000
01/06/2012	Bank	60,000	31/12/12	Balance	<u>200,000</u>
		<u>288,000</u>			<u>288,000</u>
01/01/2013	Balance	200,000			

Provision For Depreciation Account

01/09/2011	Disposal	10,100	01/01/2011	Balance	32,598
31/12/2011	Balance	<u>40,280</u>	31/12/2011	P & L	<u>17,782</u>
		<u>50,380</u>			<u>50,380</u>
01/06/2012	Disposal	32,669	01/01/2012	Balance	40,280
31/12/12	Balance	<u>26,515</u>	31/12/12	P & L	<u>18,904</u>
		<u>59,184</u>			<u>59,184</u>
				Balance	26,515

Disposal Account Vehicle B

01/09/2011	Vehicle	50,000	01/09/2011	Depreciation	10,100
			01/09/2011	Trade In Allowance	10,000
				Loss	29,900
		<u>50,000</u>			<u>50,000</u>

Taking Account – Solutions to Chapter 1 DEPRECIATION

Disposal Account Vehicle A

01/06/2012	Vehicle	88,000	01/06/2012	Depreciation	32,669
	Profit	4,669	01/06/2012	Trade In Allowance	35,000
		<u>92,699</u>	01/06/2012	Compensation	<u>25,000</u>
					<u>92,669</u>

$60,000 - 25,000 = 35,000$

	Cost '08	Dep '08	NBV '09	Dep'09	NBV '10	Dep '10	Total Dep
A	88,000	8,800	79,200	7,920	71,280	7,128	23,848
B			50,000	2,500	47,500	4,750	7,250
C					60,000	1,500	1,500
							32,598
	Cost	Dep	NBV '11	Dep '11	NBV '12	Dep '12	Disposal Dep
A	88,000	23,848	64,152	6,415	57,737	2,406	32,669
B	50,000	7,250	42,750	2,850			10,100
C	60,000	1,500	58,500	5,850	52,650	5,265	
New D			80,000	2,667	77,333	7,733	
New E					60,000	3,500	
				17,782		18,904	

Theory Questions

- 1 What is depreciation and why is it charged in calculating a company's profit?
- 2 What causes depreciation?
- 3 What factors are taken into account in arriving at the annual depreciation charge?
- 4 Do all assets depreciate?
- 5 Differentiate between the Straight Line method and the Reducing Balance method.
- 6 Calculate the depreciation that should be charged to the company's profits from the following extract:
A van was purchased for €35,000. At the end of five years, its scrap value was worth €5,000. Find the annual depreciation cost per annum.
- 7 What does the Disposal Account calculate?