

IGCSE Accounting Depreciation

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- 1 Peter bought a non-current asset for \$5000 and depreciated it at 10% per annum on the straight line basis. At the end of year 2 he sold it for \$4100.

What was the profit or loss on disposal?

- A \$50 loss
- B \$50 profit
- C \$100 loss
- D \$100 profit

- 2 Safir bought a machine for \$10 000 and depreciated it at the rate of 30% per annum on the reducing (diminishing) balance basis.

What was the net book value at the end of year 2?

- A \$4000
- B \$4900
- C \$5100
- D \$6000

- 3 Why is depreciation provided?

- A to estimate the cost to the business of wear and tear
- B to set aside funds for future repairs to the asset
- C to show market values in the statement of financial position
- D to spread the cost of an asset over its useful life

- 4 On 1 January 2014 Alex had a motor vehicle with an original cost of \$17000 on which depreciation of \$6800 had been provided.

On 1 April 2014 he bought a new vehicle, costing \$24 000. He sold the old one and received a cheque for \$9400.

Alex provides depreciation on motor vehicles at the rate of 40% per annum on the reducing (diminishing) balance basis. He allows a full year's depreciation in the year of purchase and none in the year of disposal.

REQUIRED

- (a) Prepare the following ledger accounts for the year ended 31 December 2014. Balance the account(s) where necessary and bring down the balance(s) on 1 January 2015.

Alex
Provision for depreciation of motor vehicles account

Date	Details	\$	Date	Details	\$
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Motor vehicle disposal account

Date	Details	\$	Date	Details	\$
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- (b) Prepare an extract from the statement of financial position at 31 December 2014 showing the entries for motor vehicles.

Alex
Statement of Financial Position (extract) at 31 December 2014

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(c) Calculate the depreciation which will be provided on the new vehicle in the year ending 31 December 2015.

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(d) Name the two books of prime entry used in preparing the disposal account.

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(e) State the meaning of the term revenue expenditure. Give one example.

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5 (a) State two causes of depreciation of non-current assets.

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(b) Explain the straight line method of depreciation.

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(c) Explain the reducing (diminishing) balance method of depreciation.

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(d) Explain how charging depreciation is an example of the application of the principle of prudence.

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(e) Name one other accounting principle which is applied when charging depreciation.

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8 The directors of the company know that the factory machinery is very old and they are considering replacing it at a cost of \$100 000. They provide the following information.

1 The old machinery was being depreciated at \$6000 per annum. This machinery would be sold at net book value.

2 The new machinery would be depreciated in equal instalments over ten years.

3 The purchase of the new machinery would be financed by a loan on which annual interest of 8% would be paid.

4 The cost of raw material used would decrease by 4% if the new machinery was purchased.

5 Machinery repairs would be reduced by \$9000 a year if the new machinery was purchased.

REQUIRED

(a) Complete the following table to calculate the change in profit for the year if the new machinery was purchased.

Savings	\$
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Less additional costs	
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	<hr/>
Increase/(decrease) in profit	<hr/>

9 Bradley is a wholesaler. His financial year ends on 31 December.

On 1 January 2015 Bradley had a delivery vehicle A which had cost \$35 000 and had been depreciated by \$13 125.

On 1 October 2015 he purchased delivery vehicle B for \$40 000 by cheque.

On 1 July 2016 he purchased delivery vehicle C on credit from XZ Motors for \$28 000.

All the delivery vehicles are depreciated by 25% per annum on cost calculated from the date of purchase.

Factory operatives	297 100	
Factory supervisors	152 000	
Office and sales staff	108 700	
General expenses	160 000	
Premises at cost	366 000	
Factory machinery at cost	250 000	
Office equipment at cost	72 000	
Loose tools at valuation	21 150	
Provision for depreciation 1 February 2016		
Factory machinery		122 000
Office equipment		32 400
Capital 1 February 2016		630 000
Drawings	96 750	
Trade receivables	76 150	
Trade payables		41 500
Interest-free short term loan		50 000
Bank overdraft		32 100
	<u>2 171 250</u>	<u>2 171 250</u>

The following additional information is available.

- | | | | |
|---|----------------------|---------------------|--------|
| 1 | At 31 January | | \$ |
| | inventory | raw materials | 41 100 |
| | | work in progress | 31 250 |
| | | finished goods | 59 100 |
| | wages accrued | factory supervisors | 12 000 |
| | | office staff | 4 300 |
| | value of loose tools | | 19 050 |
- The factory machinery is being depreciated at 20% per annum on the reducing (diminishing) balance method.
 - The office equipment is being depreciated at 15% per annum on the straight line (equal instalment) method.
 - The loose tools are revalued at the end of each financial year.
 - The general expenses are to be apportioned 3/5 to the factory and 2/5 to the office.

REQUIRED

- (a)** Select the relevant figures and prepare the manufacturing account for the year ended 31 January 2017.

11 Sonia started her business on 1 January 2015. She decided on the following depreciation policy.

Motor vehicles were to be depreciated at the rate of 25% per annum using the reducing (diminishing) balance method.

Equipment was to be depreciated at the rate of 10% per annum using the straight line (equal instalment) method.

A full year's depreciation was to be provided in the year of purchase.

Sonia provided the following information about her purchases of assets.

	in the year ended 31 December 2015	in the year ended 31 December 2016
	\$	\$
motor vehicle A	30 000	
motor vehicle B		20 000
equipment	28 000	18 000

REQUIRED

(a) Complete the following table. Indicate with a tick (✓) in which column of a trial balance each ledger account balance would appear.

	debit column	credit column
equipment		
provision for depreciation of equipment		

(b) Complete the following table showing the depreciation charges, the accumulated depreciation and the net book values of the different assets on the dates shown. A space is provided for your workings. See next page.

	motor vehicle A	motor vehicle B	equipment
	\$	\$	\$
depreciation charge for the year ended 31 December 2015			
net book value at 31 December 2015			
depreciation charge for the year ended 31 December 2016			
accumulated depreciation at 31 December 2016			
net book value at 31 December 2016			
workings			

(c) Prepare the extract from the statement of financial position at 31 December 2016 showing full details of the value of motor vehicles and equipment.

Sonia

Statement of Financial Position (extract) at 31 December 2016

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(d) Name the section of the statement of financial position where motor vehicles and equipment appear.

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12 Bayani depreciates his fixtures and fittings using the straight line (equal instalment) method of depreciation. He provides a full year's depreciation in the year of purchase and none in the year of disposal. He provided the following information.

	fixtures and fittings	
	cost	accumulated depreciation
	\$	\$
at 31 December 2013	42 600	12 780
at 31 December 2014	42 600	17 040

There were no additions or disposals during the year ended 31 December 2014.

REQUIRED

(a) Calculate the rate of depreciation Bayani is applying.

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Additional information

On 1 May 2015 Bayani bought new fixtures and fittings, cost \$12 000, paying by cheque.

On 1 August 2016 he sold old fixtures and fittings, which had cost \$10 000 and on which four years' depreciation had been provided. The purchaser paid Bayani in cash.

REQUIRED

(b) Name the books of prime (original) entry used on 1 May 2015 and 1 August 2016.

1 May 2015

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1 August 2016

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- (c)** Complete the following table by inserting the amounts to be shown in the financial statements. Show your workings in the spaces provided.

	workings	\$
fixtures and fittings at cost on 31 December 2015		
fixtures and fittings at cost on 31 December 2016		
depreciation charge for the year ended 31 December 2015		
accumulated depreciation at 31 December 2015		
depreciation charge for the year ended 31 December 2016		
accumulated depreciation at 31 December 2016		

- (d)** State the double entry needed to record the depreciation charge for the year ended 31 December 2015.

debit entry	credit entry

- (e)** State the double entry needed to eliminate the accumulated depreciation on the fixtures and fittings sold on 1 August 2016.

debit entry	credit entry

(f) Name one method of depreciation, other than the straight line (equal instalment) method, and explain how it is calculated.

Name of method

Method of calculation

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Additional information

Bayani also bought a motor vehicle. The costs relating to the purchase were as follows:

	\$
cost of vehicle	17 200
number plates	120
fuel	80
insurance of vehicle	450

REQUIRED

(g) Complete the following table, indicating with a tick (✓) whether each item is a capital expenditure or a revenue expenditure.

	capital expenditure	revenue expenditure
cost of vehicle		
number plates		
fuel		
insurance of vehicle		

(h) Give one example of a capital receipt.

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13 Dipak is a manufacturer. His financial year ends on 30 November. Dipak depreciates all his non-current assets at the end of each year.

REQUIRED

(a) Explain how providing for depreciation of non-current assets is an application of the principle of prudence.

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Dipak depreciates his motor vehicles using the reducing (diminishing) balance method at 20% per annum on all motor vehicles held at the end of each financial year. No depreciation is charged in the year of disposal.

On 1 December 2015 Dipak owned motor vehicle A, which had cost \$40 000 and had been depreciated by \$14 400.

On 1 August 2016 Dipak purchased motor vehicle B on credit from ZY Motors for \$50 000.

REQUIRED

(b) Prepare a journal entry to record the purchase of motor vehicle B. A narrative is not required.

Dipak
Journal

	Debit \$	Credit \$
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(c) Calculate the depreciation on motor vehicle A for each of the two years ended 30 November 2016 and 30 November 2017.

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(d) Calculate the depreciation on motor vehicle B for each of the two years ended 30 November 2016 and 30 November 2017.

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(e) Prepare a journal entry to record the transfer to the income statement of the total depreciation on motor vehicles for the year ended 30 November 2017.

A narrative is not required.

Dipak
Journal

	Debit \$	Credit \$
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Dipak sold motor vehicle A on 31 December 2017.

REQUIRED

(f) Calculate the total depreciation provided on motor vehicle A up to the date of disposal.

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(g) Prepare journal entries to record the following:

1 the transfer of the original cost of motor vehicle A from the asset account

2 the transfer of the accumulated depreciation on motor vehicle A from the provision for depreciation account.

Narratives are required.

Dipak Journal

		Debit \$	Credit \$
1
2

- 14 Jamil started a business on 1 January 2014. He considered using the straight line (equal instalment) method to depreciate all his non-current assets.

REQUIRED

- (a) Name one other method Jamil could use to depreciate his non-current assets.

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- (b) Suggest two reasons why the straight line (equal instalment) method would not be a suitable method of depreciation to apply to the hand tools used in Jamil's factory.

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Jamil decided to depreciate his office machinery at 20% per annum using the straight line (equal instalment) method calculated on a month-by-month basis from the date of purchase to the date of disposal.

He provided the following information.

2014	January 1	Purchased office machine A, \$15 000, paying by cheque.
2016	October 1	Purchased office machine B, \$18 000, paying by cheque.
2017	July 1	Purchased office machine C, \$20 000, on credit from XY Limited. XY Limited agreed to accept office machine A in part exchange at a valuation of \$6000.

REQUIRED

- (c) Calculate the depreciation on office machinery for the year ended 31 December 2016. Show your calculations and insert your answers in the spaces provided. See next page

Calculation of depreciation for the year ended 31 December 2016

depreciation on office machine A	depreciation on office machine B	total
calculation	calculation	
answer \$	answer \$	\$

(d) Calculate the depreciation on office machinery for the year ended 31 December 2017. Show your calculations and insert your answers in the spaces provided.

Calculation of depreciation for the year ended 31 December 2017

depreciation on office machine A	depreciation on office machine B	depreciation on office machine C	total
calculation	calculation	calculation	
answer \$	answer \$	answer \$	\$

15 Agatha depreciates her fixtures and fittings at the rate of 10% per annum.

On 1 January 2015 she bought new fixtures and fittings costing \$800. In error she debited the repairs account with the purchase.

What was the effect of this error on the profit for the year ended 31 December 2015?

- A \$720 overstated
- B \$720 understated
- C \$880 overstated
- D \$880 understated

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16 Mohan is a trader. His financial year ends on 31 December.

Mohan depreciates his motor vehicles at 20% per annum on cost, calculated from the date of purchase.

The following information was available on 1 January 2014.

	Cost	Accumulated depreciation
	\$	\$
Motor vehicle A	12 000	7 200
Motor vehicle B	13 000	3 900

On 1 July 2014 Motor vehicle C was purchased for \$15 000, by cheque.

REQUIRED

(a) Prepare the following accounts for each of the two years ended 31 December 2014 and 31 December 2015.

Balance the accounts and bring down the balances on 1 January 2015 and 1 January 2016. See next page.

Mohan
Motor vehicles account

Date	Details	\$	Date	Details	\$
2014 Jan 1	Balance b/d A – 12 000 B – <u>13 000</u>	25 000
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On 1 January 2016 Motor vehicle B was sold for \$2900, cash.

REQUIRED

(b) Calculate the depreciation on Motor vehicle B up to the date of disposal.

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(c) Complete the following table to name the ledger accounts to be debited and credited to record the disposal of the motor vehicle.

	account debited	account credited
transferring the original cost of the motor vehicle from the asset account		
transferring the accumulated depreciation on the motor vehicle from the provision account		
recording the proceeds of sale of the motor vehicle		

17 A club records its equipment at valuation.

How does it calculate its depreciation?

A value at start of year – equipment purchased – value at end of year

B value at start of year – equipment purchased + value at end of year

C value at start of year + equipment purchased – value at end of year

D value at start of year + equipment purchased + value at end of year

- 18 David and Harold are in partnership. The partnership agreement states that David is to receive an annual salary of \$12 000 and that profits and losses are to be shared in the ratio 2:1.

The following balances were extracted from the partnership books on 31 March 2016.

	\$
Capital accounts – David	80 000
– Harold	25 000
Current accounts – David	8 100 debit
– Harold	6 200 credit
Fixtures and fittings at cost	37 200
Provision for depreciation of fixtures and fittings	11 160
Inventory at 1 April 2015	36 000
Trade receivables	7 000
Trade payables	6 140
Bank	12 100 debit
Sales (Revenue)	142 000
Purchases	83 100
Rent	12 000
Other operating expenses	11 800
Wages	16 500
Drawings – David	32 000
– Harold	14 700

Additional information

- 1 Other operating expenses included \$500 for insurance which was paid in advance at 31 March 2016.
- 2 Inventory on 31 March 2016 amounted to \$26 800.
- 3 Fixtures and fittings are depreciated at the rate of 10% per annum on the straight line basis. A full year's depreciation is provided in the year of purchase. The current year's depreciation has not yet been provided.
- 4 All the fixtures and fittings were purchased when the partnership was formed.

REQUIRED

- (a) Calculate how many years' depreciation had been charged.

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(c) Prepare the appropriation account for the year ended 31 March 2016.

David and Harold
Appropriation Account for the year ended 31 March 2016

	\$	\$
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19 Virginia depreciates motor vehicles at the rate of 25% per annum using the reducing (diminishing) balance method. She provides a full year's depreciation in the year of purchase and none in the year of disposal. Her accounting year end is 31 December.

She purchased a motor vehicle, cost \$10 000, on 1 April 2013, and sold it on 28 May 2015 for \$7210 cash. On the same date she bought a new motor vehicle for \$17 000, paying by cheque.

REQUIRED

(a) Calculate the depreciation which had been provided on the old motor vehicle at the date of disposal.

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(b) Prepare the following ledger accounts for the year ended 31 December 2015.

Virginia
Motor vehicles account

Date	Details	\$	Date	Details	\$
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Provision for depreciation of motor vehicles account

Date	Details	\$	Date	Details	\$
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Motor vehicle disposal account

Date	Details	\$	Date	Details	\$
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(c) Name the financial statement in which the provision for depreciation appears. State in which section it appears.

Name of financial statement

Section

(d) State how providing depreciation is an application of the accounting principle of accruals (matching).

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(e) Name one other accounting principle which is applied when depreciation is provided.

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(f) State the type of asset for which the revaluation method of depreciation is suitable.

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20 Tom's financial year ends on 31 July. He depreciates his non-current assets using the reducing (diminishing) balance method.

REQUIRED

(a) Name one other method of depreciation which Tom could apply.

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(b) Explain how providing for depreciation of non-current assets is an application of the principle of accruals (matching).

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(c) Name one other accounting principle which is applied when providing for depreciation of non-current assets.

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Tom depreciates his machinery using the reducing (diminishing) balance method at 20% per annum on all machinery held at the end of the year. No depreciation is charged in the year of disposal.

On 1 August 2014 he owned one machine (Machine A) which had cost \$3000, and which had been depreciated by \$600.

On 1 January 2015 Tom purchased another machine (Machine B) for \$3500, paying by cheque.

REQUIRED

(d) (i) Calculate the depreciation of Machine A for each of the years ended 31 July 2015 and 31 July 2016.

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(ii) Calculate the depreciation of Machine B for each of the years ended 31 July 2015 and 31 July 2016.

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(e) Prepare the following accounts in the ledger of Tom.

(i) Machinery account

Balance the account on 31 July 2015 and bring down the balance on 1 August 2015.

Tom
Machinery account

Date	Details	\$	Date	Details	\$
2014 Aug 1	Balance (A) <i>b/d</i>	3000
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(ii) Provision for depreciation of machinery account

Balance the account at the end of each year and bring down the balance on 1 August 2015 and 1 August 2016. See next page.

