

LEAVING CERTIFICATE

HIGHER LEVEL

Accounting

Depreciation of Fixed Assets

Fixed Instalment / Straight Line Method

Fixed assets are items of value owned by business, e.g. Motor Vehicles, Plant and equipment. Such assets are expected to last for a number of years. However, these assets lose their value over the years and this loss in value is called depreciation.

Depreciation is an expense to a business and must be charged against profits every year.

Depreciation is due to: -

- a) Wear and tear - usage.
- b) Obsolescence - new technology.
- c) Passage of time - lease on premises.
- d) Extraction - mine.

Depreciation is merely an estimate. To estimate this charge, four factors must be taken into account:

- a) The cost of the asset
- b) The residual / scrap value of asset
- c) The estimated life of asset
- d) The selection of an appropriate method of Depreciation.

In this lesson we will focus on the fixed instalment / straight Line Method.

Double - Entry Rules for Depreciation:

(1) Asset Purchased:

Debit Asset A/c
Credit Bank / Creditor A/c] with cost of asset

(2) Annual Depreciation Charge

Debit Profit + loss A/c
Credit Provision for Depreciation A/c] with annual charge

(3) Asset Sold or Traded in:

- (a) $\left. \begin{array}{l} \text{Debit Disposal A/c} \\ \text{Credit asset A/c} \end{array} \right\}$ with cost of asset, including any addition e.g. refrigeration unit.
- (b) $\left. \begin{array}{l} \text{Debit Prov. for Depr. A/c} \\ \text{Credit Disposal A/c} \end{array} \right\}$ with total depreciation accumulated to date of disposal.
- (c) $\left. \begin{array}{l} \text{Debit Bank / Asset A/c} \\ \text{Credit Disposal A/c} \end{array} \right\}$ with money received on sale or trade in allowance.
- (d) $\left. \begin{array}{l} \text{Debit Profit + Loss A/c} \\ \text{Credit Disposal A/c} \end{array} \right\}$ with loss on disposal.
- (e) $\left. \begin{array}{l} \text{Debit Disposal A/c} \\ \text{Credit Profit + Loss A/c} \end{array} \right\}$ with profit on disposal.

(4) Insurance Compensation for Assets

$\left. \begin{array}{l} \text{Debit Bank A/c} \\ \text{Credit Disposal A/c} \end{array} \right\}$ with amount received.

Approach to Examination Question:

1. Read question very carefully.
 - Which method of depreciation is required.
 - Time frame: from date of purchase to date of disposal or for full year regardless of dates.
 - Watch out for change in % depreciation to be charged.
2. Higher Level students should prepare a table to show depreciation of vehicles.

Depreciation of Fixed Assets

Carr 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 1/1/2003 Carr Transport Ltd. owned the following vehicles:

No.1 purchased on 1/1/1999 for €30,000

No.2 purchased on 31/3/2000 for €36,000

No.3 purchased on 1/9/2001 for €40,000

On 1/4/2003 Vehicle No.3 was crashed and traded in against a new vehicle costing €48,000. The company received compensation to the value of €12,000 and the cheque paid for the new vehicle of €28,000.

On 1/9/2004 Vehicle No.1 was traded in for €5,000 against a new vehicle costing €52,000.

Vehicle No.1 had a refrigeration unit fitted on 1/1/2001 costing €12,000.

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 2003 and 2004:

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

Depreciation Chart

Asset	Cost	Depr. Per Annum	1999	2000	2001	2002	2003	2004	Acc Depr. On Disposal
1 Ref. unit	30 000	4500 p.a	4500	4500	4500	4500	4500	3000	€35 700 (W5)
	12 000	3600//1800	/	/	3600	3600	1800	1200	
2	36 000	5400 p.a	/	4050	5400	5400	5400	5400	
3	40 000	6000 p.a	/	/	2000	6000	1500	/	€9500 (W4)
4	48 000	7200 p.a	/	/	/	/	5400	7200	
5	52 000	7800 p.a	/	/	/	/	/	2600	
Total			4500	8550	15 500	19 500	18 600	19 400	

(W1) €48 050 ⇒ opening Bal. in Prov. for Depr. A/c.

← ←
P/loss P/loss
charge charge
for for
2003 2004
(W2) (W3)

Vehicles A/c.			
€		€	
1.1.03 Bal. b/d (w6)	118,000	1.4.03 Disposal	40,000
1.4.03 Bank	28,000	31.12.03 Bal. c/d	126,000
Trade In	20,000		
	<u>166,000</u>		<u>166,000</u>
1.1.04 Bal. b/d	126,000	1.9.04 Disposal	42,000
1.9.04 Bank	47,000	31.12.04 Bal. c/d	136,000
Trade In	5,000		
	<u>178,000</u>		<u>178,000</u>
1.1.05 Bal. b/d	136,000		

Provision for Depreciation A/c.			
€		€	
1.4.03 Disposal (w4)	9,500	1.1.03 Bal. b/d	48,050 (w1)
31.12.03 Bal. c/d	57,150	31.12.03 P/Loss	18,600 (w2)
	<u>66,650</u>		<u>66,650</u>
1.9.04 Disposal (w5)	35,700	1.1.04 Bal. b/d	57,150
31.12.04 Bal. c/d	40,850	31.12.04 P/Loss	19,400 (w3)
	<u>76,550</u>		<u>76,550</u>
		1.1.05 Bal. b/d	40,850

Disposal A/c. - No 3			
1.4.03 Vehicles	40,000	1.4.03 Depr.	9,500 (w4)
31.12.03 P/Loss	1,500	1.4.03 Trade In	20,000
		Insurance	12,000
	<u>€41,500</u>		<u>€41,500</u>

Disposal A/c. - No 1			
1.9.04 Vehicles	42,000	1.9.04 Depr.	35,700 (w5)
		1.9.04 Trade In	5,000
		31.12.04 P/Loss	1,300
	<u>€42,000</u>		<u>€42,000</u>

WORKING 6 (W6)

Opening balance on Vehicles at 1.1.2003

	€
Vehicle No 1	30,000
Refridgeration Unit	12,000
Vehicle No 2	36,000
Vehicle No 3	40,000
	<u>€ 118,000</u>

END OF LESSON